Northern Arizona Intergovernmental Public Transportation Authority

Financial Statements, Supplementary Information, and Single Audit Reports

June 30, 2015

CONTENTS

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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 year ended June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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 audit. We conducted our audit 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 financial position of Northern Arizona Intergovernmental Public Transportation Authority as of June 30, 2015, and the 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, for the year ended June 30, 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Authority's Proportionate Share of the Net Pension Liability - Cost Sharing Pension Plan on page 19, and the Schedule of Pension Contributions on page 20, be presented to supplement the basic financial statements. Such information, although not a required 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. Except as noted below, we have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis. 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 March 2, 2016, 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.

March 2, 2016

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENT OF NET POSITION

June 30, 2015

ASSETS

Current assets:	
Cash	$ 494,123
Grants and contracts receivable	1,856,560
Inventory	141,706
Prepaid expenses	33,743
Total current assets	2,526,132
Capital assets:	
Capital assets, not being depreciated	2,132,030
Capital assets, being depreciated, net	28,946,489
Total capital assets	31,078,519
Total assets	33,604,651

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	953,841
Total deferred outflows of resources	953,841

LIABILITIES

Current liabilities:	
Accounts payable	632,438
Accrued payroll and related	320,579
Total current liabilities	953,017
Noncurrent liabilities:	
Due to other governments	711,402
Net pension liability	5,164,467
Total noncurrent liabilities	5,875,869
Total liabilities	6,828,886

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	903,109
Total deferred inflows of resources	903,109

NET POSITION

Net investment in capital assets	30,698,655
Unrestricted (deficit)	(3,872,158)
Total net position	$ 26,826,497

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

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2015

Operating revenues:	
Participant fees	$ 5,195,903
Fares	835,719
Advertising	76,752
Total operating revenues	6,108,374
Operating expenses:	
Payroll	3,507,054
Payroll taxes and benefits	1,294,746
Professional fees	405,265
Insurance	242,958
Transit services planning	25,637
Fuel and oil	533,992
Tires	34,393
Vehicle parts and supplies	178,112
Uniforms	25,695
Memberships and subscriptions	19,900
Utilities	75,970
Administration supplies	34,323
Printing and postage	61,392
Information and technology	170,354
Travel and training	59,075
Depreciation	1,871,667
Repairs and maintenance	153,361
Miscellaneous	65,246
Total operating expenses	8,759,140
Operating loss	(2,650,766)
Nonoperating revenues:	
Federal grants	8,021,047
Interest income	4,992
Other income	54,270
Total nonoperating revenues	8,080,309
Income before capital contributions	5,429,543
Capital contributions	129,560
Increase in net position	5,559,103
Net position as restated, July 1, 2014	21,267,394
Net position, June 30, 2015	$26,826,497

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

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from participants and customers	$ 5,907,926
Cash received for advertising	76,752
Cash payments to suppliers for goods and services	(2,119,650)
Cash payments to employees	(4,693,158)
Net cash used by operating activities	(828,130)
Cash flows from noncapital financing activities:	
Noncapital grants	1,900,826
Net cash provided by noncapital financing activities	1,900,826
Cash flows from capital and related financing activities:	
Capital grants	7,492,811
Purchase of capital assets	(8,837,314)
Net cash used by capital and related financing activities	(1,344,503)
Cash flows from investing activities:	
Interest income	4,992
Other investing activities	54,270
Net cash provided by investing activities	59,262
Net change in cash	(212,545)
Cash, July 1, 2014	706,668
Cash, June 30, 2015	$ 494,123
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (2,650,766)
Adjustments:	
Depreciation	1,871,667
Pension expense	459,670
Employer pension contributions	(372,160)
Changes in assets and liabilities:	
Inventory	(16,298)
Prepaid expenses	43,251
Accounts payable (noncapital)	(60,930)
Accrued payroll and related	21,132
Unearned revenue	(32,640)
Due to other governments	(91,056)
Net cash used by operating activities	$ (828,130)

Supplemental disclosures:

Capital contributions	$ 129,560

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

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).

For the year ended June 30, 2015, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. GASB Statement No. 68 requires disclosure of information related to pension benefits.

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 85% of total operating revenues in fiscal year 2015; 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. The Board of Directors includes a member from Coconino County, Northern Arizona University, Coconino County Community College and two members from the City of Flagstaff.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

C. 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.

D. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. The Authority had no investments described above at June 30, 2015.

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 unless the investment is denominated in United States dollars.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. 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.

H. 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.

I. Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as a revenue in future periods.

J. Pensions

For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. 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.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net position as previously reported at June 30, 2014	$26,274,651
Prior period adjustment - implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(5,343,907)
Deferred outflows - the Authority's contributions made during fiscal year 2014	336,650
Total prior period adjustment	(5,007,257)
Net position as restated, July 1, 2014	$21,267,394

NOTE 3 – 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, 2015, the bank balance of deposits was $148,763, and the carrying amount was $136,813. The Authority's cash on deposit at banks was fully insured at June 30, 2015. 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, 2015, the Authority had $357,310 in cash on deposit with the Coconino County Treasurer. The carrying amount of this deposit was $357,310 at June 30, 2015.

The Authority's cash held on deposit with the County Treasurer was collateralized as required by statutes at June 30, 2015.

NOTE 3 – 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 4 – 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 was comprised of amounts due from the following entities at June 30, 2015:

Federal Transit Authority	$ 1,413,800
Arizona Department of Transportation	119,688
City of Flagstaff, Arizona	297,204
Others	25,868
	$ 1,856,560

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2015:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	$ 2,076,046			$ 2,076,046
Construction in progress	2,054,649	$ 55,984	$ (2,054,649)	55,984
Total capital assets, not being depreciated	4,130,695	55,984	(2,054,649)	2,132,030
Capital assets being depreciated:				
Buildings and improvements	11,194,589	7,679,444		18,874,033
Machinery and equipment	15,817,532	1,699,004		17,516,536
Total capital assets being depreciated	27,012,121	9,378,448		36,390,569
Less accumulated depreciation for:				
Buildings and improvements	(1,422,540)	(418,206)		(1,840,746)
Machinery and equipment	(4,161,873)	(1,453,461)	12,000	(5,603,334)
Total accumulated depreciation	(5,584,413)	(1,871,667)	12,000	(7,444,080)
Total capital assets being depreciated, net	21,427,708	7,506,781	12,000	28,946,489
Total capital assets, net	$25,558,403	$ 7,562,765	$ (2,042,649)	$31,078,519

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 that is equal to 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 had $711,402 due to other governments at June 30, 2015, which was entirely comprised of the City of Flagstaff's fund balances.

NOTE 7 - PENSIONS

Plan description — The Authority's employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided — The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	ASRS Retirement Initial Membership Date:	
	Before July 1, 2011:	On or after July 1, 2011:
Years of service and age required to receive benefit:	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* Any years age 65
Final average salary is based on:	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service:	2.1% to 2.3%	2.1% to 2.3%

**With actuarially reduced benefits*

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

NOTE 7 - PENSIONS - CONTINUED

Contributions — In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6% (11.48% for retirement and 0.12% for long-term disability) of the members' annual covered payroll, and the Authority was required by statute to contribute at the actuarially determined rate of 11.6% (10.89% for retirement, 0.59% for health insurance premium benefit, and 0.12% for long-term disability) of the active members' annual covered payroll. The Authority's contributions to the pension plan for the year ended June 30, 2015, were $372,160.

The Authority's contributions for the current and 2 preceding years for the Health Benefit Supplement and Long Term Disability, which are required contributions, were as follows:

Year ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	$ 20,692	$ 4,208
2014	19,948	9,150
2013	18,707	8,545

Pension liability — At June 30, 2015, the Authority reported a liability of $5,164,467 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The Authority's proportion measured as of June 30, 2014, was .034903%, which increased from its proportion of .032145% measured as of June 30, 2013.

NOTE 7 - PENSIONS - CONTINUED

Pension expense and deferred outflows/inflows of resources — For the year ended June 30, 2015, the Authority recognized pension expense for ASRS of $459,670. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 262,473	
Net difference between projected and actual earnings on pension plan investments		$ 903,109
Changes in proportion and differences between county contributions and proportionate share of contributions	319,208	
Authority contributions subsequent to the measurement date	372,160	
Total	$ 953,841	$ 903,109

The $372,160 reported as deferred outflows of resources related to ASRS pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30,	
2016	$ 27,128
2017	27,128
2018	(149,905)
2019	(225,779)

Actuarial Assumptions — The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 – 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

NOTE 7 - PENSIONS - CONTINUED

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.75%
Commodities	4%	4.50%
Total	100%	

Discount Rate — The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.79%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the ASRS net pension liability to changes in the discount rate — The following table presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Authority's proportionate share of the net pension liability	$ 6,527,621	$ 5,164,467	$ 4,424,887

Pension plan fiduciary net position — Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

NOTE 8 - 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 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 2, 2016, which was the date the Authority's financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COST-SHARING PENSION PLAN

June 30, 2015

Arizona State Retirement System:	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	2014 through 2006
The Authority's proportion of the net pension liability	0.034903%	Information not available
The Authority's proportionate share of the net pension liability	$ 5,164,467	
The Authority's covered-employee payroll	$ 2,997,618	
The Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.29%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2015

Arizona State Retirement System:

	Reporting Fiscal Year (Measurement Date)		
	2015	2014	2013 through 2006
Statutorily required contribution	$ 372,160	$ 359,901	Information not available
The Authority's contributions in relation to the statutorily required contribution	372,160	359,901	
The Authority's contribution deficiency (excess)	$	$	
The Authority's covered-employee payroll	$ 2,997,618	$ 3,102,595	
The Authority's contributions as a percentage of covered-employee payroll	12.42%	11.60%	

SUPPLEMENTARY INFORMATION

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation:			
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500	N/A	$ 1,029,200
Federal Transit - Formula Grants	20.507	N/A	3,135,391
Bus and Bus Facilities Formula Program, passed through Arizona Department of Transportation (ADOT)	20.526	GRT 13-0003559-T, GRT 14-0004630-T	3,685,489
Total *Federal Transit Cluster*			7,850,080
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research, passed through ADOT	20.505	GRT-15-0005366-T	25,446
Formula Grants for Rural Areas, passed through ADOT	20.509	GRT-140006484-T	600
Enhanced Mobility of Seniors and Individuals with Disabilities, passed through ADOT	20.513	GRT 14-0004781-T	196,132
Total Expenditures of Federal Awards			$ 8,072,258

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 2015 *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, 2015.

Fester & Chapman P.C.

Certified
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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, 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, 2015, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated March 2, 2016. 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

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 Findings

The Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. 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.

March 2, 2016

Fester & Chapman P.C.

Certified
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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, 2015. 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, 2015.

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 s*ignificant 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, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-002, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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.

March 2, 2016

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Federal Transit Cluster:
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.526	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

Section II - Financial Statement Findings

2015-001 - Accrued Payroll and Related Liabilities

Criteria: The Authority should have adequate internal controls in place to help ensure that its working trial balance is complete, accurate and prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Condition: The Authority's accrued paid time off liability, accrued payroll, and related expenses were overstated by approximately $58,000 prior to management posting audit adjusting journal entries.

Cause: The Authority did not have adequate policies and procedures in place to help ensure that the year-end payroll accruals were recorded in accordance with GAAP.

Effect: The Authority's financial statements were materially misstated prior to management posting audit adjusting journal entries.

Recommendation: The Authority should evaluate its year-end financial closing process and develop comprehensive policies and procedures to help identify and reconcile significant account balances.

2015-002 - Internal Control Over Payroll

Criteria: According to OMB Circular A-87, payroll expenditures charged to federal programs should be based on documentation approved by a responsible official of the organization.

Condition: Two of forty payroll disbursements that we tested did not have supervisor-approved personnel action forms supporting the employee's pay rates.

Cause: The Authority did not retain supervisor-approved personnel action forms supporting the pay rates for two of forty payroll transactions that we tested.

Effect: Insufficient internal control 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 documentation of supervisor-approved pay rates are retained for all employees to support payroll disbursements charged to federal programs.

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

2015-002 - Internal Control Over Payroll

Federal Program: Federal Transit Cluster: CFDA Nos. 20.500, 20.507 & 20.526
U.S. Department of Transportation

See finding 2015-002 in Section II.

Northern Arizona Intergovernmental Public Transportation Authority

CORRECTIVE ACTION PLAN

Year Ended June 30, 2015

Northern Arizona Intergovernmental Public Transportation Authority respectfully submits the following Corrective Action Plan for the year ended June 30, 2015.

Name and address of the independent public accounting firm:
Fester & Chapman P.C.
4001 N. 3rd Street, Suite 275
Phoenix, Arizona 85012

Audit Period: July 1, 2014 to June 30, 2015

The findings from the June 30, 2015 schedule of findings and questioned costs are discussed below.

2015-001 – Accrued Payroll and Related Liabilities

Recommendation: The Authority should evaluate its year-end financial closing process and develop comprehensive policies and procedures to help identify and reconcile significant account balances.

Action Taken: NAIPTA has updated year end procedures and internal control policies to include year-end closing processes and entries as necessary to identify and reconcile significant account balances. Year-end process will be reviewed annually, completed by the Business Manager, and approved by Administrative Director.

Anticipated Completion Date: June 30, 2016

2015-002 – Internal Control Over Payroll

Recommendation: The Authority should develop policies and procedures to help ensure that documentation of supervisor-approved pay rates are retained for all employees to support payroll disbursements charged to federal programs.

Action Taken: NAIPTA has updated our personnel procedures and internal control policies to ensure that all pay rate changes are adequately approved and documented prior to pay period processing. HR Specialist will complete change and forward authorizing paperwork to Accounting. The paperwork will be verified by Accounting Tech II and Business Manager. The Administrative Director will also complete pre-payroll audit of changes to confirm adequate documentation and authorization is processed.

Anticipated Completion Date: June 30, 2016

Respectfully submitted,

Heather Dalmolin, Administrative Director
Northern Arizona Intergovernmental Public Transportation Authority