Northern Arizona Intergovernmental Public Transportation Authority

Financial Statements, Supplementary Information, and Single Audit Reports

June 30, 2022

CONTENTS

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Reports on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Northern Arizona Intergovernmental Public Transportation Authority, Arizona (the Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2022, and the respective changes in financial position and where applicable, cash flow, thereof for the year then ended in accordance with the U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are required to be independent of the Authority and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the audit's planned scope and timing, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 20, and the Schedule of Pension Contributions on page 21, 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 31, 2023, 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 31, 2023

Northern Arizona Intergovernmental Public Transportation Authority

STATEMENT OF NET POSITION

June 30, 2022

ASSETS

Current assets:	
Cash	$ 1,253,252
Grants and contracts receivable	1,069,958
Inventory	369,717
Prepaid expenses	92,198
Total current assets	2,785,125
Capital assets:	
Capital assets, not being depreciated	7,083,174
Capital assets, being depreciated, net	21,188,397
Total capital assets	28,271,571
Total assets	31,056,696

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	1,740,743
Total deferred outflows of resources	1,740,743

LIABILITIES

Current liabilities:	
Accounts payable	617,020
Accrued payroll and related	435,289
Unearned revenue	44,155
Total current liabilities	1,096,464
Noncurrent liabilities:	
Due to other governments	453,228
Net pension liability	5,944,117
Total noncurrent liabilities	6,397,345
Total liabilities	7,493,809

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	2,143,642
Total deferred inflows of resources	2,143,642

NET POSITION

Net investment in capital assets	28,271,571
Unrestricted (deficit)	(5,111,583)
Total net position	$ 23,159,988

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, 2022

Operating revenues:	
Participant fees	$ 7,248,878
Fares	615,666
Advertising	395,555
Total operating revenues	8,260,099
Operating expenses:	
Payroll	5,782,115
Payroll taxes and benefits	1,870,968
Professional fees	662,767
Insurance	508,967
Transit services planning	379,152
Fuel and oil	809,470
Tires	99,505
Vehicle parts and supplies	651,288
Uniforms	24,912
Memberships and subscriptions	27,123
Utilities	61,393
Administration supplies	30,471
Printing and postage	61,964
Information and technology	312,117
Travel and training	62,285
Depreciation	2,336,232
Repairs and maintenance	224,743
Miscellaneous	112,762
Total operating expenses	14,018,234
Operating loss	(5,758,135)
Nonoperating revenues:	
Federal grants	5,049,850
Interest income	7,877
Other income	175,862
Total nonoperating revenues	5,233,589
Decrease in net position	(524,546)
Net position, July 1, 2021	23,684,534
Net position, June 30, 2022	$ 23,159,988

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, 2022

Cash flows from operating activities:	
Cash received from participants and customers	$ 7,668,933
Cash received for advertising	395,555
Cash payments to suppliers for goods and services	(4,313,098)
Cash payments to employees	(7,951,909)
Net cash used by operating activities	(4,200,519)
Cash flows from noncapital financing activities:	
Noncapital grants	4,038,027
Net cash provided by noncapital financing activities	4,038,027
Cash flows from capital and related financing activities:	
Capital grants	1,750,150
Purchase of capital assets	(1,471,925)
Net cash provided by capital and related financing activities	278,225
Cash flows from investing activities:	
Interest income	7,877
Net cash provided by investing activities	7,877
Net change in cash	123,610
Cash, July 1, 2021	1,129,642
Cash, June 30, 2022	$ 1,253,252
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (5,758,135)
Adjustments:	
Depreciation	2,336,232
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Inventory	(46,036)
Prepaid expenses	(18,510)
Deferred outflows of resources related to pensions	(175,498)
Accounts payable (noncapital)	(219,633)
Accrued payroll and related	(252,507)
Unearned revenue	9,583
Due to other governments	(205,194)
Net pension liability	(1,925,871)
Deferred inflows of resources related to pensions	2,055,050
Net cash used by operating activities	$ (4,200,519)

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, 2022, the Authority implemented the provisions of GASB Statement No. 87, *Leases*, as amended, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, the Authority's financial statements have been modified to reflect the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the contract payment provisions.

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 2022; 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Allowance for Doubtful Accounts

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

G. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

L. Leases

As lessee, the Authority recognizes lease liabilities with an initial, individual value of $10,000 or more. The Authority uses its estimated incremental borrowing rate to measure lease liabilities unless it can readily determine the interest rate implicit in the lease. The Authority's estimated incremental borrowing rate is based on incremental borrowing rates published by the Arizona Department of Administration - General Accounting Office. These rates were developed specifically for GASB No.87 use.

As lessor, the Authority recognizes lease receivables with an initial, individual value of $10,000 or more. If there is no stated rate in the lease contract (or if the stated rate is not the rate the Authority charges the lessee) and the implicit rate cannot be determined, the Authority uses its own estimated incremental borrowing rate as the discount rate to measure lease receivables. The Authority's estimated incremental borrowing rate is calculated as described above.

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, 2022, the bank balance of deposits was $940,525, and the carrying amount was $579,938. 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, 2022, the Authority had cash on deposit and carrying amount of $672,950 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, 2022.

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, 2022:

Federal Transit Authority	$ 472,799
Arizona Department of Transportation	62,652
City of Flagstaff, Arizona	190,609
Others	343,898
	$ 1,069,958

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2022:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Capital assets, not being depreciated:				
Land	$ 2,963,380	$		$ 2,963,380
Construction in progress	2,778,817	1,509,327	$ (168,350)	4,119,794
Total capital assets, not being depreciated	5,742,197	1,509,327	(168,350)	7,083,174
Capital assets being depreciated:				
Buildings and improvements	21,021,955	130,948	(266,299)	20,886,604
Machinery and equipment	24,258,684			24,258,684
Total capital assets being depreciated	45,280,639	130,948	(266,299)	45,145,288
Less accumulated depreciation for:				
Buildings and improvements	(5,826,087)	(676,862)	266,299	(6,236,650)
Machinery and equipment	(16,060,871)	(1,659,370)		(17,720,241)
Total accumulated depreciation	(21,886,958)	(2,336,232)	266,299	(23,956,891)
Total capital assets being depreciated, net	23,393,681	(2,205,284)		21,188,397
Total capital assets, net	$ 29,135,878	$ (695,957)	$ (168,350)	$ 28,271,571

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 $453,228 due to other governments at June 30, 2022, of which $448,791 or 99%, was comprised of the City of Flagstaff's fund balance.

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:

	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*

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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from $100 per month to $260 per month, depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years or service of the service on record as of the effective disability date if their service is greater than 30 years.

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, 2022, statute required active ASRS members to contribute at the actuarially determined rate of 12.41% (12.22% for retirement and 0.19% 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 12.41% (12.01% for retirement, 0.21% for health insurance premium benefit, and 0.19% 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, 2022, were $614,084, $19,893, and $9,318, respectively.

Liability — At June 30, 2022, the Authority reported a net pension/OPEB liability of $5,944,117 for its proportionate share of the ASRS' net pension/OPEB liability. The net liability was measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021.

NOTE 6 - PENSIONS - CONTINUED

The total pension liability as of June 30, 2021, reflects a change in actuarial assumptions based on results of an actuarial experience study for the 5-year period ended June 30, 20201, including decreasing the discount rate from 7.5 percent to 7.0 percent, changing the project salary increases from 2.7-7.2percent to 2.9-8.4 percent.

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, 2021. The Authority's proportion measured as of June 30, 2021, was 0.04689%, which was an increase of 0.00148% from its proportion measured as of June 30, 2020.

Expense and deferred outflows/inflows of resources — For the year ended June 30, 2022, the Authority recognized pension and OPEB expense for ASRS of $596,976. At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 96,702	$ 79,387
Changes of assumptions or other inputs	816,237	21,295
Net difference between projected and actual earnings on pension plan investments		2,042,808
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	184,509	152
Authority contributions subsequent to the measurement date	643,295	
Total	$ 1,740,743	$ 2,143,642

NOTE 6 - PENSIONS - CONTINUED

The $643,295 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, 2022. 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,	
2023	$ 97,620
2024	55,473
2025	(471,657)
2026	(719,176)
2027	(4,554)
Thereafter	(3,900)

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

Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9 – 8.4% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health 2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020, valuations were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

NOTE 6 - PENSIONS - CONTINUED

The long-term expected rate of return on ASRS plan investments was determined to be 7.0% 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 Geometric Real Rate of Return
Equity	50%	4.90%
Fixed income - credit	20%	5.20%
Fixed income - interest rate sensitive	10%	0.70%
Real estate	20%	5.70%
Total	100%	

Discount Rate — At June 30, 2021, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. 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.

NOTE 6 - PENSIONS - CONTINUED

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 7.0%, 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 (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Authority's proportionate share of the net pension/OPEB liability	$ 9,553,425	$ 5,944,117	$ 2,933,290

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 31, 2023, 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, 2022

ASRS - Pension:	**Reporting Fiscal Year (Measurement Date)**							
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
The Authority's proportion of the net pension liability	0.046890%	0.045410%	0.044690%	0.045180%	0.041350%	0.038630%	0.034520%	0.034903%
The Authority's proportionate share of the net pension liability	$5,944,117	$7,867,973	$6,502,915	$6,301,020	$6,441,524	$6,235,270	$5,376,812	$5,164,467
The Authority's covered payroll	$4,877,777	$4,601,773	$4,557,979	$4,404,261	$3,989,610	$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	121.86%	170.98%	142.67%	143.07%	161.46%	184.32%	179.37%	166.46%
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%	73.40%	69.92%	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, 2022

ASRS - Pension	**Reporting Fiscal Year**								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	$ 614,084	$ 568,261	$ 526,903	$ 509,582	$ 480,064	$ 430,080	$ 367,037	$ 326,441	$ 331,047
The Authority's contributions in relation to the statutorily required contribution	614,084	568,261	526,903	509,582	480,064	430,080	367,037	326,441	331,047
The Authority's contribution deficiency (excess)	$	$	$	$	$	$	$	$	$
The Authority's covered payroll	$ 5,113,106	$ 4,877,777	$ 4,601,773	$ 4,557,979	$ 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	12.01 %	11.65 %	11.45 %	11.18 %	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, 2022

Federal Agency/Cluster Title/Program Title/Pass-Through Grantor	Federal Assistance Listings Number	Pass-Through Grantor's Number	Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation:				
Federal Transit Cluster:				
Federal Transit - Capital Investment Grants				
(Fixed Guideway Capital Investment Grants)	20.500	N/A	$ 529,183	$ -
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	N/A	938,269	-
COVID-19 Federal Transit - Formula Grants (CARES Act)	20.507	N/A	3,219,234	-
Public Transportation Innovation	20.530	N/A	29,981	-
Total *Federal Transit Cluster*			4,716,667	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research, passed through Arizona Department of Transportation	20.505	GRT 16-0006143-T; GRT-18-0007104-T	26,364	-
Formula Grants for Rural Areas and Tribal Transit Program, passed through Arizona Department of Transportation	20.509	GRT-18-0007104-T	16,117	-
COVID-19 Formula Grants for Rural Areas and Tribal Transit Program (CARES Act), passed through Arizona Department of Transportation	20.509	GRT-18-0007104-T	26,323	-
Total *20.509*			42,440	-
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities, passed through Arizona Department of Transportation	20.513	GRT-19-0007488-T	209,830	-
COVID-19 Enhanced Mobility of Seniors and Individuals with Disabilities (CARES Act), passed through Arizona Department of Transportation	20.513	GRT-19-0007488-T	48,469	-
Total *Transit Services Programs Cluster*			258,299	-
Total Expenditures of Federal Awards			$ 5,043,770	$ -

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

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, 2022, 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 - FEDERAL ASSISTANCE LISTINGS NUMBER

The program titles and Federal Assistance Listing numbers were obtained from the federal or pass-through grantor or the 2022 Federal Assistance Listings. When no Federal Assistance Listings number had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two digit federal agency identifier and the word "unknown" were used.

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 U.S. Comptroller General, the financial statements of Northern Arizona Intergovernmental Public Transportation Authority (the Authority) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated March 31, 2023. 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.

Report on 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) as a basis for designing 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 identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

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Report on 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 financial statements. 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 31, 2023.

Authority's Response to Finding

The Authority's response to the finding identified in our audit that are presented in the accompanying corrective action plan. The Authority is responsible for preparing a corrective action plan to address the finding. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 31, 2023

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion on Each Major Federal Program

We have audited Northern Arizona Intergovernmental Public Transportation Authority (Authority)'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Compliance Supplement* that could have a direct and material effect on its for the year ended June 30, 2022. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs .

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 U.S. 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 Award* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for Authority. Our audit does not provide a legal determination of Authority's compliance with the compliance requirements referred to above.

Management's Responsibilities for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to each major federal program.

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Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Authority's compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 auditors' responsibilities for the audit of compliance section above was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 31, 2023

Northern Arizona Intergovernmental Public Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2022

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?	X yes	____ no
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:

Federal Assistance Listings Number	Name of Federal Program or Cluster
	Federal Transit Cluster:
20.500	Federal Transit - Capital Investment Grants (Fixed Guideway Capital Investment Grants)
20.507	Federal Transit - Formula Grants (Urbanized Area Formula Program)
20.507	COVID-19 Federal Transit - Formula Grants (CARES Act)
20.530	Public Transportation Innovation

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

Section II - Financial Statement Findings

2022-001 - Significant Deficiency in Internal Controls over Financial Reporting Process

Criteria:	The Authority should have adequate internal controls in place to help ensure that its financial statements and related note disclosures are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).
Condition:	Year-end closing procedures for the fixed assets, accounts payables, and cash, were not completed timely due to limited staffing in the accounting department.
Cause:	The Authority did not have adequate policies and procedures in place to help ensure that the Authority's year-end closing process was completed accurately and in accordance with GAAP.
Effect:	Additional year-end reconciliation and adjustments were necessary to correct amount balances in the Authority's financial statements.
Recommendation:	The Authority should evaluate its year-end financial closing process and develop comprehensive policies and procedures to help ensure its financial reports are accurate and prepared in accordance with GAAP.

Section III - Federal Award Findings and Questioned Cost

None

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Corrective Action Plan

Year Ended June 30, 2022

March 31. 2023

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by 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). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

<u>Findings Financial Statement Audit</u>

2022-001 Financial Reporting Process

Recommendation:	The Authority should evaluate its year-end financial closing process and develop comprehensive policies and procedures to help ensure its financial reports are accurate and prepared in accordance with GAAP. It is also recommended that management review its general ledger regularly.
Action Taken:	The Authority concurs and has implemented the recommendation.
Completion Date:	During fiscal year 2023
Contact Person:	Josh Stone, Management Services Director