
Metropolitan Transit Authority of Black Hawk County

Financial Statements and Supplementary Information

June 30, 2005 and 2004

**BERGAN, PAULSEN
& COMPANY, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

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**BERGAN, PAULSEN
& COMPANY, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Metropolitan Transit Authority of Black Hawk County
Waterloo, Iowa

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Black Hawk County as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Metropolitan Transit Authority of Black Hawk County'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Transit Authority of Black Hawk County as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, in fiscal year 2004, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2005, on our consideration of the Metropolitan Transit Authority of Black Hawk County'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, 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 audit.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the GASB. 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 it.

Our audits were performed for the purpose of forming opinions on the basic financial statements of the Metropolitan Transit Authority of Black Hawk County taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Bergan, Fausch & Company, P.C.

Waterloo, Iowa
October 19, 2005

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The management of the Metropolitan Transit Authority of Black Hawk County (the Authority) offers the users of the Authority's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2005. This analysis is intended to be read in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2005, total assets of the Authority exceeded total liabilities by \$3,512,820. Of this amount, \$1,163,769 may be used to meet the Authority's on-going obligations.

The net assets of the Authority increased by \$81,416 during the current fiscal year. This increase is a result of a larger increase in revenues than in expenses.

The Authority's total debt decreased by \$192,149 during the current fiscal year. This decrease is because of principal payments made on the Authority's capital leases. Receivables decreased by \$545,232 during the current fiscal year. This decrease is because of a timing difference of when the payments were received from the federal grant during 2005 as compared to 2004.

Capital contributions from federal and local governments were \$251,469 in 2005. Such contributions were primarily used to make capital lease payments, make improvements to the operating facility, and begin work on the UNI multimodal system.

For fiscal year 2005, total expenses exceeded total revenues before capital contributions resulting in a loss before capital contributions of \$170,053.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: balance sheets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to the financial statements.

The balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The balance sheets can be found on page 8.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The *statements of revenues, expenses and changes in net assets* present information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses and capital contributions are reported in the statements for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statements of revenues, expenses and changes in net assets can be found on page 9 of this report.

The *statements of cash flows* summarize all of the Authority's cash flows into four categories: cash flows from operating activities, cash flows from non-capital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. The statements of cash flows can be found on pages 10 and 11 of this report. The statements of cash flows, along with related notes and information in other financial statements, can be useful in assessing the following:

- The Authority's ability to generate future cash flows,
- The Authority's ability to pay its lease obligations
- Reasons for the difference between the Authority's operating cash flows and operating income (loss), and
- The effect on the Authority's financial position of cash and non-cash transactions from investing, capital and financing activities.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the balance sheets, statements of revenues, expenses and changes in net assets; and statements of cash flows. The notes to the financial statements can be found on pages 12 through 18.

The basic financial statements briefly discussed above provide information on all functions of the Authority's business type activities. The activities of the Authority are supported by fare collections from passengers and federal and local financial assistance.

FINANCIAL ANALYSIS

Balance Sheets - Total assets of the Authority exceeded total liabilities by \$3,512,820 as of June 30, 2005. The largest portion of this excess (67%) is invested in capital assets less any related lease obligations that are still outstanding. The Authority uses these capital assets to provide public transit services to customers in Black Hawk County; consequently, these assets are not available for future spending. Although the Authority's investment in

**METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

capital assets is reported net of related lease obligations, it should be noted that the resources needed to repay lease obligations must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Balance Sheets

| | <u>2005</u> | <u>2004</u> |
|---|----------------------------|----------------------------|
| Current assets | \$ 1,433,031 | \$ 1,404,308 |
| Capital assets | <u>2,628,161</u> | <u>2,832,158</u> |
| Total Assets | <u>\$ 4,061,192</u> | <u>\$ 4,236,466</u> |
| Current liabilities | \$ 358,887 | \$ 525,953 |
| Long-term liabilities | <u>189,485</u> | <u>279,109</u> |
| Total Liabilities | <u>548,372</u> | <u>805,062</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 2,349,051 | 2,360,899 |
| Unrestricted | <u>1,163,769</u> | <u>1,070,505</u> |
| Total Net Assets | <u>3,512,820</u> | <u>3,431,404</u> |
| Total Liabilities and Net Assets | <u>\$ 4,061,192</u> | <u>\$ 4,236,466</u> |

**METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

Statements of Revenues, Expenses and Changes in Net Assets - During fiscal year 2005, the activities of the Authority resulted in an increase in net assets of \$81,416. The key elements of the changes in net assets are shown in the following table

| | Change in net assets | |
|-----------------------------------|----------------------|---------------------|
| | 2005 | 2004 |
| Revenues | | |
| Operating revenues | \$ 554,785 | \$ 617,510 |
| Investment income | 4,732 | 3,067 |
| Other non-operating revenues | <u>3,113,918</u> | <u>2,726,224</u> |
| Total revenues | <u>3,673,435</u> | <u>3,346,801</u> |
| Expenses | | |
| Operating expenses | 3,829,470 | 3,627,574 |
| Interest expense | <u>14,018</u> | <u>21,370</u> |
| Total expenses | <u>3,843,488</u> | <u>3,648,944</u> |
| Loss before capital contributions | (170,053) | (302,143) |
| Capital contributions | <u>251,469</u> | <u>291,291</u> |
| Increase (Decrease) in net assets | 81,416 | (10,852) |
| Net assets, beginning | <u>3,431,404</u> | <u>3,442,256</u> |
| Net assets, ending | <u>\$ 3,512,820</u> | <u>\$ 3,431,404</u> |

The decrease in operating revenues of \$62,725 (10%) was due to a decrease in passenger revenues of \$52,160 (11%), and a decrease in contract services of \$10,565 (7%). The decrease in passenger fares was due to a decrease in the number of rides. The decrease in contract services is primarily attributable to the decrease in the University of Northern Iowa (UNI) shuttle service.

Total expenses increased by \$194,544 (5%) because of increases in the following items. Salaries and wages increased by \$91,001 (6%) because of salary and wage increases for operators and hourly and salaried employees and some overtime that was paid during the year. Diesel costs increased \$73,172 (55%) because of higher diesel prices. Casualty and liability insurance increased by \$18,185 (12%) because of an increase in insurance rates and total value of insured assets on the property and liability policy. Bus parts increased \$41,541 (41%) due to an increased use of bus parts. Prime time services decreased

**METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

\$67,377 (55%) due to a decrease in funding. Interest expense decreased by \$7,352 (34%) because of a reduction in the principal balance on the leases.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets - The Authority's investment in capital assets as of June 30, 2005, amounted to \$2,628,161 (net of accumulated depreciation). The total decrease in investments in capital assets during the current year was \$203,997 (7%).

The primary funding source for capital projects is federal formula and discretionary grants. The Schedule of Expenditures of Federal Awards on Page 19 provides more details on federal grant activities during the year.

The following table summarizes capital assets net of depreciation.

| | <u>2005</u> | <u>2004</u> |
|----------------------------|---------------------|---------------------|
| Buildings and improvements | \$ 1,198,852 | \$ 1,274,918 |
| Equipment | 190,549 | 230,483 |
| Furniture and fixtures | 129,388 | 17,926 |
| Rolling stock | <u>1,109,372</u> | <u>1,308,831</u> |
| Total | <u>\$ 2,628,161</u> | <u>\$ 2,832,158</u> |

Additional information on the Authority's capital assets can be found in Note 2 on page 15.

LEASE OBLIGATIONS

The Authority had \$279,110 of lease obligations as of June 30, 2005. This was a decrease of \$192,149 (41%) due to principal payments made on the leases.

REQUESTS FOR INFORMATION

This financial report is designed to provide our patrons and other interested parties with a general overview of the Authority's finances. If you have questions concerning any of the information provided in this report or need additional financial information, contact the business manager at Metropolitan Transit Authority of Black Hawk County, 1515 Black Hawk Street, Waterloo, Iowa 50702.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Balance Sheets

As of June 30, 2005 and 2004

| | Assets | |
|--|-----------------------------------|---------------------|
| | 2005 | 2004 |
| Current Assets | | |
| Cash and cash equivalents | \$ 769,364 | \$ 216,257 |
| Receivables | 493,654 | 1,038,886 |
| Prepaid expenses | 52,546 | 39,588 |
| Inventories | 117,467 | 109,577 |
| | <u>1,433,031</u> | <u>1,404,308</u> |
| Total Current Assets | | |
| | <u>1,433,031</u> | <u>1,404,308</u> |
| Capital Assets, net | <u>2,628,161</u> | <u>2,832,158</u> |
| Total Assets | <u>\$ 4,061,192</u> | <u>\$ 4,236,466</u> |
| | | |
| | Liabilities and Net Assets | |
| Current Liabilities | | |
| Accounts payable | \$ 115,120 | \$ 147,892 |
| Accrued expenses | 136,402 | 174,280 |
| Accrued IPERS | 17,740 | 11,631 |
| Capital lease obligations | 89,625 | 192,150 |
| | <u>358,887</u> | <u>525,953</u> |
| Total Current Liabilities | | |
| | <u>358,887</u> | <u>525,953</u> |
| Noncurrent Liabilities | | |
| Capital lease obligations | <u>189,485</u> | <u>279,109</u> |
| | <u>189,485</u> | <u>279,109</u> |
| Total Liabilities | | |
| | <u>548,372</u> | <u>805,062</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 2,349,051 | 2,360,899 |
| Unrestricted | 1,163,769 | 1,070,505 |
| | <u>3,512,820</u> | <u>3,431,404</u> |
| Total Net Assets | | |
| | <u>3,512,820</u> | <u>3,431,404</u> |
| Total Liabilities and Net Assets | <u>\$ 4,061,192</u> | <u>\$ 4,236,466</u> |

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended June 30, 2005 and 2004

| | 2005 | 2004 |
|----------------------------------|---------------------|---------------------|
| Operating Revenues | | |
| Passenger fares | \$ 423,520 | \$ 475,680 |
| Contract services | <u>131,265</u> | <u>141,830</u> |
| Total Operating Revenues | <u>554,785</u> | <u>617,510</u> |
| Operating Expenses | | |
| Operations | 3,169,723 | 2,984,423 |
| General and administrative | 300,097 | 286,104 |
| Depreciation | <u>359,650</u> | <u>357,047</u> |
| Total Operating Expenses | <u>3,829,470</u> | <u>3,627,574</u> |
| Operating Loss | <u>(3,274,685)</u> | <u>(3,010,064)</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest expense | (14,018) | (21,370) |
| Rental/lease income | 15,858 | 19,838 |
| Advertising income | 19,639 | 17,948 |
| Interest income | 4,732 | 3,067 |
| Gain (loss) on sale of equipment | 880 | (316) |
| Miscellaneous income | 20,027 | 27,204 |
| Operating grants | <u>3,057,514</u> | <u>2,661,550</u> |
| Total Nonoperating Revenues | <u>3,104,632</u> | <u>2,707,921</u> |
| Net Loss Before Contributions | (170,053) | (302,143) |
| Capital Contributions | <u>251,469</u> | <u>291,291</u> |
| Change in Net Assets | 81,416 | (10,852) |
| Net Assets, Beginning of Year | <u>3,431,404</u> | <u>3,442,256</u> |
| Net Assets, End of Year | <u>\$ 3,512,820</u> | <u>\$ 3,431,404</u> |

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Statements of Cash Flows

For the years ended June 30, 2005 and 2004

| | 2005 | 2004 |
|--|-----------------------|-----------------------|
| Cash Flows from Operating Activities | | |
| Receipts from customers | \$ 538,119 | \$ 573,556 |
| Payments to suppliers | (1,894,567) | (1,705,988) |
| Payments to employees | <u>(1,655,292)</u> | <u>(1,503,347)</u> |
| Net Cash Used In Operating Activities | <u>(3,011,740)</u> | <u>(2,635,779)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Operating grants and subsidies | <u>3,675,816</u> | <u>2,610,505</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition of property and equipment | (157,415) | (187,157) |
| Principal payments under capital lease obligations | (192,149) | (99,646) |
| Interest paid on capital debt and leases | (20,248) | (12,633) |
| Proceeds from sale of equipment | 2,642 | |
| Capital grants | <u>251,469</u> | <u>291,291</u> |
| Net Cash Used in Capital and Related Financing Activities | <u>(115,701)</u> | <u>(8,145)</u> |
| Cash Flows from Investing Activities | | |
| Interest | <u>4,732</u> | <u>3,067</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 553,107 | (30,352) |
| Cash and Cash Equivalents at Beginning of Year | <u>216,257</u> | <u>246,609</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 769,364</u> | <u>\$ 216,257</u> |
| Reconciliation of Operating Loss to Net Cash Used In Operating Activities | | |
| Operating Loss | <u>\$ (3,274,685)</u> | <u>\$ (3,010,064)</u> |
| Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities | | |
| Depreciation | 359,650 | 357,047 |
| (Gain) loss on sale of equipment | (880) | 316 |
| Changes in: | | |
| Receivables | (16,666) | (43,954) |
| Other assets | (12,958) | (29,975) |
| Inventories | (7,890) | (17,410) |
| Accounts payable | (32,772) | 96,243 |
| Accrued liabilities | <u>(25,539)</u> | <u>12,018</u> |
| Total Adjustments | <u>262,945</u> | <u>374,285</u> |
| Net Cash Used in Operating Activities | <u>\$ (3,011,740)</u> | <u>\$ (2,635,779)</u> |

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

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Statements of Cash Flows

For the years ended June 30, 2005 and 2004

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | 2005 | 2004 |
|--|------------------|------------------|
| Cash paid during the year for interest | <u>\$ 20,248</u> | <u>\$ 12,633</u> |

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During 2004, three buses acquired were partially financed with a capital lease obligation totaling \$365,487.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
Notes to the Financial Statements

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS ACTIVITY

The Metropolitan Transit Authority of Black Hawk County (the Authority) was established under Chapter 28E of the Code of Iowa for the purpose of providing public transportation service to citizens of the cities of Waterloo and Cedar Falls. The Authority is governed by a board of thirteen trustees, nine of which are appointed by the City of Waterloo and four by the City of Cedar Falls. A significant portion of the Authority's operations are subsidized by the cities of Waterloo and Cedar Falls, the state of Iowa and the federal government.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues result from providing services in connection with the Authority's principal ongoing operations. All other revenues are non-operating. Operating expenses can be tied to the services being provided. Other expenses are non-operating.

BASIS OF ACCOUNTING

The activities of the Authority are similar to those of proprietary funds and therefore are reported as an enterprise fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). Accordingly, transactions are accounted for using the accrual basis of accounting. Under Alternative 1 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all standards issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB), in addition to all GASB standards.

NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2004, the Authority adopted the following new statements of financial accounting standards issued by GASB: Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Disclosures*.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.):

NEW ACCOUNTING STANDARDS ADOPTED (Cont'd.)

In addition to other presentation changes, Statement No. 34 (as amended by Statement No. 37) requires government-wide financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting. This requirement did not effect the Authority's financial statements because the Authority has been preparing its financial statements using the accrual basis of accounting and the economic resources measurement focus even before Statement No. 34 was issued. In order to comply with the presentation requirements of Statement No. 34, the amounts that were reported as contributed capital and retained earnings in prior years are now reported as net assets in the statement of net assets. Certain other reclassifications were made to prior year amounts to conform to the current year's presentation.

Statement No. 34 also requires that the basic financial statements be preceded by a Management's Discussion and Analysis (MD&A), which is required supplementary information. The Authority's basic financial statements are preceded by the MD&A, which provides an analytical overview of the financial statements of the Authority.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. This statement did not affect the amounts reported in the financial statements of the Authority. However, certain note disclosures have been added and or amended.

ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from the estimates.

CASH EQUIVALENTS

The Authority considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd.):**

INVENTORIES

Inventories are stated at the lower of average cost or market and consist primarily of repair parts and fuel.

CAPITAL ASSETS

Capital assets which include property and equipment are carried at cost. Depreciation is computed under the straight-line method over the economic useful lives of the assets. Equipment held under capital leases is classified as capital assets and amortized using the straight-line method over the term of the lease. Lease amortization is included in depreciation expense.

DEPOSITS

All deposits are in a single financial institution and are carried at cost. The Authority does not have a deposit policy for custodial credit risk.

| | 2005 | 2004 |
|--------------------------------|-------------------|-------------------|
| Insured (FDIC) | \$ 100,000 | \$ 100,000 |
| Uninsured and uncollateralized | <u>669,364</u> | <u>116,257</u> |
| Total Deposits | <u>\$ 769,364</u> | <u>\$ 216,257</u> |

COMPENSATED ABSENCES

Accumulated unpaid vacation and sick pay are accrued when incurred. As of June 30, 2005 and 2004, the Authority had accrued \$69,270 and \$65,446, respectively, for unpaid vacation and sick pay.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 2 - CAPITAL ASSETS:

The following summarizes the Authority's capital assets and changes for the years ended June 30, 2005 and 2004.

| | Beginning June 30, 2004 | Additions | Dispositions | Ending June 30, 2005 |
|--------------------------------|----------------------------|---------------------|-----------------|-------------------------|
| Buildings and improvements | \$ 2,455,574 | | | \$ 2,455,574 |
| Equipment | 537,086 | \$ 3,800 | | 540,886 |
| Furniture and fixtures | 78,852 | 120,112 | | 198,964 |
| Rolling stock | <u>3,903,804</u> | <u>33,503</u> | \$ 258,880 | <u>3,678,427</u> |
| | <u>6,975,316</u> | <u>157,415</u> | <u>258,880</u> | <u>6,873,851</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 1,180,656 | 76,066 | | 1,256,722 |
| Equipment | 306,603 | 43,734 | | 350,337 |
| Furniture and fixtures | 60,926 | 8,650 | | 69,576 |
| Rolling stock | <u>2,594,973</u> | <u>231,200</u> | <u>257,118</u> | <u>2,569,055</u> |
| | <u>4,143,158</u> | <u>359,650</u> | <u>257,118</u> | <u>4,245,690</u> |
| Total Capital Assets, net | <u>\$ 2,832,158</u> | <u>\$ (202,235)</u> | <u>\$ 1,762</u> | <u>\$ 2,628,161</u> |
| | | | | |
| | Beginning June 30, 2003 | Additions | Dispositions | Ending June 30, 2004 |
| Buildings and improvements | \$ 2,376,777 | \$ 78,797 | | \$ 2,455,574 |
| Equipment | 681,814 | | \$ 144,728 | 537,086 |
| Furniture and fixtures | 72,543 | 7,740 | 1,431 | 78,852 |
| Rolling stock | <u>3,629,744</u> | <u>466,107</u> | <u>192,047</u> | <u>3,903,804</u> |
| | <u>6,760,878</u> | <u>552,644</u> | <u>338,206</u> | <u>6,975,316</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 1,105,120 | 75,536 | | 1,180,656 |
| Equipment | 402,005 | 49,010 | 144,412 | 306,603 |
| Furniture and fixtures | 54,838 | 7,519 | 1,431 | 60,926 |
| Rolling stock | <u>2,562,038</u> | <u>224,982</u> | <u>192,047</u> | <u>2,594,973</u> |
| | <u>4,124,001</u> | <u>57,047</u> | <u>337,890</u> | <u>4,143,158</u> |
| Total Capital Assets, net | <u>\$ 2,636,877</u> | <u>\$ 195,597</u> | <u>\$ 316</u> | <u>\$ 2,832,158</u> |

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 3 - 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 which 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 covered salary and the Authority is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Authority's contributions to IPERS for the years ended June 30, 2005 and 2004, were \$98,737 and \$89,036, respectively, equal to the required contributions for each year.

NOTE 4 - RELATED PARTY TRANSACTIONS:

The City of Waterloo is providing free use of the land on which the Authority's operating facility and Central Transfer Facility were built for as long as these facilities remain in operation.

NOTE 5 - CAPITAL LEASES:

The following is an analysis of leased property under capital leases:

| | 2005 | 2004 |
|--------------------------------|-------------------|-------------------|
| Equipment | \$ 466,112 | \$ 1,058,485 |
| Less: Accumulated amortization | <u>(89,337)</u> | <u>(254,993)</u> |
| | <u>\$ 376,775</u> | <u>\$ 803,492</u> |

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2005:

| | |
|---|-------------------|
| Year Ending | |
| 2006 | \$ 100,119 |
| 2007 | 100,119 |
| 2008 | <u>100,119</u> |
| | 300,357 |
| Less: Amount representing interest | <u>(21,247)</u> |
| Present Value of Net Minimum Lease Payments | <u>\$ 279,110</u> |

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 5 - CAPITAL LEASES (Cont'd.):

Changes in the Capital Lease Obligation:

| | |
|-------------------------------------|-------------------|
| Amount outstanding at June 30, 2004 | \$ 471,259 |
| Payments made | <u>(192,149)</u> |
| Amount outstanding at June 30, 2005 | <u>\$ 279,110</u> |
| Due within one year | <u>\$ 89,625</u> |

NOTE 6 - OPERATING LEASES:

The Authority leases a portion of the Central Transfer Facility to an outside bus transportation service company under a cancelable operating lease. Rental income from the lease was \$9,600 and \$9,000 for the years ended June 30, 2005 and 2004, respectively.

NOTE 7 - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 3, the Authority provides health insurance coverage for its retired employees, terminated employees and employees who have been laid off. For those employees who are terminated or laid off, health care coverage is provided for the first three months after termination or lay off. For employees who elect early retirement, the Authority provides the same medical insurance coverage that was available under the Authority's employment until the individual attains age 65. After age 65, the Authority provides a Medicare carve-out policy to the individual. In addition, the Authority provides as a death benefit life insurance for employees who retire from the Authority and have been employed for a stipulated number of years. Substantially all of the Authority's employees are eligible for this benefit.

As of and for the year ended June 30, 2005, there were ten retired employees who received approximately \$56,714 in benefits from the Plan. There were no terminated employees receiving benefits under this plan. As of and for the year ended June 30, 2004, there were ten retired employees who received approximately \$41,681 in benefits from this Plan. There were no terminated employees receiving benefits under this Plan.

The Authority's cost of providing both the postretirement and postemployment benefits is recognized by expensing the insurance programs' premiums as paid. The Authority has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 8 - RISK MANAGEMENT:

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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - CONTINGENCIES AND COMMITMENTS:

The Authority participates in numerous Federal and State grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent the Authority has not complied with the rules and regulations governing these grants, refunds of any money received may be required. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Authority is involved in legal proceedings that arise in the ordinary course of business activities. Although the ultimate disposition of these proceedings is not presently determinable, management does not expect the outcome to have a material adverse effect on the Authority's financial position.

SUPPLEMENTARY INFORMATION

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2005

| <u>U.S. Department of Transportation</u> | <u>Federal CFDA Number</u> | <u>Federal Grant/ Pass Through Entity Identifying Number</u> | <u>Expenditures</u> |
|---|------------------------------------|--|-------------------------|
| Operating Assistance | 20.507 | IA-90-0301 | \$ 1,120,043 |
| Capital Assistance | | | |
| Bus and related facilities | 20.500 | IA-90-0253 | 82,707 |
| Bus and related facilities | 20.500 | IA-90-0272 | 94,000 |
| Multimodal System | 20.500 | IA-03-0100 | <u>24,993</u> |
| Total U.S. Department of Transportation | | | <u>\$ 1,321,743</u> |

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

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

To the Board of Trustees
Metropolitan Transit Authority of Black Hawk County
Waterloo, Iowa

We have audited the financial statements of the Metropolitan Transit Authority of Black Hawk County as of and for the year ended June 30, 2005, and have issued our report thereon dated October 19, 2005. 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 Metropolitan Transit Authority of Black Hawk County'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 over financial reporting 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 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 Metropolitan Transit Authority of Black Hawk County'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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Metropolitan Transit Authority of Black Hawk County in a separate letter dated October 19, 2005.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bergan, Paulsen & Company, P.C.

Waterloo, Iowa
October 19, 2005

**INDEPENDENT AUDITORS' 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
Metropolitan Transit Authority of Black Hawk County
Waterloo, Iowa

Compliance

We have audited the compliance of the Metropolitan Transit Authority of Black Hawk County 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 its major federal program for the year ended June 30, 2005. The Metropolitan Transit Authority of Black Hawk County's major federal program is 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 its major federal program is the responsibility of the Metropolitan Transit Authority of Black Hawk County's management. Our responsibility is to express an opinion on the Metropolitan Transit Authority of Black Hawk County'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 Metropolitan Transit Authority of Black Hawk County'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 Metropolitan Transit Authority of Black Hawk County's compliance with those requirements.

In our opinion, the Metropolitan Transit Authority of Black Hawk County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-III-1 and 05-III-2.

Internal Control Over Compliance

The management of the Metropolitan Transit Authority of Black Hawk County 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 Metropolitan Transit Authority of Black Hawk County'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 the 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 organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berkman, Parker & Company, P.C.

Waterloo, Iowa
October 19, 2005

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
Schedule of Findings and Questioned Costs
For the year ended June 30, 2005

Part I: Summary of Independent Auditors' Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Metropolitan Transit Authority of Black Hawk County.
2. The audit of the financial statements did not disclose any reportable conditions regarding internal control.
3. The audit did not disclose any instances of noncompliance which are material to the financial statements of the Metropolitan Transit Authority of Black Hawk County.
4. The audit did not disclose any reportable conditions relating to the Metropolitan Transit Authority of Black Hawk County's major federal award program.
5. The auditor's report on compliance for the major federal program for the Metropolitan Transit Authority of Black Hawk County expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a) are reported in this Schedule.
7. The only major program is CFDA Number 20.507 - Federal Transit Formula Grants.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The Metropolitan Transit Authority of Black Hawk County did not qualify as a low-risk auditee.

Part II: Finding related to the financial statements

The audit did not disclose audit findings which are required to be reported in accordance with *Government Auditing Standards*.

Part III: Findings and Questioned Costs for Federal Awards

CFDA Number 20.507: Federal Transit Formula Grants

Project Number: IA-90-4284, IA-03-0073, IA-90-0248, IA-90-0272

Federal Award Year: 2005, 2004, 2003, 2002, 2001

U.S. Department of Transportation – Federal Transit Administration

05-III-1 Matching Requirements

Condition and Criteria – Documentation identifying land to be transferred to the Authority in order to satisfy the matching requirement on grant IA-03-0073, (Intermodel Parking Facility) has not been completed.

Effect of Condition – The cost of the assistance may be disallowed.

Cause of Condition – Oversight by staff in charge of acquiring necessary documentation.

Recommendation – Satisfaction of grant matching requirements should be properly documented.

Authority's Response – Appropriate steps will be taken to acquire the necessary documentation.

05-III-2 Section 15 Reporting

Condition and Criteria – The National Transit Database (NTD) report for the year ended June 30, 2005, had not been completed by its due date of October 28, 2005. Under Title 49 U.S.C. 5335(a), transit agencies receiving Urbanized Area Formula funds are required to submit a NTD report within the appropriate reporting deadline.

Effect of Condition - Loss of Urbanized Area Formula grants.

Cause of Condition - Difficulties in completing and submitting the NTD report by its due date.

Recommendation – Management should complete and file the NTD report as soon as possible.

Authority's Response – Management has completed and filed the NTD report effective November 17, 2005.

Part IV: Status of Prior Year Findings

For the year ended June 30, 2004, the following were included in the schedule of findings and questioned costs:

04-III-1 Matching Requirements

Condition and Criteria – Documentation identifying land to be transferred to the Authority in order to satisfy the matching requirement on grant IA-03-0073, (Intermodal Parking Facility) has not been completed.

Resolution – This finding was repeated as of June 30, 2005.

04-III-2 Section 15 Reporting

Condition and Criteria – The National Transit Database (NTD) report for the year ended June 30, 2004, had not been completed by its due date of October 28, 2004. Under Title 49 U.S.C. 5335(a), transit agencies receiving Urbanized Area Formula funds are required to submit a NTD report within the appropriate reporting deadline.

Resolution – Management completed and filed the NTD report effective December 14, 2004.