

**Northern Arizona Intergovernmental Public
Transportation Authority**

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

June 30, 2018

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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 statement of net position of Northern Arizona Intergovernmental Public Transportation Authority (the Authority), as of and for the year ended June 30, 2018, 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, 2018, 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.

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 17, and the Schedule of Pension Contributions on page 18, 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, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is management's responsibility 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 22, 2019, 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, PLLC

March 22, 2019

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENT OF NET POSITION

June 30, 2018

ASSETS

Current assets:	
Cash	\$ 865,427
Grants and contracts receivable	1,898,361
Inventory	228,636
Prepaid expenses	<u>115,246</u>
Total current assets	3,107,670
Capital assets:	
Capital assets, not being depreciated	3,151,498
Capital assets, being depreciated, net	<u>30,384,149</u>
Total capital assets	<u>33,535,647</u>
Total assets	36,643,317

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>1,389,922</u>
Total deferred outflows of resources	1,389,922

LIABILITIES

Current liabilities:	
Accounts payable	611,121
Accrued payroll and related	525,389
Unearned revenue	<u>14,892</u>
Total current liabilities	1,151,402
Noncurrent liabilities:	
Due to other governments	1,019,072
Net pension liability	<u>6,433,758</u>
Total noncurrent liabilities	<u>7,452,830</u>
Total liabilities	8,604,232

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>417,750</u>
Total deferred inflows of resources	417,750

NET POSITION

Net investment in capital assets	33,330,549
Unrestricted (deficit)	<u>(4,319,292)</u>
Total net position	<u>\$ 29,011,257</u>

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, 2018

Operating revenues:	
Participant fees	\$ 7,135,731
Fares	855,645
Advertising	<u>114,502</u>
Total operating revenues	8,105,878
Operating expenses:	
Payroll	4,521,170
Payroll taxes and benefits	1,621,198
Professional fees	445,720
Insurance	342,953
Transit services planning	423,236
Fuel and oil	564,122
Tires	48,548
Vehicle parts and supplies	330,334
Uniforms	22,601
Memberships and subscriptions	27,218
Utilities	60,139
Administration supplies	26,390
Printing and postage	39,302
Information and technology	101,713
Travel and training	99,731
Depreciation	2,744,717
Repairs and maintenance	179,810
Miscellaneous	<u>183,546</u>
Total operating expenses	<u>11,782,448</u>
Operating loss	(3,676,570)
Nonoperating revenues:	
Federal grants	5,487,523
Interest income	10,412
Other income	<u>104,228</u>
Total nonoperating revenues	<u>5,602,163</u>
Increase in net position	1,925,593
Net position, July 1, 2017	<u>27,085,664</u>
Net position, June 30, 2018	<u><u>\$29,011,257</u></u>

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, 2018

Cash flows from operating activities:	
Cash received from participants and customers	\$ 7,819,921
Cash received for advertising	114,502
Cash payments to suppliers for goods and services	(2,860,628)
Cash payments to employees	<u>(5,992,586)</u>
Net cash used by operating activities	(918,791)
Cash flows from noncapital financing activities:	
Noncapital grants	<u>2,193,103</u>
Net cash provided by noncapital financing activities	2,193,103
Cash flows from capital and related financing activities:	
Capital grants	5,056,934
Purchase of capital assets	<u>(6,472,519)</u>
Net cash used by capital and related financing activities	(1,415,585)
Cash flows from investing activities:	
Interest income	10,412
Other investing activities	<u>104,228</u>
Net cash provided by investing activities	<u>114,640</u>
Net change in cash	(26,633)
Cash, July 1, 2017	<u>892,060</u>
Cash, June 30, 2018	<u><u>\$ 865,427</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (3,676,570)
Adjustments:	
Depreciation	2,744,717
Pension expense	589,166
Employer pension/OPEB contributions	(506,490)
Changes in assets and liabilities:	
Inventory	(18,659)
Prepaid expenses	(33,784)
Accounts payable (noncapital)	87,178
Accrued payroll and related	67,106
Unearned revenue	14,892
Due to other governments	<u>(186,347)</u>
Net cash used by operating activities	<u><u>\$ (918,791)</u></u>

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

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 88% of total operating revenues in fiscal year 2018; 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.

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

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

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

E. Credit Risk

Custodial Credit Risk – Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

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

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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. Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' 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.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 – 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, 2018, the bank balance of deposits was \$352,712, and the carrying amount was \$309,208. Balances may at times exceed insured amounts; however, 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, 2018, the Authority had cash on deposit and carrying amount of \$553,939 with the Coconino County Treasurer.

The Authority's cash held on deposit with the County Treasurer was collateralized as required by statutes at June 30, 2018.

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 was comprised of amounts due from the following entities at June 30, 2018:

Federal Transit Authority	\$ 1,689,166
Arizona Department of Transportation	163,907
Others	<u>45,288</u>
	<u>\$ 1,898,361</u>

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 2,076,046	\$ 884,834		\$ 2,960,880
Construction in progress	<u>35,218</u>	<u>190,618</u>	<u>\$ (35,218)</u>	<u>190,618</u>
Total capital assets, not being depreciated	<u>2,111,264</u>	<u>1,075,452</u>	<u>(35,218)</u>	<u>3,151,498</u>
Capital assets being depreciated:				
Buildings and improvements	20,365,271	580,207		20,945,478
Machinery and equipment	<u>21,489,578</u>	<u>3,135,626</u>		<u>24,625,204</u>
Total capital assets being depreciated	<u>41,854,849</u>	<u>3,715,833</u>		<u>45,570,682</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,184,878)	(580,220)		(3,765,098)
Machinery and equipment	<u>(9,256,938)</u>	<u>(2,164,497)</u>		<u>(11,421,435)</u>
Total accumulated depreciation	<u>(12,441,816)</u>	<u>(2,744,717)</u>		<u>(15,186,533)</u>
Total capital assets being depreciated, net	<u>29,413,033</u>	<u>971,116</u>		<u>30,384,149</u>
Total capital assets, net	<u>\$ 31,524,297</u>	<u>\$ 2,046,568</u>	<u>\$ (35,218)</u>	<u>\$ 33,535,647</u>

NOTE 5 – 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 amended 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 \$1,019,072 due to other governments at June 30, 2018, of which \$1,002,761 or 98%, was comprised of the City of Flagstaff's fund balances.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - PENSIONS

The Authority did not disclose other postemployment benefits (OPEB) plan separately because of its insignificance to the Authority's financial statements.

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:

	<u>ASRS Retirement Initial Membership Date:</u>	
	<u>Before July 1, 2011:</u>	<u>On or after July 1, 2011:</u>
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*

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - PENSIONS - CONTINUED

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 retirement benefit option chosen determines the survivor benefit. 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.

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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.50% (11.34% for retirement and 0.16% 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 11.50% (10.9% for retirement, 0.44% for health insurance premium benefit, and 0.16% for long-term disability) of the active members' annual covered payroll. The Authority's contributions to the pension, health insurance benefit, and long-term disability plans for the year ended June 30, 2018, were \$480,064, \$19,379, and \$7,047, respectively.

Liability — At June 30, 2018, the Authority reported a net pension/OPEB liability of \$6,433,758 for its proportionate share of the ASRS' net pension/OPEB liability. The net liability was measured as of June 30, 2017. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

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, 2017. The Authority's proportion measured as of June 30, 2017, was 0.04135%, which was an increase of 0.00272% from its proportion measured as of June 30, 2016.

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The changes in the Authority's net asset and net liabilities as a result of these changes is not known.

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - PENSIONS - CONTINUED

Expense and deferred outflows/inflows of resources — For the year ended June 30, 2018, the Authority recognized pension and OPEB expense for ASRS of \$589,166. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 193,152
Changes of assumptions or other inputs	\$ 279,770	192,613
Net difference between projected and actual earnings on pension plan investments	46,246	27,927
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	557,416	4,058
Authority contributions subsequent to the measurement date	<u>506,490</u>	
Total	<u>\$ 1,389,922</u>	<u>\$ 417,750</u>

The \$506,490 reported as deferred outflows of resources related to ASRS pensions and OPEB 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions and OPEB will be recognized in pension expense as follows:

Year ending June 30,	
2019	\$ 79,970
2020	441,340
2021	99,537
2022	(155,162)
2023	(3)

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - PENSIONS - CONTINUED

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 – 6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS plan investments was determined to be 8.7% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 Arithmetic Real Rate of Return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	<u>2%</u>	3.84%
Total	<u>100%</u>	

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - PENSIONS - CONTINUED

Discount Rate — The discount rate used to measure the ASRS total pension/OPEB liability was 8%, which is less than the long-term expected rate of return of 8.7%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the Authority’s proportionate share of the ASRS net pension/OPEB liability to changes in the discount rate — The following table presents the Authority’s proportionate share of the net pension/OPEB liability calculated using the discount rate of 8%, as well as what the Authority’s proportionate share of the net pension/OPEB 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 <u>(7%)</u>	Current Discount Rate <u>(8%)</u>	1% Increase <u>(9%)</u>
Authority’s proportionate share of the net pension/OPEB liability	\$ 8,323,663	\$ 6,433,758	\$ 4,853,680

Plan fiduciary net position — Detailed information about the plans' fiduciary net position is available in the separately issued ASRS financial report.

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 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 22, 2019, 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, 2018

ASRS - Pension:	<u>Reporting Fiscal Year (Measurement Date)</u>				<u>2014 through 2009</u>
	<u>2018 (2017)</u>	<u>2017 (2016)</u>	<u>2016 (2015)</u>	<u>2015 (2014)</u>	
The Authority's proportion of the net pension liability	0.041350%	0.038630%	0.034520%	0.034903%	Information not available
The Authority's proportionate share of the net pension liability	\$ 6,441,524	\$ 6,235,270	\$ 5,376,812	\$ 5,164,467	
The Authority's covered payroll	\$ 4,404,261	\$ 3,382,829	\$ 2,997,618	\$ 3,102,595	
The Authority's proportionate share of the net pension liability as a percentage of its covered payroll	146.26%	184.32%	179.37%	166.46%	
Plan fiduciary net position as a percentage of the total pension liability	69.90%	67.06%	68.35%	69.49%	

Note: Other Postemployment Benefits (OPEB) plan schedules were not provided as it was considered insignificant to the financial statements.

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2018

ASRS - Pension	Reporting Fiscal Year					<u>2013 through</u> <u>2009</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
Statutorily required contribution	\$ 480,064	\$ 430,080	\$ 367,037	\$ 326,441	\$ 331,047	Information not available
The Authority's contributions in relation to the statutorily required contribution	<u>480,064</u>	<u>430,080</u>	<u>367,037</u>	<u>326,441</u>	<u>331,047</u>	
The Authority's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
The Authority's covered payroll	\$ 4,404,261	\$ 3,989,610	\$ 3,382,829	\$ 2,997,618	\$ 3,102,595	
The Authority's contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	10.89%	10.67%	

Note: Other Postemployment Benefits (OPEB) plan schedules were not provided as it was considered insignificant to the financial statements.

SUPPLEMENTARY INFORMATION

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

<u>Federal Agency/Cluster Through Grantor</u>	<u>Title/Program Title/Pass-</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Transportation:					
<i>Federal Transit Cluster:</i>					
	Federal Transit - Formula Grants	20.507	N/A	\$ 2,449,451	\$ -
	Bus and Bus Facilities Formula Program	20.526	N/A	<u>2,624,503</u>	<u>-</u>
	<i>Total Federal Transit Cluster</i>			5,073,954	-
	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research, passed through ADOT	20.505	GRT 16-0006143-T	57,169	-
	Formula Grants for Rural Areas, passed through ADOT	20.509	GRT 16-0006143-T	114,702	-
<i>Transit Services Programs Cluster:</i>					
	Enhanced Mobility of Seniors and Individuals with Disabilities, passed through ADOT	20.513	GRT-16-0006088-T, GRT-17-0006609-T	<u>241,698</u>	<u>-</u>
	<i>Total Transit Services Programs Cluster</i>			<u>241,698</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 5,487,523</u>	<u>\$ -</u>

Northern Arizona Intergovernmental Public Transportation Authority

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority for the year ended June 30, 2018, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 2018 *Catalog of Federal Domestic Assistance*.

NOTE 3 - INDIRECT COST RATE

The Authority did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.



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 Northern Arizona Intergovernmental Public Transportation Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated March 22, 2019. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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, PLLC

March 22, 2019



Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

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 U.S. Office of Management (OMB) *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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Fester & Chapman, PLLC

March 22, 2019

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X 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?

_____ yes X 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 2 CFR §200.516(a)?

_____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.507

20.526

Federal Transit Cluster:

Federal Transit - Formula Grants

Bus and Bus Facilities Formula Program

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

\$750,000

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 2 §CFR 200.511 (b)?

_____ yes X no

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Cost

None