

**Northern Arizona Intergovernmental Public
Transportation Authority**

**Financial Statements, Supplementary Information,
and Single Audit Reports**

June 30, 2012 and 2011

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Independent Auditors' Report

The Board of Directors of
Northern Arizona Intergovernmental Public Transportation Authority
Flagstaff, Arizona

We have audited the accompanying statements of net assets of Northern Arizona Intergovernmental Public Transportation Authority (the Authority), as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Authority has not presented management's discussion and analysis that U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board of Directors

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Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Foster & Chapman P.C.

February 11, 2013

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENTS OF NET ASSETS

June 30,

ASSETS

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 536,535 | \$ 1,142,530 |
| Grants and contracts receivable | 1,914,548 | 3,805,909 |
| Inventory | 142,394 | 124,729 |
| Prepaid expenses | 51,110 | 180 |
| Total current assets | <u>2,644,587</u> | <u>5,073,348</u> |
| Noncurrent assets | | |
| Capital assets: | | |
| Capital assets, not being depreciated | 2,153,847 | 4,284,490 |
| Capital assets, being depreciated, net | <u>20,652,212</u> | <u>11,456,579</u> |
| Total capital assets | <u>22,806,059</u> | <u>15,741,069</u> |
| Total assets | <u>25,450,646</u> | <u>20,814,417</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| Current liabilities: | | |
| Accounts payable | \$ 366,164 | \$ 1,703,065 |
| Accrued payroll and related | 255,355 | 197,766 |
| Unearned revenue | 82,621 | 44,171 |
| Retainage payable | | 160,804 |
| Due to other governments, current portion | 373,081 | 427,086 |
| Note payable, current portion | | 58,127 |
| Total current liabilities | <u>1,077,221</u> | <u>2,591,019</u> |
| Noncurrent liabilities: | | |
| Due to other governments, noncurrent portion | 1,442,992 | 2,110,667 |
| Note payable, noncurrent portion | | 456,599 |
| Total noncurrent liabilities | <u>1,442,992</u> | <u>2,567,266</u> |
| Total liabilities | <u>2,520,213</u> | <u>5,158,285</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 22,806,059 | 15,065,539 |
| Unrestricted | 124,374 | 590,593 |
| Total net assets | <u>\$22,930,433</u> | <u>\$15,656,132</u> |

The accompanying notes are an integral part of these financial statements.

Northern Arizona Intergovernmental Public Transportation Authority
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Years Ended June 30,

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Participant fees | \$ 5,495,330 | \$ 3,286,657 |
| Fares | 1,001,601 | 902,923 |
| Advertising | <u>29,511</u> | <u>20,100</u> |
| Total operating revenues | <u>6,526,442</u> | <u>4,209,680</u> |
| Operating expenses: | | |
| Payroll | 3,507,710 | 3,050,025 |
| Benefits | 1,296,117 | 1,036,431 |
| Transit service grant to other agency | | 222,066 |
| Professional fees | 269,546 | 195,658 |
| Insurance | 336,814 | 267,496 |
| Transit services planning | 7,910 | 24,204 |
| Fuel and oil | 838,244 | 668,440 |
| Tires | 80,644 | 68,203 |
| Vehicle parts and supplies | 309,113 | 330,011 |
| Uniforms | 22,808 | 22,945 |
| Memberships and subscriptions | 15,785 | 5,957 |
| Utilities | 46,568 | 45,063 |
| Administration supplies | 25,398 | 28,038 |
| Printing and postage | 80,060 | 73,497 |
| Information and technology | 90,062 | 82,224 |
| Travel and training | 33,957 | 42,955 |
| Depreciation | 1,481,184 | 1,136,737 |
| Repair and maintenance | 52,025 | 55,191 |
| Miscellaneous | <u>85,110</u> | <u>72,455</u> |
| Total operating expenses | <u>8,579,055</u> | <u>7,427,596</u> |
| Operating loss | <u>(2,052,613)</u> | <u>(3,217,916)</u> |
| Nonoperating revenues (expense and loss): | | |
| Federal grants | 9,201,539 | 3,562,273 |
| State grants | 9,148 | 151,371 |
| Interest income | 29,326 | 25,622 |
| Other income | 106,443 | 111,523 |
| Interest expense | (6,935) | (27,820) |
| Loss on disposal of assets | <u>(12,607)</u> | <u>(340,411)</u> |
| Total nonoperating revenues (expense and loss) before capital contributions | <u>9,326,914</u> | <u>3,482,558</u> |
| Change in net assets before capital contributions | 7,274,301 | 264,642 |
| Capital contributions | | <u>88,103</u> |
| Change in net assets | 7,274,301 | 352,745 |
| Net assets, beginning of the year | <u>15,656,132</u> | <u>15,303,387</u> |
| Net assets, end of year | <u>\$ 22,930,433</u> | <u>\$ 15,656,132</u> |

The accompanying notes are an integral part of these financial statements.

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENTS OF CASH FLOWS

| | Years Ended June 30, | |
|--|----------------------|----------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Cash received from participants and customers | \$ 6,375,341 | \$ 5,658,014 |
| Cash received for advertising | 29,511 | 20,100 |
| Cash payments to suppliers for goods and services | (2,348,839) | (1,789,471) |
| Cash payments to employees | (4,746,238) | (4,049,944) |
| Net cash used by operating activities | (690,225) | (161,301) |
| Cash flows from noncapital financing activities: | | |
| Noncapital grants | 2,186,768 | 933,862 |
| Net cash provided by noncapital financing activities | 2,186,768 | 933,862 |
| Cash flows from capital and related financing activities: | | |
| Capital grants | 8,353,671 | 1,132,987 |
| Purchase of capital assets | (10,077,252) | (1,188,611) |
| Note payable principal payments | (514,726) | (55,326) |
| Net cash used by capital and related financing activities | (2,238,307) | (110,950) |
| Cash flows from investing activities: | | |
| Interest on investments | 29,326 | 25,622 |
| Other investing activities | 106,443 | 111,523 |
| Net cash provided by investing activities | 135,769 | 137,145 |
| Net change in cash and cash equivalents | (605,995) | 798,756 |
| Cash and cash equivalents, beginning of year | 1,142,530 | 343,774 |
| Cash and cash equivalents, end of year | \$ 536,535 | \$ 1,142,530 |
| Reconciliation of operating losses to net cash used by operating activities: | | |
| Operating loss | \$ (2,052,613) | \$ (3,217,916) |
| Adjustments: | | |
| Depreciation | 1,481,184 | 1,136,737 |
| Changes in assets and liabilities: | | |
| Grants and contracts receivable (noncapital) | 561,640 | 806,619 |
| Inventory | (17,665) | (21,598) |
| Prepaid expenses | (50,930) | 346,937 |
| Accounts payable (excluding construction in progress) | 13,080 | 89,593 |
| Accrued payroll and related | 57,589 | 36,512 |
| Unearned revenue | 38,450 | (170,518) |
| Due to other governments | (720,960) | 832,333 |
| Net cash used by operating activities | \$ (690,225) | \$ (161,301) |
| Supplemental disclosures: | | |
| Cash paid for interest | \$ 6,935 | \$ 27,820 |
| Capital contributions | | 88,103 |

The accompanying notes are an integral part of these financial statements.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northern Arizona Intergovernmental Public Transportation Authority (the Authority) have been prepared in conformity with U.S. generally accepted accounting principles as applicable to proprietary funds of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). A summary of the Authority's significant accounting policies follows.

A. Reporting Entity

The Authority was formed under Arizona Revised Statutes (Statutes) 28-9102 on July 1, 2006, for the purposes of managing and operating the transit operations of participating governments. This activity comprises the Authority's major operations. Fees collected from participating governments (members) represented 84% of total operating revenues in fiscal year 2012; therefore, the Authority is highly dependent on those governments for its operations.

The Board of Directors has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls. Coconino County, Yavapai County, and Northern Arizona University may each appoint one member to the Board. The remaining seats are apportioned among the participating municipalities of Flagstaff, Sedona and Cottonwood, Arizona, according to their respective populations, so that no one government has a majority.

A reporting entity consists of a primary government and its component units. The Authority is considered a primary government because it is a special-purpose government, is legally separate, and is fiscally independent of other state or local governments. There are no component units combined with the Authority, and the Authority is not included in any other governmental reporting entity. The Authority does not maintain any fiduciary activities.

B. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements.

The Authority is reported as a proprietary enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Authority's Board is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through participant fees and user charges; or for which the Authority's Board has decided that periodic determination of revenues earned, expenses incurred, or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements of the proprietary fund are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Operating and Nonoperating Revenues and Expenses

The enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and in connection with principal ongoing operations. The Authority's principal operating revenues are fares charged to riders and fees charged to participating governments. Operating expenses include administrative expenses, production and distribution expenses, including depreciation on capital assets.

Nonoperating revenues include revenues from noncapital financing activities, capital and related financing activities and revenues from investing activities. Capital and related financing activities include proceeds from capital grants and are shown on the statements of cash flows as positive cash flows. Investing activities include interest from investments and other miscellaneous sources of income.

D. Pronouncements of GASB and FASB

GASB Statement No. 20 states that Financial Accounting Standards Board (FASB) and its predecessor bodies' pronouncements issued before November 30, 1989, continue to be applicable to enterprise funds, unless they conflict with or contradict GASB guidance.

Enterprise funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989.

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements issued subsequent to the cutoff date, but not others.
2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

The Authority has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

E. Cash and Investments

Statutes authorize the Authority to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Credit risk – Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors' service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors' service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors' service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk – Statutes require collateral for demand deposits, certificates of deposit and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk – Statutes do not include requirements for concentration of credit risk.

Interest rate risk – Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk – Statutes do not allow foreign investments.

F. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers cash on hand, demand deposits and cash on deposit with the County Treasurer to be cash equivalents.

G. Inventory

Inventory consists of vehicle parts and supplies used to maintain and repair the Authority's fleet vehicles. The Authority records an expense when inventory is purchased, and unused inventory is stated at cost and recognized as an asset at June 30th each year.

H. Allowance for Doubtful Accounts

The Authority's grants and contracts receivable consists of amounts due from federal and local governments, and from other governmental agencies. Based on historical collection experience and a review of the current status of grants receivable, the Authority has not provided an allowance for doubtful accounts, as management believes it is likely to collect the full receivable balance.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Capital Assets

Purchased capital assets are stated at cost less accumulated depreciation. Depreciation of capital assets is charged as an expense against operations. The estimated useful lives in determining depreciation using the straight-line method are:

| | |
|----------------------------|------------|
| Buildings and improvements | 40 years |
| Machinery and equipment | 3-20 years |

The Authority's capitalization policy is to capitalize assets with a cost in excess of \$5,000.

J. Capital Contributions

Capital contributions for the year ended June 30, 2011, consisted of a transfer of capital assets from the City of Cottonwood associated with the amended intergovernmental agreement dated January 1, 2011.

K. Compensated Absences

The Authority provides sick and vacation leave to its employees. The Authority provides full time employees with 12 days of sick leave annually, to a maximum of 130 days. After 20 years of service with the Authority, an employee is entitled to be paid 25% of the total unused sick hours accrued. Vacation is accrued at varying rates to a maximum of 30 days. Upon termination, an employee is paid 100% of unused vacation time accrued, to the maximum allowable number of days.

L. Unearned Revenue

Unearned revenue consists of bus passes sold in advance of the fiscal year in which they were available for use.

M. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Reclassifications

Certain reclassifications were made to the 2011 financial statements in order to conform to the 2012 presentation.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Bank Deposits

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of bank failure, the Authority's deposits may not be returned. As of June 30, 2012 and 2011, the bank balance of deposits was \$748,838 and \$953,763, respectively. The Authority's cash and cash equivalents on deposit at banks were fully insured at June 30, 2012 and 2011. The Authority has not experienced any losses in such accounts, and management believes it is not exposed to any significant risks on cash accounts.

B. Deposits with the Coconino County Treasurer

At June 30, 2012 and 2011, the Authority had \$32,692 and \$1,087,914, respectively, in cash and investments held by the Coconino County Treasurer.

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. No comparable oversight is provided for the County's Treasurer's investment pool, and that pool's structure does not provide for individual shares.

Credit Risk – The Authority complies with applicable Statutes regarding its investment policy with respect to credit risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority complies with applicable Statutes regarding its investment policy for custodial credit risk.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following is a summary of cash and cash equivalents at June 30:

| | 2012 | 2011 |
|--|-------------------|---------------------|
| Cash on hand | \$ 925 | \$ 925 |
| Cash in bank | 502,918 | 53,691 |
| Cash and investments with County Treasurer | <u>32,692</u> | <u>1,087,914</u> |
| | <u>\$ 536,535</u> | <u>\$ 1,142,530</u> |

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 3 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2012:

| | <u>Balance</u> | | | <u>Balance</u> |
|---|---------------------|---------------------|-----------------------|----------------------|
| | <u>July 1, 2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2012</u> |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,076,046 | | | \$ 2,076,046 |
| Construction in progress | <u>2,208,444</u> | <u>\$ 77,801</u> | <u>\$ (2,208,444)</u> | <u>77,801</u> |
| Total capital assets, not being depreciated | <u>4,284,490</u> | <u>77,801</u> | <u>(2,208,444)</u> | <u>2,153,847</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 9,199,566 | 4,928,782 | | 14,128,348 |
| Machinery and equipment | <u>7,487,995</u> | <u>5,760,642</u> | <u>(321,967)</u> | <u>12,926,670</u> |
| Total capital assets being depreciated | <u>16,687,561</u> | <u>10,689,424</u> | <u>(321,967)</u> | <u>27,055,018</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (624,847) | (417,195) | | (1,042,042) |
| Machinery and equipment | <u>(4,606,135)</u> | <u>(1,063,989)</u> | <u>309,360</u> | <u>(5,360,764)</u> |
| Total accumulated depreciation | <u>(5,230,982)</u> | <u>(1,481,184)</u> | <u>309,360</u> | <u>(6,402,806)</u> |
| Total capital assets being depreciated, net | <u>11,456,579</u> | <u>9,208,240</u> | <u>(12,607)</u> | <u>20,652,212</u> |
| Total capital assets, net | <u>\$15,741,069</u> | <u>\$ 9,286,041</u> | <u>\$ (2,221,051)</u> | <u>\$22,806,059</u> |

NOTE 4 – DUE TO OTHER GOVERNMENTS

The Authority receives payments, in advance, from its members to subsidize the cost of operations. According to the master intergovernmental agreement signed in March 2006, members must maintain a fund balance with the Authority no less than three months of the member's annual transit operating budget. Each member's service intergovernmental agreement (service IGA) specifies when payments are due and terms of cancellation. If the service IGA is cancelable within one year of the Authority's fiscal year end, the fund balance is classified as a current liability. The rolling balances are calculated using a three-month average of operating expenses for the members, and are adjusted at June 30th each year.

The following is a summary of the amounts due to other governments at June 30:

| | <u>2012</u> | <u>2011</u> |
|--------------------|---------------------|---------------------|
| City of Flagstaff | \$ 1,442,992 | \$ 2,110,667 |
| City of Sedona | 117,869 | 163,301 |
| City of Cottonwood | <u>255,212</u> | <u>263,785</u> |
| | <u>\$ 1,816,073</u> | <u>\$ 2,537,753</u> |

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 5 – NOTE PAYABLE

In April 2009, the Authority executed a \$1.4 million note payable to Wells Fargo Brokerage Services, payable in semi-annual payments of \$88,455, including 5% interest, maturing December 2018, secured by the Authority's land in Flagstaff, Arizona. The following schedule details the Authority's debt activity for the year ended June 30, 2012:

| | Balance at <u>July 1, 2011</u> | Decreases | Balance at <u>June 30, 2012</u> |
|--------------|-----------------------------------|--------------|------------------------------------|
| Note payable | \$ 514,726 | \$ (514,726) | \$ |

NOTE 6 - CONTINGENCIES

Compliance - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. These risks of loss are accounted for and financed by the following described insurance coverage.

The Authority is covered for workers' compensation insurance by the Arizona State Compensation Fund, a quasi-governmental carrier created by state statute. The fund provides members with workers' compensation coverage, as required by law, and risk management services. The Authority is responsible for paying a premium, based on an experience rating formula that allocates expenditures and liabilities among the members.

The Authority carries commercial insurance for all other risks of loss. There have been no material settled claims resulting from these risks that have exceeded commercial insurance coverage.

NOTE 8 - RETIREMENT PLAN

Plan Descriptions - The Authority contributes to the Arizona State Retirement System (ASRS) which administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. Benefits are established by State statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 8 - RETIREMENT PLAN - CONTINUED

The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the plan.

ASRS
3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

Funding Policy – The Arizona State Legislature established and may amend active plan members' and the Authority's contribution rates. For the year ended June 30, 2012, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll, and the Authority was required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent retirement and health insurance premium and 0.24 percent long-term disability) of the members' annual covered payroll.

The Authority's contributions to ASRS for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

| Year ended June 30, | <u>Retirement Fund</u> | <u>Long-Term Disability Fund</u> |
|---------------------|------------------------|----------------------------------|
| 2012 | \$ 309,164 | \$ 8,051 |
| 2011 | 247,653 | 6,449 |
| 2010 | 202,336 | 11,367 |

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 11, 2013, which was the date the Authority's financial statements were issued.

On July 1, 2012 the Cities of Cottonwood and Sedona terminated their intergovernmental agreements with the Authority. On that date, the Authority transferred buildings, machinery and equipment costing \$4.4 million to Cottonwood, which continues to provide transit services to the Verde Valley region. During the year ended June 30, 2012, the Authority recognized operating costs of \$1,261,665 related to providing services to the Verde Valley and surrounding area. As of December 2012, the Authority had collected all amounts due from Cottonwood and Sedona and unused operating funds were refunded to each city.

SUPPLEMENTARY INFORMATION

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures</u> |
|--|--------------------|--------------------------------------|---------------------|
| U.S. Department of Transportation: | | | |
| Federal Transit Cluster: | | | |
| Federal Transit - Capital Investment Grants | 20.500 | N/A | \$ 5,501,915 |
| Federal Transit - Formula Grants | 20.507 | N/A | 2,501,033 |
| ARRA - Federal Transit - Formula Grants | 20.507 | N/A | <u>133,613</u> |
| Total Federal Transit Cluster | | | 8,136,561 |
| Passed through Arizona Department of Transportation (ADOT): | | | |
| Formula Grants for Other than Urbanized Areas | 20.509 | JPA-06-010T | 757,565 |
| Transit Services Programs Cluster: | | | |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | JPA-11-052 | 34,864 |
| Job Access_Reverse Commute | 20.516 | JPA-11-052 | 189,831 |
| New Freedom Program | 20.521 | JPA-11-052 | <u>82,718</u> |
| Total Transit Services Programs Cluster | | | 307,413 |
| Total Expenditures of Federal Awards | | | <u>\$ 9,201,539</u> |

See accompanying notes to schedule of expenditures of federal awards.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantors, or the 2012 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - SUBRECIPIENTS

The Authority did not award any federal monies to subrecipients during the year ending June 30, 2012.

Fester & Chapman P.C.

Certified
Public
Accountants

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
Northern Arizona Intergovernmental Public Transportation Authority
Flagstaff, Arizona

We have audited the financial statements of Northern Arizona Intergovernmental Public Transportation Authority (the Authority) as of and for the year ended June 30, 2012 and have issued our report thereon dated February 11, 2013. The Authority has not presented management's discussion and analysis that U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal and pass-through awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Foster & Chapman P.C.

February 11, 2013

Fester & Chapman P.C.

Certified
Public
Accountants

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Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Directors of
Northern Arizona Intergovernmental Public Transportation Authority
Flagstaff, Arizona

Compliance

We have audited the compliance of Northern Arizona Intergovernmental Public Transportation Authority (the Authority) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2012. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Authority's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Authority's compliance but not to provide an opinion on the effectiveness of the Authority's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Foster + Chapman, P.C." The signature is fluid and cursive, with a small checkmark symbol preceding the name.

February 11, 2013

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements:

| | | |
|---|------------------------------|---|
| Type of auditors' report issued: | <u>Unqualified</u> | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified in internal control over financial reporting? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> X no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> X none reported |
| Noncompliance material to financial statements noted? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> X no |

Federal Awards:

| | | |
|---|--|--|
| Internal control over major programs: | | |
| Material weakness(es) identified? | <input type="checkbox"/> yes <input checked="" type="checkbox"/> X no | |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <input type="checkbox"/> yes <input checked="" type="checkbox"/> X none reported | |
| Type of auditors' report on compliance for major programs: | <u>Unqualified</u> | |
| Any audit findings disclosed that are required to be reported in accordance with section .510[a] of Circular A-133? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> X no |

Identification of major programs:

CFDA Number

| | |
|--------|--|
| 20.500 | |
| 20.507 | |
| 20.513 | |
| 20.516 | |
| 20.521 | |

Dollar threshold used to distinguish between type A and type B programs:

Name of Federal Program or Cluster

Federal Transit Cluster:

Federal Transit - Capital Investment Grants
Federal Transit - Formula Grants

Transit Services Programs Cluster:

Capital Assistance Program for Elderly Persons and Persons with Disabilities
Job Access_Reverse Commute
New Freedom Program

Auditee qualified as low-risk auditee?

\$300,000

yes X no

Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?

yes X no

Section II - Financial Statement Findings

None

Section III - Findings and Questioned Costs - Major Federal Award Programs' Audit

None