

**Northern Arizona Intergovernmental Public  
Transportation Authority**

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

**June 30, 2014 and 2013**

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## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Northern Arizona Intergovernmental Public Transportation Authority (the Authority), as of and for the years ended June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northern Arizona Intergovernmental Public Transportation Authority as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary Information - Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The 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.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015, 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* in considering the Authority's internal control over financial reporting and compliance.

*Fester & Chapman P.C.*

February 4, 2015

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENTS OF NET POSITION

June 30,

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 706,668	\$ 2,243,275
Grants and contracts receivable	3,229,150	221,035
Inventory	125,408	141,726
Prepaid expenses	<u>76,994</u>	<u>114,543</u>
Total current assets	4,138,220	2,720,579
Capital assets:		
Capital assets, not being depreciated	4,130,695	2,193,040
Capital assets, being depreciated, net	<u>21,427,707</u>	<u>20,040,421</u>
Total capital assets	<u>25,558,402</u>	<u>22,233,461</u>
Total assets	<u>29,696,622</u>	<u>24,954,040</u>

LIABILITIES AND NET POSITION

Current liabilities:		
Accounts payable	\$ 2,181,159	\$ 193,082
Accrued payroll and related	299,447	271,192
Unearned revenue	32,640	181,067
Retainage payable	<u>106,267</u>	<u>        </u>
Total current liabilities	2,619,513	645,341
Due to other governments	<u>802,458</u>	<u>1,370,867</u>
Total liabilities	<u>3,421,971</u>	<u>2,016,208</u>
Net position:		
Net investment in capital assets	23,584,480	22,233,461
Unrestricted	<u>2,690,171</u>	<u>704,371</u>
Total net position	<u>\$26,274,651</u>	<u>\$22,937,832</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 NET POSITION

Years Ended June 30,

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Participant fees	\$ 5,019,581	\$ 5,221,930
Fares	885,000	916,361
Advertising	<u>59,610</u>	<u>44,300</u>
Total operating revenues	<u>5,964,191</u>	<u>6,182,591</u>
Operating expenses:		
Payroll	3,381,060	3,170,683
Payroll taxes and benefits	1,209,839	1,170,867
Professional fees	343,523	239,755
Insurance	247,178	247,153
Transit services planning	64,147	
Fuel and oil	604,409	718,682
Tires	51,362	53,001
Vehicle parts and supplies	169,844	173,805
Uniforms	26,800	24,152
Memberships and subscriptions	15,114	6,251
Utilities	46,723	44,032
Administration supplies	37,180	18,043
Printing and postage	32,756	66,299
Information and technology	156,801	120,752
Travel and training	40,203	49,525
Depreciation	1,432,613	1,343,052
Repair and maintenance	42,941	45,276
Miscellaneous	<u>104,427</u>	<u>184,863</u>
Total operating expenses	<u>8,006,920</u>	<u>7,676,191</u>
Operating loss	<u>(2,042,729)</u>	<u>(1,493,600)</u>
Nonoperating revenues, gain and (loss):		
Federal grants	5,324,590	4,960,964
Interest income	5,818	10,029
Other income	45,340	43,385
Gain (loss) on disposal of assets	<u>3,800</u>	<u>(3,513,379)</u>
Total nonoperating revenues, gain and (loss)	<u>5,379,548</u>	<u>1,500,999</u>
Change in net position	3,336,819	7,399
Net position, beginning of the year	<u>22,937,832</u>	<u>22,930,433</u>
Net position, end of year	<u>\$26,274,651</u>	<u>\$22,937,832</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,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from participants and customers	\$ 5,187,745	\$ 6,091,579
Cash received for advertising	59,610	44,300
Cash payments to suppliers for goods and services	(1,754,119)	(2,175,936)
Cash payments to employees	<u>(4,562,644)</u>	<u>(4,325,713)</u>
Net cash used by operating activities	<u>(1,069,408)</u>	<u>(365,770)</u>
Cash flows from noncapital financing activities:		
Noncapital grants	<u>1,095,842</u>	<u>3,093,224</u>
Net cash provided by noncapital financing activities	<u>1,095,842</u>	<u>3,093,224</u>
Cash flows from capital and related financing activities:		
Capital grants	1,220,633	3,261,205
Purchase of capital assets	<u>(2,834,832)</u>	<u>(4,335,333)</u>
Net cash used by capital and related financing activities	<u>(1,614,199)</u>	<u>(1,074,128)</u>
Cash flows from investing activities:		
Interest on investments	5,818	10,029
Other investing activities	<u>45,340</u>	<u>43,385</u>
Net cash provided by investing activities	<u>51,158</u>	<u>53,414</u>
Net change in cash	(1,536,607)	1,706,740
Cash beginning of year	<u>2,243,275</u>	<u>536,535</u>
Cash end of year	<u>\$ 706,668</u>	<u>\$ 2,243,275</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (2,042,729)	\$ (1,493,600)
Adjustments:		
Depreciation	1,432,613	1,343,052
Changes in assets and liabilities:		
Grants and contracts receivable (noncapital)		300,048
Inventory	16,318	668
Prepaid expenses	37,549	(63,433)
Accounts payable (excluding construction in progress)	175,422	(120,862)
Accrued payroll and related	28,255	15,837
Unearned revenue	(148,427)	98,446
Due to other governments	<u>(568,409)</u>	<u>(445,926)</u>
Net cash used by operating activities	<u>\$ (1,069,408)</u>	<u>\$ (365,770)</u>

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

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 accounting principles generally accepted in the United States of America 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 years 2014 and 2013; therefore, the Authority is highly dependent on those governments for its operations.

The Board of Directors is comprised of representatives from each of the Authority's members and has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls. During the year ended June 30, 2014, Coconino County and Northern Arizona University each appointed one member to the Board, and the City of Flagstaff, Arizona appointed two members. Coconino County Community College became a member of the Authority on July 1, 2013, and accordingly, added a representative to the Authority's Board of Directors for the years ended June 30, 2013 and 2014. The Board also included representatives from the cities of Sedona and Cottonwood, Arizona until those members withdrew from the Authority effective July 1, 2012.

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.



NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, and 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. 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. The Authority had no investments described above at June 30, 2014 or 2013.

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.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 unless the investment is denominated in United States dollars.

E. Inventory

Inventory consists of vehicle parts and supplies used to maintain and repair the Authority's fleet vehicles. The Authority records inventory as assets when purchased and expenses when consumed. Inventory is stated at cost using the first-in, first-out method.

F. Allowance for Doubtful Accounts

The Authority's grants and contracts receivable consist 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 and contracts receivable, the Authority has not provided an allowance for doubtful accounts, as management believes it is likely to collect the full receivable balance.

G. 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 policy is to capitalize assets with a cost in excess of \$5,000.

H. 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. Employees accrue vacation time 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.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Unearned Revenue

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

J. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

NOTE 2 – DEPOSITS

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, 2014 and 2013, the bank balance of deposits was \$179,627 and \$162,299, respectively, and the carrying amounts were and \$151,516 and \$146,302, respectively. The Authority's cash on deposit at banks was fully insured at June 30, 2014 and 2013. 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, 2014 and 2013, the Authority had \$551,952 and \$2,096,473, respectively, in cash on deposit with the Coconino County Treasurer. The carrying amounts of these deposits were \$554,652 and \$2,096,473, at June 30, 2014 and 2013, respectively.

The Authority's cash held on deposit with the County Treasurer was collateralized as required by statutes at June 30, 2014 and 2013.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 2 – DEPOSITS - CONTINUED

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.

NOTE 3 – GRANTS AND CONTRACTS RECEIVABLE

The Authority recognizes grants and contracts as support when eligible costs are incurred or services are provided. Grants and contracts receivable are recorded when allowable expenses are incurred or contracted services have been provided, but reimbursement has not been received by the Authority. Grants and contracts receivable were comprised of amounts due from the following entities at June 30:

	<u>2014</u>	<u>2013</u>
Federal Transit Authority	\$ 1,519,083	\$ 128,714
Arizona Department of Transportation	755,959	59,764
City of Flagstaff, Arizona	838,339	
Others	<u>115,769</u>	<u>32,557</u>
	<u>\$ 3,229,150</u>	<u>\$ 221,035</u>

As of the date these financial statements were issued, approximately 95% of the Authority's grants and contracts receivable at June 30, 2014 have been collected, and all amounts that were due at June 30, 2013 have been collected.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2014:

	Balance <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 2,076,046			\$ 2,076,046
Construction in progress	<u>116,994</u>	<u>\$ 1,937,655</u>		<u>2,054,649</u>
Total capital assets, not being depreciated	<u>2,193,040</u>	<u>1,937,655</u>		<u>4,130,695</u>
Capital assets being depreciated:				
Buildings and improvements	11,086,275	108,312		11,194,588
Machinery and equipment	<u>13,825,946</u>	<u>2,711,586</u>	<u>\$ (720,000)</u>	<u>15,817,532</u>
Total capital assets being depreciated	<u>24,912,221</u>	<u>2,819,898</u>	<u>(720,000)</u>	<u>27,012,120</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,133,127)	(289,413)		(1,422,540)
Machinery and equipment	<u>(3,738,673)</u>	<u>(1,143,200)</u>	<u>720,000</u>	<u>(4,161,873)</u>
Total accumulated depreciation	<u>(4,871,800)</u>	<u>(1,432,613)</u>	<u>720,000</u>	<u>(5,584,413)</u>
Total capital assets being depreciated, net	<u>20,040,421</u>	<u>1,387,285</u>		<u>21,427,707</u>
Total capital assets, net	<u>\$22,233,461</u>	<u>\$ 3,324,940</u>	<u>\$</u>	<u>\$25,558,402</u>

NOTE 5 – COMMITMENTS

During the year ended June 30, 2014, the Authority entered into an agreement with a general contractor to expand its Kaspar Facility. At June 30, 2014, the Authority had spent approximately \$2 million on this project and had remaining contractual commitments of approximately \$4 million. This project is being financed by proceeds from federal grants and the City of Flagstaff, Arizona.

NOTE 6 – DUE TO OTHER GOVERNMENTS

The Authority receives payments, in advance, from its members to subsidize the cost of its operations. According to the master intergovernmental agreement signed in March 2006 and awarded July 1, 2013, 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 Authority refunded amounts due to Sedona and Cottonwood during the year ended June 30, 2013 after those cities withdrew their memberships.

The Authority had \$802,458 and \$1,370,867 due to other governments at June 30, 2014 and 2013, respectively, which was entirely comprised of the City of Flagstaff's fund balances.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 maintains workers' compensation insurance and general liability insurance as required by laws and grantors.

There have been no material settled claims 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 statutes 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.

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, 2014, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent retirement and 0.24 percent for long-term disability) of the members' annual covered payroll. For the year ended June 30, 2013, the Authority was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent retirement and 0.24 percent for long-term disability) of the members' annual covered payroll.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 8 - RETIREMENT PLAN - CONTINUED

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>
2014	\$ 351,358	\$ 9,150
2013	328,128	8,545
2012	309,164	8,051

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 4, 2015, which was the date the Authority's financial statements were issued.

## SUPPLEMENTARY INFORMATION



Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

<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:			
<i>Federal Transit Cluster:</i>			
Federal Transit - Capital Investment Grants	20.500	N/A	\$ 1,543,800
Federal Transit - Formula Grants	20.507	N/A	2,808,458
Bus and Bus Facilities Formula Program, passed through Arizona Department of Transportation (ADOT)	20.526	GRT 13-0003559-T / G033401T	<u>718,628</u>
Total <i>Federal Transit Cluster</i>			<u>5,070,886</u>
Paul S. Sarbanes Transit in the Parks	20.520	N/A	69,538
Formula Grants for Rural Areas, passed through ADOT	20.509	G1937Y5T	184,663
New Freedom Program, passed through ADOT	20.521	G01301R4T	<u>5,190</u>
Total Expenditures of Federal Awards			<u>\$ 5,330,277</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, 2014

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 2014 *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, 2014.

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Northern Arizona Intergovernmental Public Transportation Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated February 4, 2015. The Authority has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free from 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*.

### **Authority's Response to Finding**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fester & Chapman P.C.*

February 4, 2015

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

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

**Report on Compliance for Each Major Federal Program**

We have audited Northern Arizona Intergovernmental Public Transportation Authority (the Authority)'s compliance 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, 2014. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of 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, 2014.

## Report on Internal Control Over Compliance

The Authority's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Fester & Chapman P.C.

February 4, 2015

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

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

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.500  
20.507  
20.526

Federal Transit Cluster:

Federal Transit - Capital Investment Grants  
Federal Transit - Formula Grants  
Bus and Bus Facilities Formula Program

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

\$300,000

Auditee qualified as low-risk auditee?   X   yes        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

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Section II - Financial Statement Findings

2014-001 - Internal Control Over Payroll

Criteria: All payroll disbursements should correspond to supporting supervisor-approved time sheets.

Condition: One of forty payroll disbursements that we tested included the payment of one half hour of overtime wages to an employee in excess of the amount of time approved by the supervisor.

Cause: The Authority's payroll disbursement process allowed the employee who processes payroll to alter the hours previously approved for payment by supervisors, without retaining supporting documentation of management's approval for the change.

Effect: Insufficient internal controls over the payroll disbursement process increases the likelihood of improper, or unauthorized payroll disbursement amounts.

Recommendation: The Authority should develop policies and procedures to help ensure that payroll disbursements are consistent with the supporting supervisor-approved time sheets. In addition, the Authority should retain documentation of management's approval for any subsequent changes to amounts authorized for payment.

Corrective Action: The Authority concurs with the recommendation and will review its current policies and procedures to ensure that payroll disbursements are not altered without documented support; controls will be immediately implemented to ensure compliance for the upcoming fiscal year.

Contact Person: Heather Dalmolin, Compliance and Auditing Manager.

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

None