



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**NORTH CENTRAL REGIONAL
TRANSIT DISTRICT**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2012
With Comparative Totals for 2011**

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Independent Auditors' Report
And
Financial Statements**

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**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Independent Auditors' Report
And
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**OFFICIAL ROSTER
As of June 30, 2012**

Board of Directors

Board Member	Title	Representing
Daniel R. Barrone, Chair	Commissioner	City of Santa Fe
Barney Trujillo, Vice Chair	Commissioner	County of Rio Arriba
Geoff Rodgers, Secretary/Treasurer	Councilor	County of Los Alamos
Kathy Holian	Commissioner	County of Santa Fe
Tim Vigil	Special Projects Director	Pueblo of Pojoaque
Patti Bushee	Councilor	City of Santa Fe
Tjohn Shije	Tribal Sheriff	Pueblo of Santa Clara
Dennis Tim Salazar	Councilor	City of Espanola
Charles Dorame	Former Governor	Pueblo of Tesuque

Administration

Name	Title
Anthony Mortillaro	Executive Director



INDEPENDENT AUDITORS' REPORT

Board of Directors and Management of
North Central Regional Transit District
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying basic financial statements of the North Central Regional Transit District (NCRTD) as of and for the year ended June 30, 2012, as listed in the table of contents. We have also audited the schedule of revenues and expenses and changes in net assets —budget (non-GAAP budget basis) and actual presented as supplemental information for the year ended June 30, 2012, as listed in the table of contents. These financial statements and budget comparison schedule are the responsibility of the NCRTD's management. Our responsibility is to express opinions on these financial statements and budget comparison schedule based on our audit. The prior year summarized comparative information has been derived from the NCRTD's June 30, 2011 financial statements and in our report dated November 22, 2011, we expressed unqualified opinions on those statements.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCRTD as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison schedule referred to above presents fairly, in all material respects, the budget comparison of the NCRTD for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the NCRTD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The NCRTD has omitted the MD&A which is required to be presented supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the NCRTD's basic financial statements and the budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hinkle + Landers, P.C.
November 27, 2012

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
STATEMENT OF NET ASSETS
As of June 30, 2012 With Comparative Totals For 2011**

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	\$ 6,073,820	5,581,059
Receivables	1,411,689	1,624,622
Total Current Assets	<u>7,485,509</u>	<u>7,205,681</u>
Non-Current Assets		
Other assets	650	650
Capital Assets, net of accumulated depreciation	<u>5,593,594</u>	<u>3,851,537</u>
Total Assets	<u>\$ 13,079,753</u>	<u>11,057,868</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 300,127	294,332
Due to other governments	838,608	893,393
Payroll related liabilities	65,437	152,884
Funds held for others	-	1,829
Compensated absences - current portion	49,931	45,786
Total Current Liabilities	<u>1,254,103</u>	<u>1,388,224</u>
Non-Current Liabilities		
Compensated absences - non-current portion	<u>40,853</u>	<u>37,462</u>
Total Liabilities	<u>1,294,956</u>	<u>1,425,686</u>
NET ASSETS		
Unrestricted		
Invested in capital assets	5,593,594	3,851,537
Unrestricted, undesignated	2,918,886	2,369,433
Unrestricted, designated	2,572,317	2,711,212
Restricted - Working Capital	<u>700,000</u>	<u>700,000</u>
Total Net Assets	<u>11,784,797</u>	<u>9,632,182</u>
Total Liabilities and Net Assets	<u>\$ 13,079,753</u>	<u>11,057,868</u>

SEE INDEPENDENT AUDITORS' REPORT

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

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012 With Comparative Totals For 2011

	2012	2011
OPERATING REVENUES		
Charges for services (program revenues)	\$ 30,550	25,965
Total operating revenues	30,550	25,965
OPERATING EXPENSES		
Personnel Services		
Salaries and wages	1,585,192	1,611,147
Payroll taxes	115,310	126,347
Employee benefits	526,399	537,497
Total Personnel Services	2,226,901	2,274,991
Other Operating Expenses		
Advertising	24,091	101,363
Dues, licenses and fees	5,656	5,952
Equipment expense	41,059	61,131
Insurance	97,553	73,573
Travel, meetings, travel, lodging, and per diem	11,805	23,885
Occupancy and utilities	44,352	35,578
Office supplies, postage and photocopies	23,868	33,472
Penalties and interest	9,430	1,450
Professional services	209,710	19,922
Repairs and maintenance	59,059	74,661
Telephone and internet	20,724	30,036
Training	5,235	5,793
Uniforms	12,193	8,370
Vehicle repairs and maintenance	494,619	339,570
Miscellaneous expenses	1,146	2,949
Depreciation	555,286	411,917
Total other operating expenses	1,615,786	1,229,622
Total Operating Expenses	3,842,687	3,504,613
Operating Income (Loss)	(3,812,137)	(3,478,648)
NON-OPERATING REVENUES (EXPENSES)		
Federal grants	2,566,482	1,798,955
Member local match	600,000	1,540,000
Gross receipts and other taxes	7,083,927	7,477,175
Gross receipts passed-thru to other entities	(4,251,200)	(4,332,830)
Gain/(Loss) on disposal of assets	(42,766)	70,925
Interest income	8,309	2,752
Total non-operating revenues (expenses)	5,964,752	6,556,977
Change in net assets	2,152,615	3,078,329
Net assets, beginning of year	9,632,182	6,553,853
Net assets, end of year	\$ 11,784,797	9,632,182

SEE INDEPENDENT AUDITORS' REPORT

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

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012 With Comparative Totals For 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers (charges for services)	\$ 30,550	25,965
Cash paid to employees (personnel services)	(2,306,811)	(2,242,471)
Cash paid to suppliers (other operating expenses)	(1,066,783)	(942,344)
Net cash provided (used) by operating activities	(3,343,044)	(3,158,850)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received from grants and agreements	3,379,416	3,234,924
Cash received from gross receipts and other taxes	7,083,927	7,477,175
Cash paid to other entities for pass-thru taxes	(4,251,200)	(4,332,830)
Net cash provided by (used for) noncapital financing activities	6,212,143	6,379,269
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash paid for acquisition of capital assets	(2,402,847)	(1,350,760)
Cash received from sale of capital assets	18,200	-
Net cash provided by (used for) capital and related financing activities	(2,384,647)	(1,350,760)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from interest on cash and cash equivalents	8,309	2,752
Net cash provided by (used for) investing activities	8,309	2,752
Net increase (decrease) in cash and cash equivalents	492,761	1,872,411
Cash and cash equivalents, beginning of year	5,581,059	3,708,648
Cash and cash equivalents at end of year	\$ 6,073,820	5,581,059

Reconciliation of operating loss to net cash used in operating activities

Operating income/(loss)	\$ (3,812,137)	(3,478,648)
Adjustments to reconcile increases in net assets to cash provided by operating activities:		
Depreciation expense	555,286	411,917
Change in assets and liabilities:		
Accounts receivable	44,537	-
Accounts payables	(48,991)	(125,274)
Payroll related liabilities	(87,446)	35,951
Funds held for others	(1,829)	635
Compensated absences	7,536	(3,431)
Net cash used by operating activities	\$ (3,343,044)	(3,158,850)

SEE INDEPENDENT AUDITORS' REPORT

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

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

NOTE 1—NATURE OF OPERATIONS

Purpose

The NCRTD was established in September 2004, and operations of the NCRTD commenced in May 2005. The purpose of the NCRTD is to:

- A. Serve the public by providing for the creation of regional networks of safe and efficient public transit services;
- B. Allow multi-jurisdictional public transit systems to reduce the congestion of single-occupant motor vehicle traffic by providing transportation options for residents;
- C. Decrease automobile accidents by reducing traffic congestion on freeways and streets;
- D. Reduce noise and air pollution produced by motor vehicles.
- E. Prolong and extend the life of New Mexico's existing roadways by easing the traffic burden;
- F. Provide residents with a choice of transportation alternatives so that seniors, youth, low-income and mobility-impaired residents and others unable to drive or afford motor vehicles continue to have full access to the goods, services, jobs and activities of the community;
- G. Improve the New Mexico economy by increasing workforce and citizen access to education and higher paying jobs; and
- H. Prolong and extend petroleum resources.

Membership

The NCRTD is a membership organization that is open to governmental units, which means the State of New Mexico, Counties, Municipalities of New Mexico, Indian Nations, Tribes, and or Pueblos located within the boundaries of Los Alamos, Rio Arriba of Santa Fe Counties in New Mexico may join. Members may be added or deleted pursuant to Article VIII of the NCRTD's bylaws and State Statute Section 73-25-17.

The Board is composed of one Director from each participating member of the NCRTD. A Director shall be an elected official or official designee, Tribal Governor or Tribal Council Member. The Director shall hold office until removed by the appointing member governmental unit or until the Director no longer holds elective office in the governing body of the appointing governmental unit or until the Director submits written resignation to the Chairman of the Board. Directors shall not serve a term longer than four years unless re-appointed by their Member governing body.

Reporting Entity

The financial statements of the NCRTD encompass the activities of the NCRTD and any applicable component units.

In evaluating how to define the NCRTD, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB No. 14 and No. 39. Blended component units, although legally separate entities, are in substance part of the government's

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
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operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, there were no component units identified as needing to be disclosed or presented as part of the reporting entity.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

A— Measurement focus, basis of accounting, and financial statement presentation

The NCRTD's activities are reported as business-type activities. As a result, the financial statements are comprised solely of proprietary fund financial statements. Proprietary statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the NCRTD are user fees generated from transportation services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. In 2008, the NCRTD began generating user fees and these amounts are expected to increase as the NCRTD continues to grow and develop, with the exception of if the board elects to suspend the user fees.

The NCRTD applies pronouncements of the Government Accounting Standards Board (GASB) and statements and interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The NCRTD has elected not to apply FASB statements and interpretations issued after November 30, 1989.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
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When both restricted and unrestricted resources are available for use, it is the NCRTD's policy to use applicable restricted resources first, then unrestricted resources as they are needed.

B—Use of Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C—Advertising

The NCRTD expenses advertising costs as incurred. Advertising costs are incurred primarily for the dissemination of program information.

D—Net Assets

The proprietary fund financial statements utilize a net asset presentation. Net Assets are categorized in the following three categories: invested in capital assets (net of related debt), restricted and unrestricted.

1. Invested in Capital Assets (net of related debt) – Is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The NCRTD did not have any related debt during the year ended June 30, 2012.
2. Restricted net assets – Consist of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation or federal law.
3. Unrestricted, undesignated, net assets – Consist of assets less liabilities after the amount invested in capital assets and any restricted and designated net assets have been subtracted.
4. Unrestricted, designated, net assets – Consist of 25% of total revenue, which will serve as a cash reserve fund, in case the NCRTD ever needed significant immediate funds. The reserve can vary from year to year depending on the use of the reserve fund.

The statement of net assets reports \$700,000 of net assets restricted by enabling legislation. All the restricted net assets are considered restricted by enabling legislation under the various grant and contract agreements. The enabling legislation has been determined to be legally enforceable. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

E—Reclassifications

Certain reclassifications may have been made to the 2011 financial statements to conform to those used in 2012.

F—Prior Year Comparative Totals

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the NCRTD’s financial statements for the year ended June 30, 2011, from which the summarized information was derived.

G—Cash and Cash Equivalents

For purposes of the statement of cash flows, the NCRTD considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents

H—Capital Assets

Capital assets are defined by the NCRTD as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the NCRTD during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

Property and equipment of the NCRTD are depreciated using the straight line method over the following estimated useful lives:

<u>Classification</u>	<u>Estimated Useful Life</u>
Land	Perpetuity
Buildings and improvements	20 - 40 years
Leasehold improvements	20 years
Vehicles	5 - 7 years
Furniture, fixtures, & equipment	5 - 7 years

I—Donated Capital Assets

Donations of capital assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
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to a specified purpose. Assets donated with explicit restrictions regarding their use and contributions of cash must be used to acquire property and equipment, and are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the NCRTD reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The NCRTD reclassifies restricted net assets to unrestricted net assets at that time. During the year ended June 30, 2012, the NCRTD did not receive any contributed capital assets.

J—Compensated Absences

The NCRTD's policy permits employees to accumulate earned but unused vacation, compensatory hours, and sick pay benefits. Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and overtime. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the NCRTD and its employees is accrued as employees earn the right to the benefits. Compensated absences that related to future services or that are contingent on a special event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or when such events take place. Compensated absences liability includes annual leave which has been accrued but not taken. Sick leave is not required to be paid out upon termination and therefore is not part of the liability calculated at year 2012, and 2011.

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. The maximum amount that may be accumulated and carried over into the following year is not to exceed two (2) times the annual maximum accrual. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the aforementioned maximums at their current hourly rate. See the "changes in long term debt" note in this report for the accrued compensated absences payable outstanding as of June 30, 2012.

K—Grant Revenues

Proceeds from the Department of Transportation and other grants are considered voluntary nonexchange revenues under GASB Statement 33. Accordingly, revenues are recorded when all underlying eligibility requirements have been met, which occurs when the NCRTD has incurred an allowable expenditure under the terms of the grant agreement. Other grant revenue consists of grants from members of the NCRTD, to include monies for which the NCRTD must match (through user fees or other grants) at least one dollar for every four dollars provided by the Department of Transportation grant.

L—Budgets

The NCRTD's budget is not prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of anticipated revenues and expenses. The budget is presented on a modified accrual basis of accounting, which does not include capitalizing fixed capital assets over \$5,000, instead these expenditures are presented as capital outlay.

The Financial Manager prepares an overall budget by project fund for the NCRTD which is adopted by the Board. This budget includes expected receipts and expenditures of the Operating Fund. The NCRTD is required to prepare budgets for each program for submission directly to that program's funding source. Each funding source has its own requirements as to the timing of budget preparation and interim reports, line items and categories to be used and amounts to be included. Some require a report of grantor expenditures only, while others require a report of total program expenditures. The budgets, used by the NCRTD to monitor each program, are also used for comparisons in the accompanying financial statements. Therefore, the NCRTD legally approves its budget by total expenditures by fund.

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Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

Formal budgetary integration is employed as a management control device during the year. The difference between non-GAAP budgetary basis financial statements and the GAAP basis financial statements is the following: the GAAP basis financial statements capitalize capital outlay amounts greater than \$5,000 on the statement of net assets and the non-GAAP budget basis financial statements record capital outlay greater than \$5,000 as expenditures.

The time, at which appropriations lapse, depends on the funding source and related legal requirements. Unexpended appropriations funded by all grants do not lapse at the fiscal year-end and may be carried forward. There were no appropriations received by the NCRTD as of June 30, 2012.

The legal level of budgetary control is as follows: personnel expenses and other operating expenses. The level of classification detail at which expenditures may not legally exceed appropriations varies depending on the funding source. The legally permissible methods for amending the initially approved budget vary depending on the funding source. Applications for additional funds must be submitted to the funding source. The presented budgetary information has been properly amended during the year.

New Mexico State law prohibits the NCRTD from making expenditures in excess of approved appropriations. If a fund is not overspent, it is in compliance with state law. The 2012/2011 budget has been legally adopted.

NOTE 3—CASH AND CASH EQUIVALENTS

Please see the Schedule of Cash and Deposits and Pledged Collateral By Bank and Account in the supplementary information section of the audit report. Below are required disclosures regarding credit and interest risk.

The NCRTD's cash balances consist of demand deposits. The NCRTD's cash balances totaled the following as of June 30, 2012 and 2011.

<u>Cash and Cash Equivalents</u>	<u>2012</u>	<u>2011</u>
Cash		
Los Alamos National Bank - Checking	\$ 6,036,374	5,553,510
Bank of America Espanola	37,396	27,549
Petty cash	50	-
Total	<u>\$ 6,073,820</u>	<u>5,581,059</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the NCRTD's deposits may not be returned to it. State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit be collateralized by the depository thrift or banking institution. At present, state statutes require that a minimum of fifty percent of uninsured balances on deposit with anyone institution must be collateralized, with higher requirements up to 100% for financially troubled institutions.

As of June 30, 2012, all of the NCRTD's uninsured deposits were collateralized with securities held by pledging financial institution's trust department or agent in the NCRTD's name. Specific details of the collateralization of the NCRTD's deposits are included on the Schedule of Cash and Deposits and Pledged Collateral By Bank and Account on page 21.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

NOTE 4—RECEIVABLES

<u>Type</u>	<u>2012</u>	<u>2011</u>
Member match receivable	\$ 2,588	87,184
Gross receipt tax receivable	1,174,155	1,336,412
NM DOT federal grant receivable	190,409	201,026
Vehicle sale receivable	44,537	-
Total	\$ <u>1,411,689</u>	<u>1,624,622</u>

All receivables noted above are deemed fully collectible and an allowance for doubtful accounts has not been established. All amounts are deemed collectible within one year of June 30, 2012.

NOTE 5—DUE TO OTHER GOVERNMENTS

Amounts due to other governments consisted of the following at June 30, 2012 and 2011:

<u>Entity</u>	<u>Purpose</u>	<u>2012</u>	<u>2011</u>
City of Santa Fe	Transit services provided	\$ -	17,286
Rio Metro RTD	Gross receipts pass-thru	341,772	347,699
Los Alamos County	Transit services provided	496,836	528,408
		\$ <u>838,608</u>	<u>893,393</u>

NOTE 6—ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 and 2011 consistent of the following:

<u>Type</u>	<u>2012</u>	<u>2011</u>
Accrued payroll	\$ 28,409	91,580
Payroll related taxes and deductions	37,028	61,304
Total	\$ <u>65,437</u>	<u>152,884</u>

NOTE 7—PERA PENSION PLAN

A—Plan Description

Substantially all of the NCRTD's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

B—Funding Policy

Initially the NCRTD was enrolled in the Municipal Plan #2 through the City of Santa Fe. However, the NCRTD is no longer associated with the City of Santa Fe under PERA, but they still contribute to the Municipal Plan #2. Under Municipal Plan #2, state statute requires that plan members contribute 9.15% of their gross salary. The NCRTD is required to contribute 9.15% of the gross covered salary. The

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

contribution requirements of plan members and the NCRTD are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The NCRTD's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$140,995, \$130,521, and \$126,374, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 8—POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN

A—Plan Description

The NCRTD contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

B—Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee's annual salary, and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013 the contributions rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.500%	1.250%

Also, employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The NCRTD's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$27,645, \$25,527, and \$18,385, respectively, which equal the required contributions for each year.

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NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

NOTE 9—PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are summarized as follows:

Business Type Activities	Balance			Balance
	2011	Additions	Deletions	2012
Capital assets not being depreciated:				
Land	\$ 1,228,011	-	-	1,228,011
Construction in progress	630,160	1,537,604	-	2,167,764
Total capital assets not being depreciated	<u>1,858,171</u>	<u>1,537,604</u>	<u>-</u>	<u>3,395,775</u>
Capital assets being depreciated:				
Vehicles	2,280,828	771,068	(465,554)	2,586,342
Furniture, fixtures, & equipment	41,535	68,342	(19,990)	89,887
Leasehold improvements	5,625	-	-	5,625
Buildings and improvements	502,697	25,831	(32,132)	496,396
Total capital assets being depreciated	<u>2,830,685</u>	<u>865,241</u>	<u>(517,676)</u>	<u>3,178,250</u>
Less accumulated depreciation for:				
Vehicles	(787,548)	(528,418)	391,825	(924,141)
Furniture, fixtures, & equipment	(23,802)	(13,114)	14,993	(21,923)
Leasehold improvements	(585)	(281)	-	(866)
Buildings and improvements	(25,384)	(13,473)	5,356	(33,501)
Total accumulated depreciation	<u>(837,319)</u>	<u>(555,286)</u>	<u>412,174</u>	<u>(980,431)</u>
Total capital assets being depreciated	<u>1,993,366</u>	<u>309,955</u>	<u>(105,502)</u>	<u>2,197,819</u>
Capital assets, net	<u>\$ 3,851,537</u>	<u>1,847,559</u>	<u>(105,502)</u>	<u>5,593,594</u>

For the years ended June 30, 2012 and 2011, depreciation expense was \$555,286 and \$411,917, respectively. In FY12 multiple vehicles were sold, as a result there was a \$42,766 loss.

As of the year ended June 30, 2012, the NCRTD had no idle equipment.

Liens

All capital equipment purchased with funds provided by New Mexico Department of Transportation (NMDOT) shall reflect a lien held by NMDOT. The maturity of liens is as follows: four years for vans, sedans, and station wagons and seven years for small buses from the date of issuance of Certificate of Title

NOTE 10—CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Balance			Balance	Due
	2011	Additions	Deletions	2012	Within
					One Year
Compensated absences	\$ 83,248	66,022	(58,486)	90,784	49,931

Prior year compensated absences have been liquidated by the operating fund. No short-term debt was incurred during fiscal year 2012 or 2011.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

NOTE 11—RISK MANAGEMENT

The NCRTD is insured through purchase of commercial insurance policies for general liability and purchases Worker's Compensation Insurance from the New Mexico Self Insurer's Fund. Worker's Compensation claims are handled by the New Mexico Self Insurer's Fund.

NOTE 12—GRANTS

The NCRTD receives financial assistance from federal sources in the form of grants. The expenditures of the funds received are generally limited to specific compliance requirements as specified in the grant agreement. The federal agencies reserve the right to conduct a follow-up review. Any disallowed expenditures resulting from federal agency review could become a liability of the NCRTD.

NOTE 13—LEASE COMMITMENTS

The NCRTD entered into a lease beginning November 17, 2008 for office space. The term of the lease is \$1,900 a month. Rental expenses under the lease in 2012 were \$28,800 and were \$29,050 in 2011. The NCRTD also entered into a lease with Taos Ski Valley, Inc. on October 1, 2011, for a radio tower lease. The term of the lease is \$450 a month. The future remaining lease payments under these agreements are as follows:

<u>Year</u> <u>Ended</u>	<u>Lease</u> <u>Payments</u>
2013	\$ 5,400
2014	5,400
2015	5,400
2016	2,250
2017	-
Thereafter	-
Total	\$ <u>18,450</u>

NOTE 14—RESTRICTED NET ASSETS

On March 20, 2007, an agreement between the NCRTD and Los Alamos County was reached where funding in the amount of \$1,600,000 was awarded to the NCRTD to fund operations. Of the total, \$500,000 was received in fiscal year 2007 and \$1,100,000 was received in 2008. As part of the agreement, the NCRTD is to maintain a revolving fund for working capital maintained in perpetuity through reimbursement from other revenue sources, including federal grants. At June 30, 2012, the revolving fund balance was \$700,000 and at June 30, 2011, the revolving fund balance was \$700,000. These amounts are presented as restricted net assets on the statement of net assets.

NOTE 15—RELATED PARTY TRANSACTIONS

The by-laws of the NCRTD require the composition of the Board of Directors to represent member governments. As a result, many members of the Board of Directors are employed by, or serve in an elected capacity for, the member governments. Due to the nature of the NCRTD, Board members have a significant interest in the NCRTD's transactions related to the furnishing of services to their respective governments, community and constituents.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Notes To Financial Statements
For The Year Ended June 30, 2012, With Comparative Totals For 2011

NOTE 16 - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The NCRTD recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The NCRTD's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The NCRTD has evaluated subsequent events through November 27, 2012, which is the date the financial statements were available to be issued.

As of June 6, 2012 the drivers and dispatchers, including part-time employees, became a part of the International Brotherhood of Teamsters, local 492, union. Currently, the International Brotherhood of Teamsters, local 492, and the NCRTD are negotiating terms. Any decisions will be prospective and not retrospective. The impact on the financial statements is not known at this time.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2012 With Comparative Totals For 2011

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Revenue				
Charges for services	\$ -	-	30,550	30,550
Operating Expenses				
Personnel Services	2,669,051	2,669,051	2,226,901	442,150
Other Operating Expenses	1,161,211	1,161,211	1,060,500	100,711
Capital Outlay	2,462,261	3,083,293	2,402,847	680,446
Total Operating Expenses	<u>6,292,523</u>	<u>6,913,555</u>	<u>5,690,248</u>	<u>1,223,307</u>
Operating Income (Loss)	<u>(6,292,523)</u>	<u>(6,913,555)</u>	<u>(5,659,698)</u>	<u>1,253,857</u>
Nonoperating Revenues (Expenses)				
Federal grants	2,654,582	2,654,582	2,566,482	(88,100)
State and local grants	-	-	-	-
Member local match	719,173	719,173	600,000	(119,173)
Gross receipts and other taxes	7,075,928	7,075,928	7,083,927	7,999
Gross receipts pass-thru to other entities	(4,157,160)	(4,157,160)	(4,251,200)	(94,040)
Interest income	-	-	8,309	8,309
Total Nonoperating Revenues (Expenses)	<u>6,292,523</u>	<u>6,292,523</u>	<u>6,007,518</u>	<u>(285,005)</u>
Income (Loss)	<u>6,292,523</u>	<u>6,292,523</u>	<u>6,007,518</u>	<u>(285,005)</u>
Change in net assets	-	(621,032)	347,820	<u>968,852</u>
Net assets, beginning of year	<u>9,632,182</u>	<u>9,632,182</u>	<u>9,632,182</u>	
Net assets, end of year	<u>\$ -</u>	<u>-</u>	<u>\$ 9,980,002</u>	

Reconciliation to Statement of Revenue, Expenses and Changes in Net Assets

Change in net assets-budget basis	\$ 347,820
Subtract depreciation that was recorded on the statement of operations but not on non-GAAP Budget Basis	(555,286)
Capital outlay that was capitalized on the balance sheet but not on non-GAAP Budget Basis	2,402,847
Gain/(Loss) on sale of capital asset, taken into account on balance sheet but was not on non-GAAP Budget Basis	(42,766)
Change in net assets-business type activity - full accrual basis	<u>\$ 2,152,615</u>

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended June 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation			
Passed through New Mexico Department of Transportation			
5311 Grant - Tribal - Formula Grants for Other Than Urbanized Areas	20.509	*	Various \$ 57,595
5311 Grant - Formula Grants for Other Than Urbanized Areas	20.509	*	M00917 1,165,999
Total CFDA 20.509			<u>1,223,594</u>
5316 Grant - Job Access - Reverse Commute	20.516		M00967/1 147,612
5309 Grant - Federal Transit - Capital Investment Grants	20.500	*	N/A 1,164,053
Total U.S. Department of Transportation			<u>2,535,259</u>
Total Expenditures of Federal Awards			<u>\$ 2,535,259</u>

* = Denotes major program

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant expenditure activity for the financial statements of the organization. The schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Non-Cash Federal Assistance

No non-cash federal assistance was received during the year ended June 30, 2012.

Note 3 - Subrecipients

The organization provided no federal awards presented above to sub-recipients during the year.

Note 4 - Federal Insurance

The organization is re-deemed an employee of the Federal Government for the purposes of malpractice liability protection under the Federal Tort Claims Act (FTCA) during the budget period, for the period this audit report covers.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
SCHEDULE OF CASH AND DEPOSITS AND PLEDGED COLLATERAL BY BANK AND ACCOUNT
As of June 30, 2012

<u>Account Name</u>	<u>Account Type</u>	<u>Los Alamos National Bank</u>	<u>Bank of America</u>	<u>Bank Balance</u>	<u>Outstanding Items</u>	<u>Book Balance</u>
LANB Checking *	Checking Account	\$ 7,152,029	-	7,152,029	(1,115,775)	6,036,254
Espanola Checking *	Checking Account	-	37,381	37,381	-	37,381
Total amount of deposit in bank		7,152,029	37,381	7,189,410	(1,115,775)	6,073,635
FDIC coverage		(250,000)	(37,381)	(287,381)		
Total uninsured public funds		6,902,029	-	6,902,029		
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		3,451,015	-	3,451,015		
<u>Description</u>	<u>Maturity - CUSIP</u>	<u>Pledged Market Value</u>				
Pledged Security At:						
Dallas: FHLB Letter of Credit	11/21/2012 - #3133XVEM9	500,000	-	500,000		
Dallas: FHLB Letter of Credit	11/30/2012 - #3133XYUW3	4,400,000	-	4,400,000		
Not Designated: FHLB Letter of Credit	11/30/2012 - #3133XYUW3	600,000	-	600,000		
Not Designated: FNMA One-Time Call	09/08/2012 - #31398A3G5	350,000	-	350,000		
Dallas: FNMA One-Time Call	09/08/2014 - #31398A3G5	650,000	-	650,000		
Not Designated: FHLB Letter of Credit	09/12/2014 - #313370JS8	500,000	-	500,000		
Not Designated: FHLB Letter of Credit	09/12/2014 - #313370JS8	750,000	-	750,000		
Subtotal - Collateral		<u>7,750,000</u>	<u>-</u>	<u>7,750,000</u>		
Amount over/(under)/ collateralized		<u>\$ 4,298,985</u>	<u>-</u>	<u>4,298,985</u>		
Total book balance						<u>\$ 6,073,635</u>

Custodial Credit Risk is the risk that in the event of a bank failure, NCRTD's deposits may not be returned. The NCRTD does not have a policy for custodial credit risk. As of June 30, 2012, The NCRTD bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized (fully covered)	\$ -
Uninsured, collateral held by the pledging banks, but not in the name of the NCRTD	<u>6,902,029</u>
	<u>\$ 6,902,029</u>

* = Denotes interest bearing checking

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
SCHEDULE OF JOINT POWERS AGREEMENTS AND GOVERNMENTAL AGREEMENTS
For Year Ended June 30, 2012**

Item #	Name of Entity	Type of Agreement JPA/MOA/ MOU	Description of Services	Type of Funds	Beginning Date	End Date	Total Estimated Project Amount and Amount Applicable to Agency	Amount Contributed by NCRTD During Current Fiscal Year	Contribution of Working Capital to NCRTD	Termination Clause
1.	Pueblo of Tesuque	MOA	Provide Transportation Services to Tesuque Pueblo	5311 Federal Federal Grant	4/1/2011	6/30/2013	\$ 110,000	\$ -	\$ -	Termination for Cause by either Party
2.	NMDOT	MOA	Federal Assistance for Transportation services to low income individuals	Federal - 5316 Grant	10/1/2011	9/30/2012		117,037	-	Termination for Cause by NMDOT
						Federal 5316 Local Match	151,955 151,955			
3.	NMDOT	MOA	Federal Assistance for Public Transportation in Rural and Non-Urbanized Areas	Federal - 5311 Grant	10/1/2011	9/30/2012		479,397	-	Termination for Cause by NMDOT
						Federal 5311 Local Match	1,151,040 649,342			
4.	NMDOT	MOA	Federal Assistance for Development of Transportation Plans	Federal Grant - 5304	11/9/2010	9/30/2012		-	-	Termination for Cause by NMDOT
						Federal Portion Local Portion	31,250 31,250			
5.	NMDOT	MOA	Federal Assistance for Replacement/Spare Rural Transit Vehicles	Federal Grant - 5309	10/1/2011	9/30/2012		-	-	Termination for Cause by NMDOT
						Federal Portion Local Portion	632,050 158,012	154,214		
6.	Santa Fe County	MOA	Increase Passenger Service for the Edgewood to Santa Fe Route	N/A	2/14/2012	6/30/2012	SF County Compensates NCRTD for Expenses	-	-	Upon 30-Day Written Notice by Either Party
7.	Rio Metro RTD	Intergovernmental Agreement	Commuter Rail Service	Santa Fe County Gross Receipts Tax	4/29/2009	Indefinite	Dependent Upon Tax Receipts Collections	-	-	Upon Continuation of GRT from Santa Fe County
8.	County of Los Alamos	MOU	To Provide Local Match for Federal Grants	Los Alamos Contribution	7/1/2011	6/30/2012		-	600,000	Upon 30-Day Written Notice by Either Party
Total							<u>\$ 3,666,854</u>	<u>\$ 750,648</u>	<u>\$ 600,000</u>	



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS ON BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors and Management of
North Central Regional Transit District
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying basic financial statements of the North Central Regional Transit District (NCRTD) of the as of and for the year ended June 30, 2012, and the budget comparison schedule for the year ended June 30, 2012 presented as supplementary information, and have issued our report thereon dated November, 27, 2012. 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.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 08-04.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. 12-01, 12-02, 12-03, 12-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCRTD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance which are described in the accompanying schedule of findings and questioned costs as items 12-01 and 12-03.

The NCRTD's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the NCRTD's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, of the NCRTD, others within the agency, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, P.C.
November 27, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Directors and Management of
North Central Regional Transit District
and
Mr. Hector H. Balderas, New Mexico State Auditor

Compliance

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

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

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

Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 12-04. 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.

The NCRTD's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the NCRTD's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management of the NCRTD, others within the agency, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, P.C.
November 27, 2012

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal Control over financial reporting:

Material weaknesses identified? X Yes ___ No

Significant deficiencies identified that are
Not considered to be material weaknesses? X Yes ___ No

Non-compliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal Control

Material weaknesses identified? ___ Yes X No

Significant deficiencies identified that are
Not considered to be material weaknesses? X Yes ___ No

Type of auditors' report issued on major programs Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of Circular A-133? X Yes ___ No

CFDA Numbers Funding Source	Name of Federal Programs	Funding Source
20.509	Tribal - Capital, Administrative and Operating Expenses	U.S. Dept of Transportation
20.509	Capital, Administrative and Operating Expenses	U.S. Dept of Transportation
20.500	Capital Investment Grants	U.S. Dept of Transportation

Dollar threshold use to distinguish between

A and B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
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SECTION II AND III-FINANCIAL STATEMENTS AND FEDERAL AWARD AND STATE AUDITOR FINDINGS

Reference FY-Finding #	Findings	Status of Prior Year Findings	Financial Statement Finding	Federal Award Finding	State Auditor Rule	Material Weakness	Significant Deficiency	Compliance
Prior Year Findings								
08-04	- Controls Over Maintaining The General Ledger And Audit Report	Repeated/ Modified	Yes	No	No	Yes	No	No
08-08	- Debit Card	Resolved	Yes	No	Yes	Yes	No	Yes
10-05	Per Diem Policy	Resolved	Yes	No	No	Yes	No	No
10-06	Missing Appropriate Signatures On Disbursements	Resolved	Yes	No	No	Yes	No	No
10-07	Cell Phone Policy	Resolved	Yes	No	No	No	No	No
Current Year Findings								
12-01	Controls over Bank Accounts	Current	Yes	No	Yes	No	Yes	Yes
12-02	Controls over Disbursements	Current	Yes	No	No	No	Yes	No
12-03	Capital Asset Listing	Current	Yes	No	Yes	No	Yes	Yes
12-04	Identification of Federal Expenditures	Current	Yes	Yes	No	No	Yes	No

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

08-04 – CONTROLS OVER MAINTAINING THE GENERAL LEDGER AND AUDIT REPORT – MODIFIED/REPEATED – MATERIAL WEAKNESS

Statement of Condition

During our audit we made several adjustments to the NCRTD's books that SAS 115 requires to be reported as a finding. The adjustments mostly consisted of removing beginning balances in accounts receivable, accounts payable, and accrued liability accounts.

Criteria

Some of the key underlying concepts of Statement of Auditing Standards (SAS) 115 are

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.

Recording these adjustments is considered a significant process that the client needs to maintain. Also since significant adjustments to the financials were made it calls into question whether the Department staff has the qualifications and training to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

Effect

Because these adjustments were identified and made by the auditor, and not by the NCRTD, it shows an internal control weakness in maintaining the general ledger that potentially extends to the audit report. This significantly increases the potential for misstated financial statements.

Cause

The NCRTD's personnel and internal control procedures were not effective in identifying and correcting material errors to the general ledger that would have resulted in material misstatement of the financial statements had they not been corrected by the auditor.

Recommendation

We recommend that the NCRTD make adjustments to their general ledger in a timely manner. Asking for technical advice from the auditor or from someone else when these adjustments are needed is not considered a control deficiency as long as the staff of the NCRTD initiates/makes the adjustment and understands how and why the adjustments were made.

Management Response

The NCRTD has experienced the near simultaneous departure of two staff members in the three person finance department during the crucial time of the ending of the fiscal year. Due to the vacancy transitions in Finance Managers and temporary employees, the year-end journal entries to tie out the General Ledger were not posted. The reconciliation of the General Ledger will be completed on a monthly basis; if needed staff will ask assistance of the Auditor for technical advice, if needed prior to year end.

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

CURRENT YEAR FINDINGS

12-01 – CONTROLS OVER BANK ACCOUNTS – SIGNIFICANT DEFICIENCY

Statement of Condition

While reviewing the bank accounts there following discrepancies were noted:

- At June 30, 2012, the bank reconciled balance of the Los Alamos National Bank and Bank of America did not equal the balance in the general ledger (GL). The GL was higher than the LANB account by \$120.95 and BOA account by \$15.41; for a total variance of \$136.36.
- The Los Alamos National Bank June 2012 reconciliation was dated August 13, 2012 and May 2012's reconciliation was dated August 9, 2012. It appears that the reconciliations are not being prepared and reviewed in a timely manner.
- In February 2012, the Los Alamos National Bank was under collateralized by \$469,900.87 or 3.45%. This under collateralization was not the NCRTD's responsibility, the bank had the account under collateralized, and the bank corrected it immediately.
- While tracing outstanding checks in June 2012 to the subsequent months, it was noticed that one check (#14116) dated February 14, 2012 was still outstanding as of September 30, 2012.

Through the discrepancies listed above it appears the bank accounts are not being properly reviewed and reconciled to the general ledger.

Criteria

Good internal controls require timely review of bank accounts, in order to prevent discrepancies.

Effect

Since the NCRTD is not preparing and reviewing their bank reconciliations, there is the opportunity for material misstatements or mistakes.

Cause

Toward the end of FY12, there was significant turnover at the NCRTD, including the Finance Manager. As a result the review of the reconciliations was not being made in a timely manner.

Recommendation

We recommend that bank reconciliations are prepared and reviewed no later than one month following the statement end date. We also recommend that the outstanding checks are reviewed monthly for reasonableness and removed when appropriate.

Management Response

The NCRTD Finance Department is responsible for insuring that accounts are reconciled on a timely basis. Due to a significant amount of turnover within the three member Finance Department, which was inclusive of the Finance Manager and Financial Specialist, near the end of the fiscal year, the only remaining staff member, the Financial Analyst was left to handle prioritized major operations such as payroll and accounts payable. The Bank reconciliations fell to the next priority. It has been the NCRTD's past practice to review outstanding checks and reconcile the bank accounts on a timely basis, and will continue to do so, now that the Finance Department is fully staffed.

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
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For the Year Ended June 30, 2012**

12-02 – CONTROLS OVER DISBURSEMENTS – SIGNIFICANT DEFICIENCY

Statement of Condition

While performing the test of disbursements it was noted that the NCRTD made a duplicate payment of \$272.62 to Lopez Auto Repair and Welding. Per inquiry with NCRTD's Financial Analyst he stated that a couple of duplicate payments were made during the period of transition between Financial Managers and office locations; however, these payments were caught and corrected timely. NCRTD was credited for the duplicate payments, but it is possible that immaterial duplications were unnoticed.

Criteria

All disbursements should be compared against an invoice or statement. Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner and for reducing the opportunity for fraud to take place.

Effect

When invoices are not marked as being paid and disbursements are not properly reviewed it allows for material double payments to occur.

Cause

During the transition between Finance Managers and multiple building sites, an invoice was paid without proper review.

Recommendation

We recommend that once an invoice has been paid, to stamp or mark the invoice with "Paid" and the check number. By marking the invoice this ensures that the invoice will not be paid twice. The notation also serves as communication during changes in management.

Management Response

The NCRTD was in transition between Finance Managers and multiple buildings sites. Invoices were sent to different locations and an invoice was posted into the system twice. It was noted and corrected immediately. Also during the transition of Finance Managers and the Financial Specialist, temporary contract accounting staff was brought in to help with the demand of accounts payable and several invoices were entered erroneously, although they were corrected prior to duplicate payments being made. Procedures have been implemented among finance staff that if an invoice is posted in the accounting system more than once it will automatically notify the staff of a duplicate invoice.

12-03 – CERTIFICATION OF CAPITAL ASSETS ANNUAL INVENTORY– SIGNIFICANT DEFICIENCY

Statement of Condition

During the audit it was noted that the capital asset listing was not certified by a top governing official as required by State Statute. It was also determined that the capital asset listing was kept in Excel, rather than MIP; as a result there were differences between the auditor calculated amounts and the NCRTD's amounts. After reviewing the differences it was determined that the auditor's amounts were correct and adjustments were made to the capital asset, accumulated depreciation, depreciation, and gain/loss on sale of fixed asset accounts, in order to tie to the auditor's listing.

The adjustments were as follows:

- | | |
|---|------------------|
| • Decreased Capital Assets (net Accumulated Depreciation) | Approx \$788,000 |
| • Decreased Depreciation | Approx \$10,000 |
| • Increased Loss on Disposal of Assets | Approx \$37,000 |

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Schedule of Findings and Questioned Costs
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The above adjustments include the deletion of capital assets after it was discovered the original capital asset listing provided by the client did not include all disposals.

Criteria

The capital asset listing is the responsibility of the NCRTD. NMAC 2.20.1.16 Annual Inventory requires that all state agencies, municipalities, counties and every political subdivision of the state must conduct an annual physical audit of its fixed (capital) assets with a historical cost of \$5,000 or more. Also, the result of the physical inventory shall be recorded in a written inventory report, certified as to the correctness and signed by the Executive Director of the agency.

Effect

Because the capital asset listing is kept in Excel, errors can occur more easily. Also the inventory and monitoring of capital assets must be maintained otherwise capital assets may go missing by theft or misplacement. There is also the opportunity for the financial statements to be misstated.

Cause

The NCRTD's Excel file was not clerically accurate. Also with the transition between Finance Managers and locations the certification of the inventory did not occur.

Recommendation

We recommend that the NCRTD transfer their listing to MIP. By utilizing software that tracks capital assets and automatically calculates depreciation, this will reduce the amount of errors. We also recommend that the NCRTD's physical inventory of capital assets contain a certification that the inventory is correct and that it be signed by the Executive Director of the NCRTD. This will minimize the risk for errors related to additions and deletions of capital assets.

Management Response

The NCRTD plans to transfer all inventory records kept in Excel to the accounting software MIP, thereby utilizing the tracking of capital assets module which also automatically calculates depreciation. The NCRTD has adopted a policy and procedure for recording and tracking capital assets. The NCRTD has begun implementing these procedures for proper record keeping of the capital assets, methods of assigning values to acquired assets (valuation), the methods of depreciating the capital assets, and the establishment of internal controls over the capital assets.

12-04 – IDENTIFICATION OF FEDERAL EXPENDITURES – SIGNIFICANT DEFICIENCY

Funding Agency: US Department of Transportation
Title: All Federal Awards
CFDA#: All
Award #: All
Award period: FY12
Estimated Questioned Costs: None

Statement of Condition

While conducting planning on the OMB Circular A-133 Single Audit and reconciling the Schedule of Expenditures of Federal Awards (SEFA) for the year ended June 30, 2012 to the federal revenues received during the year, it was observed that amounts totaling \$616,856 were not initially identified by the client as federal expenditures. These amounts had been capitalized and when District personnel prepared the SEFA, they did not identify them as needing to be included in the SEFA.

NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Additional review showed the amount of federal expenditures on the Schedule of Expenditures of Federal Awards (SEFA) did not initially reconcile to the federal revenues received during the year. As all grants received by the entity are considered cost reimbursement grants, these amounts should reconcile together.

Criteria

OMB Circular A-133 Subpart C states:

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Effect

The potential exists for federal awards to escape inclusion in the Single Audit procedures. The NCRTD runs the risk of being out of compliance with OMB Circular A-133 Subpart C.

Cause

Due to multiple changes in financial personnel, the process for capturing federal awards has gradually relaxed over time and it is no longer fully effective.

Recommendation

The process for tracking federal grants should be improved to ensure all federal expenditures are identified and included in the SEFA. This should include all expenditures that were later capitalized.

Federal expenditures should be reconciled to federal revenues to ensure all applicable federal grants are accounted for and presented properly in the SEFA.

Management Response

The NCRTD experienced several changes in Financial Managers during the crucial time of the closing of year end financials. During this time federal expenditures were left un-posted in the SEFA. This was not identified until the auditors found and noted this. The NCRTD plans to correct this by improving the tracking of federal grants to ensure that all federal expenditures are identified and included in the SEFA and later capitalized.

**NORTH CENTRAL REGIONAL TRANSIT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

An exit conference was held in a closed session on November 27, 2012, at NCRTD's offices in Española, New Mexico. In attendance were the following:

Representing the NCRTD:

Anthony Mortillaro
Glenda Aragon
Pat Lopez
Michael Kelly
Geoff Rodgers
Tim Vigil
Dayna Duran

Executive Director
Finance Director
Finance Analyst
Transit Operations and Maintenance Manager
Los Alamos County Councilor
Pojoaque Tribe – Chair of Finance Subcommittee
County of Taos

Representing Hinkle + Landers, PC:
Farley Vener

Managing Shareholder

FINANCIAL STATEMENTS

The financial statements of NCRTD as of June 30, 2012, were substantially prepared by Hinkle + Landers, PC; however, the financial statements are the responsibility of management.