

**Des Moines Metropolitan Transit Authority  
Des Moines, Iowa**

**FINANCIAL REPORT**

**June 30, 2004**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Des Moines Metropolitan Transit Authority  
Des Moines, Iowa

We have audited the accompanying balance sheets of Des Moines Metropolitan Transit Authority as of June 30, 2004 and 2003 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Des Moines Metropolitan Transit Authority as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, 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 September 3, 2004, on our consideration of the Des Moines Metropolitan Transit Authority's internal control over financial reporting and our tests of its compliance with certain 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 read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as listed on pages 19 through 22 on the contents page are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of federal expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Denmant Company LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 3, 2004

**Des Moines Metropolitan Transit Authority  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004**

This section of the Des Moines Metropolitan Transit Authority's annual financial report provides an overview of financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the audit report on page 3 and the MTA's financial statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

- The MTA's Total Assets declined \$522,214 as a result of this year's operations. The decrease in Capital Assets of \$2.47 million is due to depreciation expense from last year's addition of 16 buses to the Fixed Route fleet. The decline in capital assets is offset by an increase in current assets as reorganization efforts and maximizing of capital funds available for operations increased the cash balances.
- Total Liabilities increased \$365,295. Current Liabilities were lowered \$333,752 as the reserve for Accident Claims was lowered. Long-term Liabilities rose \$699,047 as final bank funds were drawn for four buses and one farebox; offset somewhat by two payments on the loan with Bankers Trust. The resulting lease payable will be lowered by semiannual payments funded by the MTA-supporting cities over the next eleven years.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information.

The financial statements provide readers with a broad overview of the MTA's finances, in a manner similar to a private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Readers will find both long-term and short-term information about the MTA's overall financial status.

A summary of net assets is presented below:

Table 1  
Des Moines Metropolitan Transit Authority  
Net Assets

	2004	June 30 2003	2002
CURRENT AND OTHER ASSETS	7,114,143	5,173,707	5,940,995
CAPITAL ASSETS, NET OF DEPRECIATION	24,225,937	26,699,400	22,605,941
DEFERRED CHARGES	52,069	41,256	133,829
<b>TOTAL ASSETS</b>	<b>31,392,149</b>	<b>31,914,363</b>	<b>28,680,765</b>
CURRENT LIABILITIES	1,958,589	2,292,341	2,320,878
LONG-TERM LIABILITIES	3,778,499	3,079,452	135,334
<b>TOTAL LIABILITIES</b>	<b>5,737,088</b>	<b>5,371,793</b>	<b>2,456,212</b>
INVESTED IN CAPITAL ASSETS	20,286,538	23,538,369	22,605,941
BOARD DESIGNATED RESERVES	3,233,158	2,583,008	1,830,410
UNRESTRICTED NET ASSETS	2,135,365	421,193	1,788,202
<b>TOTAL NET ASSETS</b>	<b>25,655,061</b>	<b>26,542,570</b>	<b>26,224,553</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>31,392,149</b>	<b>31,914,363</b>	<b>28,680,765</b>

The line item "Invested in Capital Assets" represents the MTA's long-term investment in capital assets, net of accumulated depreciation and related debt, and is not available for current operations.

A summary of changes in net assets is presented below.

Table 2  
Des Moines Metropolitan Transit Authority  
Changes in Net Assets

	2004	June 30 2003	2002
OPERATING REVENUES			
Passenger Fares	3,322,383	3,312,165	3,480,873
Other fares	1,800,754	1,837,332	1,855,870
NON-OPERATING REVENUES	8,983,100	8,247,228	7,961,026
<b>TOTAL REVENUES</b>	<b>14,106,237</b>	<b>13,396,725</b>	<b>13,297,769</b>
OPERATING EXPENSES	12,658,826	12,977,061	12,741,079
DEPRECIATION	3,556,604	3,367,244	2,964,890
<b>TOTAL EXPENSES</b>	<b>16,215,430</b>	<b>16,344,305</b>	<b>15,705,969</b>
Funds received for Capital Purchases	1,221,684	3,265,597	3,517,383
<b>CHANGE IN NET ASSETS</b>	<b>(887,509)</b>	<b>318,017</b>	<b>1,109,183</b>

## YEAR-TO-YEAR COMPARISON

All operations, Fixed Route, Paratransit and RideShare experienced decreases in Ridership, however total Passenger Revenues stayed at the same level as last year, though funding sources fluctuated.

The Fixed Route Ridership decreased slightly (3.1%), however, revenues from pass sales and fare support funds dropped immaterially (under 1%). Increases in cash fares, full fare token sales, OTT passes, and school funding were offset by declines in ESP Monthly pass sales, OTT Funding Support sources and charter services.

- Declines in ESP monthly passes continue to reflect the changes in the downtown labor market as businesses downsize or move out of the core, as well as construction of parking facilities that lead to more affordable employee parking.
- Charter income decline significantly as FTA regulations on this service were redefined, preventing the MTA from contracting with many clients.

Paratransit Ridership, also, decreased slightly (2.8%). Polk County Social Services continues to change client eligibility criteria for these services, causing the decrease in the numbers. However, revenues increased 11.5% as that division continued to run Nite Service, Urbandale On Call and added Johnston, Ankeny and West Des Moines service; all of which are open to the general public.

RideShare's decline in Ridership (5.8%) and drop in revenues (8%) is due to fewer vehicles in operation. There were 67 vans in operation at the end of FY2003 compared to 61 vans at the end of FY2004. Much of the decline in vanpooling is attributable to the same factors affecting fixed-route ridership – the change in the business core and parking policies by area employers.

Non-operating revenues rose 2.5% due to federal and municipal support of special services – Night Service, Urbandale On-Call, University Corridor and Airport West and South. Municipal support also increased to meet contractual agreements between the MTA and the Amalgamated Transit Union.

Operating Expenses were held at the same level as the prior year. Fixed Route actually had a \$242,727 decrease in operating expense as outlined below:

- Staff reorganization at the beginning of the year eliminated 5 staff positions with a resulting savings in wages and fringe benefits of \$200,000.
- Diesel fuel increased \$38,593 over the previous year, a cost increase experienced industry-wide.
- Transportation wages for drivers and administrators fell \$61,011 (2%). A 3% negotiated wage increase was offset by fewer total number of drivers, less overtime and fewer instructors hours from fewer new hires. Service changes account for some of the decrease; reduction of charter service and transfer of some Fixed Route service to Paratransit accounts for the rest.
- Maintenance costs decreased \$182,148 as contracted interior cleaning was terminated (savings of \$31,280), repair parts expense decreased (\$64,039), the contra account for labor on rebuilt parts increased (\$49,709), and mechanics and servicepersons wages and fringe benefits decreased (\$51,881) due to vacancies.
- Building and Grounds decreased \$38,912 (6.8%) over FY2003 from the transfer of Transit Mall maintenance to the Downtown Community Alliance.

Paratransit expenses decreased \$29,624 from 2003. Increases in fringe benefits (\$17,464) were more than offset by savings in repair expense (\$67,414) due to new bus purchases the previous year.

RideShare has a savings of \$45,844 over last year; entirely due to staff changes from reorganization.

## BUDGETARY HIGHLIGHTS

The MTA adopts a separate budget for all three operating divisions in June of the prior fiscal year. No revisions were made during the year. However, reorganization efforts were begun prior to July and phased in over the first quarter of the year.

Actual results compared to approved budgets showed mixed results. Budget figures for Fixed-Route Operating Revenues were lowered slightly from the previous year based on annualization of 2003 actual income. A change in the fare structure (from individual ride tickets to passes and tokens) for the Opportunities Through Transit program and FTA's tightening of charter regulations resulted in the Fixed Route failing to meet budget projections by \$80,357. The Paratransit Operating Revenue budget was exceeded due to Fixed Route service undertaken as specified earlier, \$19,359. RideShare Operating Revenue budget was based on 65 vans in operation; 61 were in service at year end, a decrease of \$15,698.

Operating expenses across all companies were \$1,451,685 less than budgeted. Fixed Routes showed a savings of \$1,243,970. Much of the reorganization savings were in this budget. By eliminating 5 staff positions, lower turnover and careful managing of the number of operators, and delaying the hire of 2 mechanics accounts for approximately \$555,000 in savings. Diesel fuel was projected at \$1.05, but did not hit that level until late in the year, giving a savings of \$84,370. Not contracting for Interior Cleaning saved \$90,000. Repairs and mechanic rebuilds were lower than budgeted by \$115,987. A mild winter saved \$55,111 in snow removal and utilities. A reduced advertising campaign and lower costs for website hosting that expected saved \$84,903.

Paratransit budget savings are in mechanics labor (\$20,099), operator wages and benefits (\$42,571) as driver hours were reduced as Ridership declined, and repair expenses (\$52,485).

RideShare budget savings were from staff downsizing (approximately \$34,500) and vehicle repairs (\$17,940).

Non-Operating revenues were under budget by \$31,235.

## CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2004 the MTA has invested approximately \$24 million in capital assets, net of depreciation. This amount is a decrease of \$2,473,463 over June 30, 2003.

Table 3  
Des Moines Metropolitan Transit Authority  
Capital Assets at Year-end  
(Net of Depreciation)

	2004	June 30 2003	2002
LAND	185,009	185,009	185,009
BUILDINGS & IMPROVEMENTS	4,426,099	4,174,573	3,960,075
REVENUE VEHICLES & EQUIPMENT	18,853,854	21,775,032	17,855,703
EQUIPMENT	760,975	564,786	605,154
<b>TOTALS</b>	<b>24,225,937</b>	<b>26,699,400</b>	<b>22,605,941</b>

Building improvements were made to remodel the Service/Washbay area, engineering studies were done on re-roofing the storage facility, exhaust systems, boiler function and heating systems, and 25 garage doors were replaced. Revenue vehicles decreased as buses purchased last year experienced a full year's worth of depreciation. General Equipment investment increased with the purchase of a new routing software package.

The MTA's FY2005 Capital Plan calls for it to spend \$7.2 million for capital assets, principally for bus replacement, preventive maintenance (which is used for operating) and technology needs. The MTA has no plans to secure additional debt to finance these projects.

Last year, the MTA entered into a lease agreement to purchase buses and radios. The leasing of 16 buses and 21 radios allowed the MTA to save maintenance and fuel costs over the 12-year period of the lease. The cities that subsidize the MTA have agreed to include lease payments in their financial support of this operation over the remaining 11 years.

Current Liabilities (shown in Table 1) include reserves committed to known liability claims (\$565,000). This is a decrease of \$305,000 in these funds set aside for accidents and other liabilities against the MTA. The company self insures accidents for the first \$2 million and carries an umbrella liability policy for \$10 million above that.

Post-retirement Obligations totaled \$179,947 at June 30, 2004. These funds cover medical and life insurance benefits for employees that retired prior to February 1993. Benefits are accrued on life expectancy and premium costs and adjusted each year. It is expected that the balance of these funds will decline each year.

#### **OTHER CURRENTLY KNOWN FACTS, DECISIONS or CONDITIONS**

As passenger fares and government grants cover only a portion of the MTA's budget, approximately 35% of the operating budget is supported by the member cities of the 28E Agreement by which the Authority was formed. Due to the budget constraints on those cities, the MTA expects to see limited growth in municipal funding over the next few years. Costs are expected to grow at a more rapid rate than municipal funding.

MTA employees are represented by two labor unions. In FY-2004, each union began three-year agreements that provide an approximate 3% wage increase annually. MTA also anticipates similar increases in inflation and continued unpredictability of fuel and liability insurance costs. Thus, MTA expects operating costs to continue to rise while local subsidies (particularly from cities) will be strapped because of tight local budgets. The MTA is currently reviewing services and will reduce staff and services as deemed appropriate, while increasing marketing and visibility efforts.

#### **CONTACTING the MTA's FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers, government officials and creditors with a general overview of the MTA's finances and to show the MTA's accountability for the money it receives. If you have questions about this report or need additional information, contact the Des Moines Metropolitan Transit Authority at 515/283-8111 or write care of: Controller, Des Moines MTA, 1100 MTA Lane, Des Moines, IA 50309.

**Des Moines Metropolitan Transit Authority  
BALANCE SHEETS**

<b>ASSETS</b>	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,822,115	\$ 2,702,395
Accounts receivable		
Trade	414,639	471,925
FTA	1,078,744	1,205,145
Other	5,588	4,438
Inventories	793,057	789,804
Prepaid expenses	52,069	41,256
Total current assets	7,166,212	5,214,963
<b>PROPERTY AND EQUIPMENT</b>		
Less accumulated depreciation and amortization	45,694,359	45,297,910
Total property and equipment	21,468,422	18,598,510
	24,225,937	26,699,400
<b>Total assets</b>	<b>\$31,392,149</b>	<b>\$31,914,363</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current obligations of capital lease	\$ 299,315	\$ 213,592
Current obligations of post retirement benefits payable	41,533	39,333
Accounts payable	293,528	421,263
Accrued and withheld payroll, payroll taxes and benefits	694,281	697,053
Deferred revenue	41,912	46,482
Accrued interest payable	23,020	4,618
Accrued self insurance claims	565,000	870,000
Total current liabilities	1,958,589	2,292,341
<b>LONG-TERM LIABILITIES</b>		
Capital lease, less current obligations	3,640,085	2,947,439
Post retirement benefits payable, less current obligations	138,414	132,013
Total long-term liabilities	3,778,499	3,079,452
Total liabilities	5,737,088	5,371,793
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	20,286,538	23,538,369
Unrestricted	5,368,523	3,004,201
Total net assets	25,655,061	26,542,570
<b>Total liabilities and net assets</b>	<b>\$31,392,149</b>	<b>\$31,914,363</b>

See Notes to Financial Statements.

**Des Moines Metropolitan Transit Authority**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<u>Year ended June 30, 2004</u>			<u>Total</u>	<u>Year ended</u>
	<u>Fixed route</u>	<u>Paratransit</u>	<u>Rideshare</u>	<u>2004</u>	<u>June 30,</u>
					<u>2003</u>
<b>OPERATING REVENUES</b>					
Passenger	\$ 2,828,534	\$ -	\$ -	\$ 2,828,534	\$ 2,780,186
Charter service	158,267	-	-	158,267	236,656
Paratransit	-	1,677,592	-	1,677,592	1,634,220
Rideshare	-	-	458,744	458,744	498,435
Total operating revenues	<u>2,986,801</u>	<u>1,677,592</u>	<u>458,744</u>	<u>5,123,137</u>	<u>5,149,497</u>
<b>OPERATING EXPENSES (EXCEPT DEPRECIATION AND AMORTIZATION)</b>	<u>10,498,068</u>	<u>1,818,406</u>	<u>342,352</u>	<u>12,658,826</u>	<u>12,977,061</u>
Operating income (loss) before depreciation and amortization	(7,511,267)	(140,814)	116,392	(7,535,689)	(7,827,564)
<b>DEPRECIATION AND AMORTIZATION</b>	<u>2,859,474</u>	<u>384,808</u>	<u>312,322</u>	<u>3,556,604</u>	<u>3,367,244</u>
Operating loss including depreciation and amortization	<u>(10,370,741)</u>	<u>(525,622)</u>	<u>(195,930)</u>	<u>(11,092,293)</u>	<u>(11,194,808)</u>
<b>OTHER INCOME (EXPENSE)</b>					
Government operating assistance					
Member municipalities	4,142,127	270,000	-	4,412,127	3,996,684
Other municipalities	2,448	-	-	2,448	25,959
FTA operating assistance	2,416,670	40,293	-	2,456,963	2,304,919
IDOT operating assistance	605,105	-	-	605,105	713,538
IDOT special projects	16,384	-	-	16,384	26,280
MPO and FTA grant income	1,198,319	33,880	-	1,232,199	1,243,061
Special subsidies	14,304	-	-	14,304	15,808
Gain (loss) on disposition of fixed assets	24,335	-	-	24,335	(421,757)
Investment income	34,113	-	-	34,113	52,477
Advertising income	221,677	6,633	-	228,310	217,170
Miscellaneous income	97,249	1,566	21,106	119,921	153,434
Interest expense	(163,109)	-	-	(163,109)	(80,345)
Total other income	<u>8,609,622</u>	<u>352,372</u>	<u>21,106</u>	<u>8,983,100</u>	<u>8,247,228</u>
Net (loss) before capital revenues	<u>\$(1,761,119)</u>	<u>\$ (173,250)</u>	<u>\$ (174,824)</u>	<u>(2,109,193)</u>	<u>(2,947,580)</u>
Capital revenue from federal grants and member municipalities				<u>1,221,684</u>	<u>3,265,597</u>
Increase (decrease) in net assets				<u>(887,509)</u>	<u>318,017</u>
<b>NET ASSETS, beginning</b>				<u>26,542,570</u>	<u>26,224,553</u>
<b>NET ASSETS, ending</b>				<u>\$25,655,061</u>	<u>\$26,542,570</u>

See Notes to Financial Statements.

**Des Moines Metropolitan Transit Authority  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operations	\$ 5,147,368	\$ 5,143,370
Cash paid to suppliers for goods and services	(5,885,599)	(5,782,493)
Cash paid to employees for services	<u>(7,060,189)</u>	<u>(7,262,776)</u>
Net cash (used in) operating activities	<u>(7,798,420)</u>	<u>(7,901,899)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Municipal support	4,428,879	4,038,451
Other government assistance	4,187,868	3,698,000
Cash received from other sources	<u>348,231</u>	<u>370,604</u>
Net cash provided by noncapital financing activities	<u>8,964,978</u>	<u>8,107,055</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>34,113</u>	<u>52,477</u>
Net cash provided by investing activities	<u>34,113</u>	<u>52,477</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal, state and municipal funds received for capital expenditures	1,498,203	3,112,079
Proceeds on disposition of fixed assets	44,910	85,068
Interest paid	(144,707)	(75,727)
Purchase of property and equipment	(1,257,726)	(8,129,161)
Proceeds received on capital lease	1,111,340	3,328,664
Principal payments on capital lease	<u>(332,971)</u>	<u>(167,633)</u>
Net cash provided by (used in) capital and related financing activities	<u>919,049</u>	<u>(1,846,710)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,119,720	(1,589,077)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>2,702,395</u>	<u>4,291,472</u>
Ending	<u>\$ 4,822,115</u>	<u>\$ 2,702,395</u>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES</b>		
(Loss) from operations	\$(11,092,293)	\$(11,194,808)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation and amortization	3,556,604	3,367,244
Decrease in accounts receivable, net of noncapital financing activities	28,801	11,275
(Increase) in inventories	(3,253)	(89,748)
(Increase) decrease in prepaid expenses	(10,813)	92,573
Increase in accounts payable, net of amounts for property and equipment	26,275	41,638
(Decrease) in accrued and withheld payroll, payroll taxes and benefits	(2,772)	(13,795)
(Decrease) in deferred revenue	(4,570)	(17,402)
(Decrease) in accrued self insurance claims	(305,000)	(90,000)
Increase (decrease) in post retirement benefits payable	<u>8,601</u>	<u>(8,876)</u>
Net cash (used in) operating activities	<u>\$ (7,798,420)</u>	<u>\$ (7,901,899)</u>

See Notes to Financial Statements.

**Des Moines Metropolitan Transit Authority**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Authority was formed for the purpose of providing mass transportation for the city of Des Moines, Iowa and surrounding suburbs as well as providing commuter services to nearby communities. The Paratransit division of the Authority is designed to provide specialized transportation services to the elderly, handicapped, and low-income individuals. The Rideshare division of the Authority is designed to provide workers, who are commuting to Des Moines, an economical mode of transportation to work.

The Board of Trustees is comprised of three representatives from the City of Des Moines and one representative each from West Des Moines, Clive, Urbandale, Windsor Heights, Ankeny and Altoona. Each Trustee is entitled to one vote except for the Trustee designated by the Cities of Ankeny and Altoona.

**Reporting Entity**

For financial reporting purposes, the Authority has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Authority has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

**Measurement Focus and Basis of Accounting**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses, excluding depreciation and amortization, are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority has no government or fiduciary funds. The Authority's accounts are organized into a single proprietary fund. The enterprise fund (a proprietary fund) is used to account for operations (a) that are operated in a manner similar to private business where the intent of the governing body is that the cost (expense, including depreciation) of providing goods and services to the general public is financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or changes in net assets is appropriate for capital maintenance.

The Authority's principal operating revenues are the fares charged to passengers for service.

The Authority applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements.

**Cash and Cash Equivalents**

The Authority considers highly liquid investments with an original maturity of three months or less when purchased, to be cash equivalents.

**Inventories**

Inventories of vehicle repair parts are stated at cost on the first-in, first-out method.

**Des Moines Metropolitan Transit Authority**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Assets**

Net assets are presented in the following two components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the capital lease obligation that is attributable to the acquisition, of those assets.

**Unrestricted**

Unrestricted net assets have no externally imposed restrictions on use.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Revenue equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Estimated lives for the period are as follows:

Building	5 - 40 years
Revenue equipment	4 - 15 years
Equipment	5 - 10 years

**Federal and State Grants**

Federal and state grants are made available to the Authority for the acquisition of public transit facilities, planning studies, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the grant is recognized at the time when the expense is incurred.

**Compensated Absences**

Authority employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. The cost of vacation accumulations is recorded as liabilities and expenses. The compensated absences liability, included in accrued and withheld, payroll taxes, payroll and benefits, has been computed based on rates of pay in effect at June 30, 2004 and 2003, respectively.

**Use of Estimates**

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**Des Moines Metropolitan Transit Authority  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS**

The Authority's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. At June 30, 2004, the Authority's investment in a Mutual Fund Money Market is in a category characterized as an investment that is uninsured and unregistered, with securities held by the pledging financial institutions trust department or agent. The investments fair value at June 30, 2004 is the same as its reported value.

At June 30, 2004 the following investment is reported as a cash equivalent:

Mutual Fund Money Market Account	<u>\$2,067,620</u>
----------------------------------	--------------------

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
Land	\$ 185,009	\$ -	\$ -	\$ 185,009
Buildings	7,275,586	529,176	(22,592)	7,782,170
Revenue equipment	28,107,218	17,607	(167,239)	27,957,586
Fare collection equipment	988,648	22,860	(17,200)	994,308
Service cars and trucks	615,118	58,974	(179,373)	494,719
Shop and garage equipment	543,617	24,306	(17,602)	550,321
Furniture and office equipment	361,197	25,294	(28,464)	358,027
Computer equipment	399,187	264,542	(56,168)	607,561
Miscellaneous equipment	595,995	40,480	(68,168)	568,307
Communication equipment	365,528	2,328	(82,276)	285,580
Paratransit vehicles	4,189,150	73,359	-	4,262,509
Rideshare vehicles	<u>1,671,657</u>	<u>44,790</u>	<u>(68,185)</u>	<u>1,648,262</u>
 Total at historical cost	 45,297,910	 1,103,716	 (707,267)	 45,694,359
 Less accumulated depreciation and amortization	 <u>(18,598,510)</u>	 <u>(3,556,604)</u>	 <u>686,692</u>	 <u>(21,468,422)</u>
 Net property and equipment	 <u>\$26,699,400</u>	 <u>\$(2,452,888)</u>	 <u>\$ 20,575</u>	 <u>\$24,225,937</u>

**Des Moines Metropolitan Transit Authority  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 PROPERTY AND EQUIPMENT (continued)**

	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2003</u>
Land	\$ 185,009	\$ -	\$ -	\$ -	\$ 185,009
Buildings	6,839,918	481,169	(45,501)	-	7,275,586
Revenue equipment	29,195,422	5,866,091	(3,898,223)	(3,056,072)	28,107,218
Fare collection equipment	945,646	43,002	-	-	988,648
Service cars and trucks	703,278	7,565	(164,281)	68,556	615,118
Shop and garage equipment	484,500	66,501	(7,384)	-	543,617
Furniture and office equipment	344,036	18,159	(998)	-	361,197
Computer equipment	359,652	47,718	(8,183)	-	399,187
Miscellaneous equipment	952,000	40,546	(396,551)	-	595,995
Communication equipment	419,225	115,759	(169,456)	-	365,528
Paratransit vehicles	-	1,133,078	-	3,056,072	4,189,150
Rideshare vehicles	<u>2,251,271</u>	<u>147,941</u>	<u>(658,999)</u>	<u>(68,556)</u>	<u>1,671,657</u>
Total at historical cost	42,679,957	7,967,529	(5,349,576)	-	45,297,910
Less accumulated depreciation and amortization	<u>(20,074,016)</u>	<u>(3,367,245)</u>	<u>4,842,751</u>	<u>-</u>	<u>(18,598,510)</u>
Net property and equipment	<u>\$22,605,941</u>	<u>\$4,600,284</u>	<u>\$ (506,825)</u>	<u>\$ -</u>	<u>\$26,699,400</u>

At June 30, 2004 and 2003, revenue equipment includes transportation vehicles under capital lease with historical cost of \$4,440,004 and \$3,316,064 and accumulated amortization of \$393,399 and \$117,060, respectively. Amortization expense for these assets totaled \$276,339 and \$117,060 for the years ended June 30, 2004 and 2003, respectively.

Most of these assets were acquired with the assistance of federal funds. Under the terms of those grants, proceeds from the disposition of these assets may be required to be refunded to the federal government in the same proportion that the federal government participated in the cost of acquisition.

**NOTE 4 CAPITAL LEASE**

Capital lease consisted of the following as of June 30, 2004:

The Authority has entered into an agreement to acquire 16 buses under a capital lease. The related liability under the lease at June 30, 2004 is \$3,939,400. The obligation is due in semiannual installments of \$238,840 through November, 2014. This lease has a variable interest rate based on a bank's published prime rate. The interest rate at June 30, 2004 was 4.55%. The lease calls for a maximum credit limit of \$4,446,499.

At June 30, 2004, future minimum lease payments are as follows:

2005	\$ 477,679
2006	477,679
2007	477,679
2008	477,679
2009	477,679
Thereafter	<u>2,627,233</u>
Total	5,015,628
Less amount representing interest	<u>1,076,228</u>
	3,939,400
Less current obligations under capital lease	<u>299,315</u>
Capital lease obligations, net of current obligations	<u>\$3,640,085</u>

**Des Moines Metropolitan Transit Authority  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 CAPITAL LEASE (continued)**

A summary of changes in capital lease is as follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2004</u>
Capital lease	\$ <u>3,161,031</u>	\$ <u>1,111,340</u>	\$ <u>332,971</u>	\$ <u>3,939,400</u>
	<u>July 1, 2002</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2003</u>
Capital lease	\$ <u>—</u>	\$ <u>3,328,664</u>	\$ <u>167,633</u>	\$ <u>3,161,031</u>

**NOTE 5 ACCOUNTS RECEIVABLE—FTA**

Accounts receivable—FTA is capital grant and planning funds due from FTA.

**NOTE 6 PENSION AND RETIREMENT BENEFITS**

The Authority contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Authority is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Authority's contribution to IPERS for the year ended June 30, 2004, 2003 and 2002, were \$401,247, \$404,958 and \$377,960, respectively.

**NOTE 7 POST RETIREMENT BENEFITS OTHER THAN PENSIONS**

The Authority has agreed to provide certain health care and life insurance benefits for retired employees. For those hourly employees retiring prior to January 1, 1987, and salaried employees retiring prior to February 1, 1993, benefits are as follows:

Life insurance	
Hourly employees	\$2,000 coverage
Salaried employees	Insurance provided in an amount equal to salary at time of retirement less \$10,000
Medical insurance	Medicare Supplement Plan A

Hourly employees retiring after January 1, 1987 and salaried employees retiring after February 1, 1993 do not receive continued insurance benefits.

The present value of the benefit obligation at June 30, 2004 and 2003 is \$179,947 and \$171,346, respectively. The Authority's policy is to fund the premiums as they come due. Consequently, the obligation at June 30, 2004 is unfunded. At June 30, 2004 and 2003 there were 22 retirees receiving benefits. Benefits paid were \$58,591 and \$58,784 for the years ended June 30, 2004 and 2003, respectively.

**Des Moines Metropolitan Transit Authority**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 RISK MANAGEMENT**

The Authority is partially self-insured with respect to general liability insurance. The Authority purchases an umbrella policy with a \$2,000,000 aggregate deductible with regard to their general liability insurance.

At June 30, 2004 and 2003, the Authority had established reserves of \$565,000 and \$870,000, respectively, for specific claims. These estimates are based on insurance claims processor and legal counsel estimates of probable liability and include estimates of claims that have been incurred but unreported.

The following is a summary of claims paid and liabilities recorded for the years ended June 30, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Accrued claims at beginning of year	\$ 870,000	\$ 960,000
Claims paid	(539,623)	(357,290)
Amount reserved	234,623	267,290
Accrued claims at end of year	\$ 565,000	\$ 870,000

The Authority is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Authority assumes liability for any deductibles and claims in excess of coverage limitations.

**Des Moines Metropolitan Transit Authority  
SCHEDULES OF UNRESTRICTED NET ASSETS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>BOARD DESIGNATED NET ASSETS</b>		
For fixed asset purchases		
Fixed route	\$ 933,993	\$ 441,853
Paratransit	410,813	333,294
Rideshare	467,900	411,827
Lease payments	<u>252,403</u>	<u>243,361</u>
Total for fixed asset purchases	<u>2,065,109</u>	<u>1,430,335</u>
Other		
Contributed capital	476,036	476,036
Liability claims	642,013	626,637
Contingency	50,000	50,000
Total other	<u>1,168,049</u>	<u>1,152,673</u>
Total board designated net assets	<u>3,233,158</u>	<u>2,583,008</u>
<b>UNDESIGNATED NET ASSETS</b>		
Fixed route	1,792,307	1,376,388
Paratransit	234,763	123,132
Rideshare	108,295	33,013
Capital lease funds not drawn	-	<u>(1,111,340)</u>
Total undesignated net assets	<u>2,135,365</u>	<u>421,193</u>
Total unrestricted net assets	<u>\$5,368,523</u>	<u>\$3,004,201</u>
<b>UNRESTRICTED NET ASSETS—fixed route</b>		
Amount received as local assistance	\$4,412,127	\$3,996,684
Prior year funds applied to current year	512,750	500,000
Required local assistance (except paratransit)	(3,383,485)	(3,426,900)
Transferred to ADA funding	<u>(270,000)</u>	<u>(270,000)</u>
Current year balance from operations	<u>1,271,392</u>	<u>799,784</u>
Balance July 1	1,376,388	1,366,604
Transferred to fixed asset fund	(342,723)	(40,000)
Transferred to current year	(512,750)	(500,000)
Transferred to insurance reserve	-	<u>(250,000)</u>
Remaining prior year balance	<u>520,915</u>	<u>576,604</u>
Total municipal operating funds remaining	<u>\$1,792,307</u>	<u>\$1,376,388</u>

**Des Moines Metropolitan Transit Authority**  
**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS—**  
**FIXED ROUTE DIVISION**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
Passenger revenue	\$ 2,828,534	\$ 2,780,186
Charter service	158,267	236,656
Total operating revenues	<u>2,986,801</u>	<u>3,016,842</u>
<b>OPERATING EXPENSES</b>		
Transportation	5,483,116	5,573,753
Maintenance	2,191,623	2,373,771
Insurance	426,055	413,885
General and administration	714,565	750,926
Accounting	318,220	314,658
Planning	339,331	330,713
Personnel	220,653	234,256
Marketing	271,210	258,610
Advertising	58,067	65,176
Building and grounds	535,492	570,066
Paratransit (fixed route administrative charge)	(53,764)	(138,979)
Rideshare (fixed route administrative charge)	(6,500)	(6,000)
Operating expenses except depreciation	<u>10,498,068</u>	<u>10,740,835</u>
Operating loss before depreciation	(7,511,267)	(7,723,993)
<b>DEPRECIATION</b>	<u>2,859,474</u>	<u>2,889,688</u>
Operating loss including depreciation	<u>(10,370,741)</u>	<u>(10,613,681)</u>
<b>OTHER INCOME (EXPENSE)</b>		
Government operating assistance		
Member municipalities	4,142,127	3,726,684
Other municipalities	2,448	25,959
FTA operating assistance	2,416,670	2,278,845
IDOT operating assistance	605,105	713,093
IDOT special projects	16,384	26,280
MPO and FTA grant income	1,198,319	1,208,497
Special subsidies	14,304	15,808
Gain (loss) on disposition of fixed assets	24,335	(421,757)
Interest income	34,113	52,477
Advertising income	221,677	211,240
Miscellaneous income	97,249	127,875
Interest expense	(163,109)	(80,345)
Total operating assistance and other income	<u>8,609,622</u>	<u>7,884,656</u>
Net loss after other income	<u>\$(1,761,119)</u>	<u>\$(2,729,025)</u>

**Des Moines Metropolitan Transit Authority**  
**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS—**  
**PARATRANSIT DIVISION**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
Service income		
Polk County	\$ 744,580	\$1,155,916
State	72,446	78,422
LINK	66,165	63,138
Fare paying clients	57,559	64,223
Service income, other	<u>736,842</u>	<u>272,521</u>
Total operating revenues	<u>1,677,592</u>	<u>1,634,220</u>
<b>OPERATING EXPENSES</b>		
Administrative wages	200,161	197,123
Mechanics wages	90,312	115,181
Drivers wages	727,135	703,029
Employee benefits	175,571	158,007
MTA staff assistance	135,065	142,076
Rent	18,000	18,000
Payroll taxes	136,819	129,010
Insurance	60,000	60,000
Fuel and lubricants	123,298	112,441
Maintenance and repairs	90,207	162,237
Printing	67	806
Contracted services, cabs	36,604	29,857
Legal and accounting	6,000	3,278
Data processing	14,800	14,800
Office expenses	3,189	2,820
Other	1,178	(635)
Total operating expenses	<u>1,818,406</u>	<u>1,848,030</u>
Operating loss before depreciation	(140,814)	(213,810)
<b>DEPRECIATION</b>	<u>384,808</u>	<u>177,711</u>
Operating loss including depreciation	<u>(525,622)</u>	<u>(391,521)</u>
<b>OTHER INCOME</b>		
Government operating assistance		
ADA subsidy	270,000	270,000
FTA grant income	33,880	34,564
FTA operating assistance	40,293	26,074
Advertising and other income	<u>8,199</u>	<u>5,930</u>
Total other income	<u>352,372</u>	<u>336,568</u>
Net loss after other income	<u>\$ (173,250)</u>	<u>\$ (54,953)</u>

**Des Moines Metropolitan Transit Authority**  
**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS—**  
**RIDESHARE DIVISION**

	Year ended June 30	
	2004	2003
<b>OPERATING REVENUES</b>	\$ <u>458,744</u>	\$ <u>498,435</u>
<b>OPERATING EXPENSES</b>		
Wages and benefits	70,158	125,383
Service contracts	3,141	2,798
Travel	755	2,342
Professional fees	4,000	3,463
Office supplies	128	452
Van miscellaneous	3,310	3,391
Administrative miscellaneous	1,888	2,233
Office rent	6,500	6,000
Promotional events	3,011	2,868
Driver training	(500)	(1,098)
Telephone	—	330
Van phones	7,552	9,772
Insurance	66,580	62,775
Maintenance and repairs	52,626	49,583
Gas and oil	121,262	118,013
Drug screening	3,478	3,000
Van personal use	(1,537)	(3,109)
Total operating expenses	<u>342,352</u>	<u>388,196</u>
Operating income before depreciation	116,392	110,239
<b>DEPRECIATION</b>	<u>312,322</u>	<u>299,845</u>
Operating loss including depreciation	<u>(195,930)</u>	<u>(189,606)</u>
<b>OTHER INCOME</b>		
Government operating assistance		
IDOT operating assistance	—	445
Miscellaneous	<u>21,106</u>	<u>25,559</u>
Total other income	<u>21,106</u>	<u>26,004</u>
Net loss after other income	<u>\$ (174,824)</u>	<u>\$ (163,602)</u>

**Des Moines Metropolitan Transit Authority**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2004**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Transportation/Federal Transit Administration		
Federal Transit Operating Assistance Formula and Project Grants	20.500	\$ 420,412
Federal Transit Capital and Operating Assistance Formula Grants	20.507	4,044,739
Federal Transit Operating Assistance Project Grants	20.516	<u>558,802</u>
 Total federal expenditures		 <u>\$5,023,953</u>

**BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Des Moines Metropolitan Transit Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

To the Board of Trustees  
Des Moines Metropolitan Transit Authority  
Des Moines, Iowa

We have audited the financial statements of Des Moines Metropolitan Transit Authority as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. 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**

In planning and performing our audit, we considered the Des Moines Metropolitan Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Des Moines Metropolitan Transit Authority'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the Des Moines Metropolitan Transit Authority, Federal Transit Administration, Department of Transportation, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Denman + Company LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 3, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees  
Des Moines Metropolitan Transit Authority  
Des Moines, Iowa

**Compliance**

We have audited the compliance of Des Moines Metropolitan Transit Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Des Moines Metropolitan Transit Authority'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 Des Moines Metropolitan Transit Authority's management. Our responsibility is to express an opinion of the Des Moines Metropolitan Transit Authority'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 Des Moines Metropolitan Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Des Moines Metropolitan Transit Authority's compliance with those requirements.

In our opinion, the Des Moines Metropolitan Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### Internal Control Over Compliance

The management of Des Moines Metropolitan Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Des Moines Metropolitan Transit Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, others within the Des Moines Metropolitan Transit Authority, Federal Transit Administration, Department of Transportation, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Denman & Company LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 3, 2004

**Des Moines Metropolitan Transit Authority  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2004**

**Part I. Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal controls over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to major programs.
- (f) The audits did not disclose audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - \*CFDA Number 20.500 - Federal Transit Operating Assistance Formula and Project Grants
  - \*CFDA Number 20.507 - Federal Transit Capital and Operating Assistance Formula Grants
  - \*CFDA Number 20.516 - Federal Transit Operating Assistance Project Grants
- (h) The threshold for determining types A and B programs was \$300,000.
- (i) The Des Moines Metropolitan Transit Authority does qualify as a low-risk auditee.

**Part II. Findings Related to the Financial Statements**

NONE

**Part III. Findings and Questioned Costs for Federal Awards**

NONE