

**Des Moines Regional Transit Authority
Des Moines, Iowa**

FINANCIAL REPORT

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Commission
Des Moines Regional Transit Authority
Des Moines, Iowa

We have audited the accompanying balance sheets of Des Moines Regional Transit Authority as of June 30, 2006 and 2005 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 Regional Transit Authority as of June 30, 2006 and 2005, 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 August 11, 2006, on our consideration of the Des Moines Regional 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 5-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 22 through 26 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 expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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.

Denman & Company LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 11, 2006

Des Moines Regional Transit Authority
Management's Discussion and Analysis
Year Ended June 30, 2006

This section of the Des Moines Regional Transit Authority's (DART) annual financial report provides an overview of financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter on page 3 and DART's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- DART's Total Assets declined \$2,543,233 as a result of this year's operations. The majority of the decrease (\$2.57 million) is in Capital Assets.
 - Additions to Capital Assets totaled \$1,058,329. Major purchases are outlined in the Capital Assets section later.
 - Disposals from Capital totaled \$591,140 (see Capital Assets section).
 - The remainder, and most significant part, of the change in Capital Assets is from depreciation, mostly occurring in the aging of the fleet.
 - There was a slight increase in current assets.

Cash and Cash Items decreased	- \$1,245k
Certificates of Deposit increased	- \$1,540k
Federal Grant Receivables decreased	- \$ 738k
State Grant Receivables increased	- \$ 92k
Inventories increased	- \$ 91k

 - In FY2005, Federal balances included Job Access Reverse Commute activity for FY2004 and FY2005, which was received shortly after the close of last year's business.
 - Approximately \$111,500 in receivables billed under Polk County's subcontract for mental health transportation is still outstanding due to changes in billing procedures. DART staff believe the payment is yet forthcoming for these services rendered.
- Total Liabilities decreased \$2,374,006
 - Current Liabilities rose \$393,044 and includes:

▪ Current lease obligations rose	- \$ 123k
▪ Payroll and payroll-related items increased	- \$ 69k
▪ Reserves for Accident Claims increased	- \$ 175k
 - Long-term Liabilities decreased \$2,767,050 as, along with semiannual payments made on a loan taken in 2003 to purchase 16 buses, a federal earmark of \$2,341,635 was secured and paid on the principal. The balance of this lease payable will be lowered by semiannual payments funded by DART-supporting cities over the next several years. Additional federal funds have been secured for this lease and will hasten the payment period and reduce the amount due from the cities.

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 DART'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 DART's overall financial status.

A summary of net assets is presented below:

Table 1
Des Moines Regional Transit Authority
Net Assets
June 30
2006 2005 2004

CURRENT AND OTHER ASSETS	7,607,277	7,584,020	7,179,546
CAPITAL ASSETS, NET OF DEPRECIATION	21,365,734	23,935,862	24,225,937
DEFERRED CHARGES	146,026	142,389	52,069
TOTAL ASSETS	29,119,037	31,662,270	31,457,552
CURRENT LIABILITIES	2,696,649	2,303,605	2,023,992
LONG-TERM LIABILITIES	657,582	3,424,632	3,778,499
TOTAL LIABILITIES	3,354,231	5,728,237	5,802,491
INVESTED IN CAPITAL ASSETS*	20,355,191	20,295,777	20,286,538
BOARD DESIGNATED RESERVES	3,618,788	3,623,649	3,233,158
UNRESTRICTED NET ASSETS	1,790,827	2,014,608	2,135,365
TOTAL NET ASSETS	25,764,806	25,934,034	25,655,061
TOTAL LIABILITIES AND NET ASSETS	29,119,037	31,662,271	31,457,552

*The line item "Invested in Capital Assets" represents DART'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 Regional Transit Authority
Changes in Net Assets
June 30

	2006	2005	2004
OPERATING REVENUES			
Passenger fares	3,058,157	2,622,273	3,322,383
Other fares	2,607,398	2,444,713	1,800,754
NON-OPERATING REVENUES	9,974,895	9,167,234	8,983,100
TOTAL REVENUES	15,640,450	14,234,220	14,106,237
OPERATING EXPENSES	15,316,902	13,686,344	12,658,826
DEPRECIATION	3,566,290	3,374,410	3,556,604
TOTAL EXPENSES	18,883,192	17,060,754	16,215,430
Funds received For Capital Purchases	3,073,514	3,105,507	1,221,684
CHANGE IN NET ASSETS	(169,228)	278,973	(887,509)

YEAR-TO-YEAR COMPARISON

Fixed Route experienced a significant increase in Ridership (up 7.4%), RideShare rose 15.4% with an additional 14 vans in circulation, and Paratransit served the same number of clients as last year. Total Operating Revenues increased 11.8% over last year.

The positive Fixed Route Ridership increase occurred at a time of high fuel prices, continued construction delays and detours, and service shifts to meet public needs. To more appropriately support the cost of operating the Fixed Route system, a fare increase was instituted January 2, 2006. This was the first adjustment to DART's base fare of \$1.00 since 1995.

- Fare revenue increased 17.3% over the previous year; factoring out the mid-year fare increase, there was still a 6.4% increase.
- The Employer Support Program participation increased 4.1%, reversing the trend for the past few years when the downtown labor market shifted as businesses downsized or moved out of the core, and new parking facilities were opened.
- Pass Sales Outlets increased sales of passes and tokens by 11.3% with a shift from buying weekly passes to monthly passes and tokens.
- DART has contracted for several years with Des Moines Schools to assist in transporting students. Student ridership increased 12.1% this year due to the addition of service for North and Roosevelt High Schools, and an additional route for Weeks Middle School. Student pass usage dropped significantly as East High School moved to the contracted school service rather than passes.
- Special services such as the Riverpoint Shuttle, the Des Moines Arts Festival, the Race for the Cure, and the State Fair increased 42%. Additional service was added for events such as the wrestling tournament and events in the new Wells Fargo Arena due to road construction.

Paratransit ridership stayed at the same level as last year, with a 3.3% increase in operating revenues.

- Link Associates vacated a long-standing contract at the beginning of the year, deciding their transportation needs could be met by private vans.
- State contract funds were reduced nearly in half.
- This division continues to operate services open to the public such as Dial-a-Ride Night Service, Urbandale, Ankeny and West Des Moines On Call.

Ride Share experienced a 14.4% increase in fares.

- 74 vans were in operation at year-end compared to 61 vans last year.
- Ridership increased 15.4%

Non-operating revenues increased 8.8%.

- Municipal assistance for operations increased 7.6%
- Federal support for operating and capital lease assistance fell slightly (2%) due to reduced funds for rural service and reduction of the capital lease.
- New grant funds of \$121,329 were available for purchased transportation services under the Federal Transit Administration's (FTA) Elderly & Persons with Disabilities (5310) Program as administered by the Iowa Office of Public Transit and used for cab services for the elderly and persons with disabilities.

Operating Expenses were 12% higher than the prior year.

Fixed Route had a \$1,262,186 (11%) increase in operating expense as outlined below:

- Diesel fuel represented over one-third of the increased expenses, rising 52% above the prior year's expense. Beginning the year with an average cost of \$1.64 per gallon, it hit a peak of \$2.96 in October, 2005 and ended the year at \$2.28.
- Tire expenses categorized as operating expenses increased by \$100,313. Previously tire expenses were reimbursed by capital grant funds but in FY2006, those grant funds were used to support the overall efforts of the transportation and maintenance departments.
- Transportation wages for drivers and administrators rose \$111,908 (3.1%). This is in line with an expected, negotiated wage increase. However actual experience due to retirements of long-term drivers, reflected more instructor training expenses for new drivers and additional overtime to accommodate those changes
- Maintenance costs increased \$114,906 as staffing levels increased for mechanics. Staffing was still below budgeted levels and required additional overtime hours to keep the fleet operating optimally. Total repair costs stayed at the same level as the prior year's.
- General & administration costs were \$332,956 more than the previous year. A few significant areas to note are:
 - Liability insurance coverage – expenses rose \$55,757
 - Miscellaneous expenses for dues, memberships, travel and training rose \$63,204, a portion due to the search expenses for a new General Manager.
 - Professional services increased in Accounting, Human Resources and Marketing for maintaining software licenses, employee recruitment and testing, advertising promotions and agency fees (\$111,091)
- Insurance claims had an increase of \$186,907 over the previous year.

Paratransit expenses increased \$312,300 from 2005:

- Increases in wages and salaries of \$196,310 include negotiated increases as well as increased staffing for scheduling and dispatching. Paratransit operators continued to expand their role in providing On Call services.
- Fuel costs increased 60%; up \$107,431 (see Fixed Route narrative for price details).
- Repair expenses increased \$51,616 and as previously mentioned, the average age of the fleet is beyond the national average, requiring more maintenance.
- Continued brokering with the Trans Iowa cab company added \$12,547 in expense this year. However, as mentioned in the non-operating revenues discussion above, 80% of those expenses are reimbursed through a new grant.

RideShare has an increase in expenses over the previous year of \$56,072:

- A 51.6% increase in unleaded gas expenses accounts for \$75,572.
- A fuel surcharge was initiated in August to offset the above expenses for a total of \$49,154.
- Vehicle repairs totaled \$31,219, half of that being for accident repairs.

BUDGETARY HIGHLIGHTS

DART adopts a separate budget for all three operating divisions in June of the prior fiscal year. No revisions were made during the year.

Actual results compared to adopted budgets showed increases for all divisions.

- Budgeted figures for Fixed-Route Operating Revenues were raised from that of FY2005 for a planned mid-year fare increase and additional school service. In actuality, Operating Revenues exceeded the budget by \$389,645.
 - Fare increases were conservatively projected to add an additional \$125,000 in revenues and achieved \$232,792.
 - \$135,500 represents an increase in the number of passes and tokens sold.
 - A significant number of activities where transit services are open to the public allow DART to provide service to community events such as the Race for the Cure, Riverpoint Shuttle and the Des Moines Arts Festival. This brought in income of \$112,702, with only \$50,000 having been budgeted.
 - School services brought in slightly more than projected over last year (\$41,691) as additional schools (Weeks, Roosevelt, North and East) added riders.
- The Paratransit Operating Revenue rose above the budget by 2%.
 - State Contract revenues fell by nearly 50% as that government agency cut funding.
 - Polk County-funded trips decreased \$36,139 from the budget
 - Other contracts, including those for developmentally disables and the elderly increased \$104,301
- RideShare Operating Revenue experienced a small increase of \$11,714 over budget.
 - 74 vans were in operation at year-end, exceeding the 65 vans budgeted.
 - During the summer, both the City of Urbandale and the Des Moines Parks & Rec department leased vans adding \$4,830 to the budgeted amount.

Operating expenses across all companies were \$177,016 more than budgeted.

- Fixed Route showed a savings of \$188,781. Significant variances were in:
 - Salaries for Transportation Drivers were reduced by nearly 2,800 hours due to service changes. This was offset by greater overtime and instructor hours to give a savings of \$102,086
 - Maintenance Mechanics and Servicepersons wages showed a savings of \$107,974 due to open positions.
 - Lower than expected Workers Compensation premiums gave a savings from budget of \$113,925.
 - Diesel fuel was budgeted at \$1.75 and cost \$2.28 at year-end, requiring an additional \$166,733 over the budget.
 - The budget for tires projected grant funds to cover the majority of this expense. Instead, the grant was used to support the overall efforts of Transportation and Maintenance, causing a budget overage in this line item of \$96,370.
 - Repairs on buses and equipment cost \$43,647 more than budgeted.
 - Another mild winter saved \$28,266 in snow removal.
 - Fewer repairs needed for buildings, shelters and grounds saved \$41,165.

- Paratransit expenses exceeded the budget by \$394,035 as outlined below:
 - Two positions were added in the administrative area for deploying new software and managing On Call services, adding \$32,409 in wages.
 - Mechanics labor on an aging Paratransit fleet exceeded the budget by \$21,935.
 - Operators wages and overtime were \$46,429 above the budget. Total passenger trips by bus increased 3.5%, while the average trip length increased 8.6%; i.e. more trips, longer trips.
 - Diesel fuel was budgeted at \$1.75 and cost \$82,539 more than budgeted.
 - Like mechanics labor on an aging fleet, vehicle repairs were higher than projected by \$44,713.
 - This second year of brokering Paratransit services with Trans Iowa exceeded the budget by \$74,367, 80% of which, as mentioned in the revenues section, was reimbursed by a new grant source.
 - Difficulties in converting to a new, more rigorous billing system resulted in writing off \$32,051 in Bad Debt expense incurred prior to May 2005. This is being corrected and should not result in similar actions next year.
- Ride Share budget losses totaled \$21,436
 - Staff expenses were \$14,794 below budget as changes were made in the staffing levels for this division.
 - Unleaded gas expense exceeded the budget by \$57,390 and was offset by a fuel surcharge of \$49,154.

Non-Operating revenues were over budget by \$282,917, attributable to Federal Operating and Job Access/Reverse Commute (JARC) funds supporting expanded services.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2006 DART has invested approximately \$21 million in capital assets, net of depreciation. This amount is a decrease of \$2,570,129 over June 30, 2005.

Table 3
Des Moines Regional Transit Authority
Capital Assets at Year-end
(Net of Depreciation)
June 30

	2006	2005	2004
LAND	\$ 185,009	\$ 185,009	\$ 185,009
BUILDINGS & IMPROVEMENTS	4,916,570	4,922,048	4,426,099
REVENUE VEHICLES & EQUIPMENT	15,544,634	18,000,327	18,853,854
EQUIPMENT	719,521	828,478	760,975
TOTALS	\$ 21,365,734	\$ 23,935,862	\$ 24,225,937

- o Additions to Capital Assets totaled \$1,058,330. Major purchases were:

RideShare vans (16)	- \$388k
Security upgrades for buildings and property	- \$233k
New shelter installations	- \$116k
Service vans (3) and car	- \$ 91k
Bike racks (130) and ad frames	- \$ 67k
Computer hardware and software	- \$ 56k

- o Disposals from Capital totaled \$591,139. Major assets sold or retired were:

RideShare vans (14)	- \$321k
Computer hardware and software	- \$116k
Service vehicles	- \$ 92k

- o The remainder, and most significant part, of the change in Capital Assets is from depreciation, mostly occurring in the aging of the fleet. Currently, DART has a fixed-route fleet of 118 vehicles with an average age of 8.9 years, and a Paratransit fleet of 25 vehicles with an average age of 5.1 years (national average is 7.5 years and 4.1 years, respectively).

To fully fund DART's FY2007 Capital Plan would require \$35 million, including \$20 million for a new Transit Hub facility in Downtown Des Moines. Since only \$6.7 million has been identified, upcoming capital expenditures will focus on bus replacement, preventive maintenance (which is used to cover operating costs) and technology needs. Staff is completing the feasibility and property studies needed to seek approximately \$1,000,000 in newly eligible State Rebuild Iowa Infrastructure funds in the next two years to fund a needed expansion of the bus storage building.

Debt Administration

- Three years ago, DART entered into a lease agreement to purchase buses and radios. The leasing of 16 buses and 21 radios allowed DART to save maintenance and fuel costs over the 12-year period of the lease. DART has secured federal funds to cover the majority of the lease costs, with the cities that subsidize DART agreeing to include lease payments in their financial support of this operation over the remaining years. As cited earlier in this report, a federal earmark for this lease was secured this year, and with the required local match, DART was able to make a lump-sum payment on this loan of \$2.3 million.

Current Liabilities (shown in Table 1) include;

- Reserves committed to known liability claims (\$750,000). This is an increase of \$175,000 in these funds set aside for accidents and other liabilities against DART. The company self insures accidents for the first \$2 million and carries an umbrella liability policy for \$10 million above that. DART is considering adoption of policy guidance requiring the reserve to equal three times the average of actual claims paid over the previous three years (roughly \$1,000,000).

- Post-retirement Obligations totaled \$108,799 at June 30, 2006, a decrease of \$21,078 over the previous year. 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 continue to decline each year.

OTHER CURRENTLY KNOWN FACTS, DECISIONS or CONDITIONS

As passenger fares and government grants cover only a portion of DART's budget, approximately 35% of the operating budget is supported by the member cities of the 28E Agreement by which the Authority was formed. As of July 1, 2006, the Metropolitan Transit Authority (MTA) has been reconstituted as the Des Moines Area Regional Transit Authority under a new 28M Agreement per the Iowa Code. All cities within Polk County and Polk County itself signed the agreement giving the new Authority independent taxing authority, the first receipts of which it will receive this fall.

The new DART Commission is working on service plans for FY2008 and will adopt a budget early in 2007. Future tax levies are expected to allow for solid growth with a stable funding source.

Reauthorization of the Transportation Bill (SAFETEA – LU) included revisions that at best held DART's and the other large urban systems in the State constant and in some cases lowered the formula funding levels. Additionally, JARC funds were significantly reduced. We are still in the process of gathering information to measure the specific impact on DART and how that will effect Night Service and On-Call services .

RTA employees are represented by two labor unions; Fixed Route is represented by the Amalgamated Transit Union, and Paratransit by the Teamsters. The ATU agreed to a 2% wage increase for the first 6 months of FY2007, with a 1% addition the second half. Only a one-year contract was negotiated, so meetings between management and union representatives over the next contract will occur shortly. The Teamsters agreed to a three-year contract with a 2% wage increases each year.

The recent escalation in fuel costs and continued unpredictability of those costs may have a significant impact on the new year's budget. Diesel fuel was budgeted at \$2.15 with assistance from the State Department of Natural Resources.

In conclusion, DART expects operating costs to continue to rise while local subsidies from tax levies support and stabilize our services. Much of this next year will be spent in transitioning to a regional system and creating the reports, services and leadership needed to sustain the vision. High fuel prices are expected to continue and be reflected in more riders. DART is currently reviewing services, while increasing marketing and visibility efforts.

CONTACTING DART's FINANCIAL MANAGEMENT

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

**Des Moines Regional Transit Authority
BALANCE SHEETS**

ASSETS	June 30	
	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,189,047	\$ 4,434,305
Certificates of deposit	1,540,307	-
Accounts receivable		
Trade	799,444	516,882
FTA	1,008,511	1,746,256
Other	163,234	71,769
Inventories	906,734	814,808
Prepaid expenses	146,026	142,389
Total current assets	7,753,303	7,726,409
PROPERTY AND EQUIPMENT		
Less accumulated depreciation and amortization	46,252,914	45,785,725
Total property and equipment	24,887,180	21,849,863
	21,365,734	23,935,862
 Total assets	 \$29,119,037	 \$31,662,271
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current obligations of capital lease	\$ 435,987	\$ 313,282
Current obligations of post retirement benefits payable	25,773	32,048
Accounts payable	651,347	604,947
Accrued and withheld payroll, payroll taxes and benefits	773,893	705,124
Deferred revenue	53,726	51,867
Accrued interest payable	5,923	21,337
Accrued self insurance claims	750,000	575,000
Total current liabilities	2,696,649	2,303,605
LONG-TERM LIABILITIES		
Capital lease, less current obligations	574,556	3,326,803
Post retirement benefits payable, less current obligations	83,026	97,829
Total long-term liabilities	657,582	3,424,632
Total liabilities	3,354,231	5,728,237
NET ASSETS		
Invested in capital assets, net of related debt	20,355,191	20,295,777
Unrestricted	5,409,615	5,638,257
Total net assets	25,764,806	25,934,034
 Total liabilities and net assets	 \$29,119,037	 \$31,662,271

See Notes to Financial Statements.

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

	<u>Year ended June 30, 2006</u>			<u>Total</u>	<u>Year ended</u>
	<u>Fixed route</u>	<u>Paratransit</u>	<u>Rideshare</u>	<u>2006</u>	<u>June 30,</u>
					<u>2005</u>
OPERATING REVENUES	\$ 3,424,645	\$1,714,783	\$ 526,127	\$ 5,665,555	\$ 5,066,986
OPERATING EXPENSES (EXCEPT DEPRECIATION AND AMORTIZATION)	<u>12,596,568</u>	<u>2,258,338</u>	<u>461,996</u>	<u>15,316,902</u>	<u>13,686,344</u>
Operating income (loss) before depreciation and amortization	(9,171,923)	(543,555)	64,131	(9,651,347)	(8,619,358)
DEPRECIATION AND AMORTIZATION	<u>2,768,865</u>	<u>408,798</u>	<u>388,627</u>	<u>3,566,290</u>	<u>3,374,410</u>
Operating loss including depreciation and amortization	(11,940,788)	(952,353)	(324,496)	(13,217,637)	(11,993,768)
OTHER INCOME (EXPENSE)					
Government operating assistance					
Member municipalities	4,615,554	270,000	-	4,885,554	4,538,252
FTA operating assistance	2,573,271	23,025	-	2,596,296	2,649,285
IDOT operating assistance	789,443	-	-	789,443	753,641
IDOT special projects	4,916	121,329	-	126,245	9,167
FTA grant income	1,083,582	134,881	-	1,218,463	1,153,016
Gain (loss) on disposition of fixed assets	23,251	-	-	23,251	(148,438)
Investment income	157,548	-	-	157,548	69,095
Advertising income	212,347	7,020	-	219,367	236,243
Miscellaneous income	101,806	1,243	4,662	107,711	118,812
Interest expense	(148,983)	-	-	(148,983)	(211,839)
Total other income	<u>9,412,735</u>	<u>557,498</u>	<u>4,662</u>	<u>9,974,895</u>	<u>9,167,234</u>
Net (loss) before capital revenues	\$(2,528,053)	\$ (394,855)	\$ (319,834)	(3,242,742)	(2,826,534)
Capital revenue from federal grants and member municipalities				<u>3,073,514</u>	<u>3,105,507</u>
Increase (decrease) in net assets				(169,228)	278,973
NET ASSETS, beginning				<u>25,934,034</u>	<u>25,655,061</u>
NET ASSETS, ending				<u>\$25,764,806</u>	<u>\$25,934,034</u>

See Notes to Financial Statements.

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations	\$ 5,293,386	\$ 5,001,256
Cash paid to suppliers for goods and services	(7,405,658)	(6,029,214)
Cash paid to employees for services	<u>(7,990,086)</u>	<u>(7,594,384)</u>
Net cash (used in) operating activities	<u>(10,102,358)</u>	<u>(8,622,342)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Municipal support	4,885,554	4,538,252
Other government assistance	5,047,597	4,130,688
Cash received from other sources	<u>327,078</u>	<u>355,055</u>
Net cash provided by noncapital financing activities	<u>10,260,229</u>	<u>9,023,995</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,500,000)	-
Interest received	<u>117,241</u>	<u>69,095</u>
Net cash provided by (used in) investing activities	<u>(1,382,759)</u>	<u>69,095</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal, state and municipal funds received for capital expenditures	3,494,110	2,845,080
Proceeds on disposition of fixed assets	85,418	63,974
Interest paid	(164,397)	(213,522)
Purchase of property and equipment	(805,959)	(3,254,775)
Principal payments on capital lease	<u>(2,629,542)</u>	<u>(299,315)</u>
Net cash (used in) capital and related financing activities	<u>(20,370)</u>	<u>(858,558)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,245,258)	(387,810)
CASH AND CASH EQUIVALENTS		
Beginning	<u>4,434,305</u>	<u>4,822,115</u>
Ending	<u>\$ 3,189,047</u>	<u>\$ 4,434,305</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES		
(Loss) from operations	\$(13,217,637)	\$(11,993,768)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation and amortization	3,566,290	3,374,410
(Increase) in accounts receivable, net of noncapital financing activities	(374,027)	(75,685)
(Increase) in inventories	(91,927)	(21,751)
(Increase) in prepaid expenses	(3,637)	(90,320)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(205,970)	204,044
Increase in accrued and withheld payroll, payroll taxes and benefits	68,769	10,843
Increase in deferred revenue	1,859	9,955
Increase in accrued self insurance claims	175,000	10,000
(Decrease) in post retirement benefits payable	<u>(21,078)</u>	<u>(50,070)</u>
Net cash (used in) operating activities	<u>\$(10,102,358)</u>	<u>\$(8,622,342)</u>

See Notes to Financial Statements.

Des Moines Regional Transit Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority (formerly known as the Des Moines Metropolitan Transit Authority) was formed for the purpose of providing mass transportation for the city of Des Moines, Iowa and surrounding areas 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. Effective July 1, 2006, the Authority agreement has been amended to expand its service area and reorganize from a 28E entity to a 28M entity, which enables it the ability to levy taxes.

Effective July 1, 2006, the Board was replaced with a Commission, comprised of two at-large representatives appointed by Polk County, and one representative from each of seven Regions, comprising of the Cities of Des Moines; West Des Moines; Clive; Urbandale; Windsor Heights; Ankeny; Altoona; Mitchellville; Runnels; Bondurant; Pleasant Hill; Carlisle; Elkhart; Alleman; Sheldahl; Polk City; Granger; Grimes and Johnston. Formerly the Board of Trustees was comprised of three representatives from the City of Des Moines and one representative each from West Des Moines; Clive; Urbandale; Windsor Heights; Ankeny; Altoona; and Polk County.

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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, 2006 and 2005, 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.

Advertising Costs

The Authority expense all advertising costs as they are incurred. Total advertising costs for the year ended June 30, 2006 and 2005 was \$115,842 and \$83,278, respectively.

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

NOTE 2 CASH AND INVESTMENTS

The Authority's deposits in banks at June 30, 2006 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 Commission; 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 City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land	\$ 185,009	\$ —	\$ —	\$ 185,009
Buildings	8,508,989	378,857	7,467	8,880,379
Revenue equipment	26,887,125	64,880	24,190	26,927,815
Fare collection equipment	996,276	—	—	996,276
Service cars and trucks	529,316	102,804	62,417	569,703
Shop and garage equipment	483,228	8,464	21,332	470,360
Furniture and office equipment	353,434	15,271	5,515	363,190
Computer equipment	805,678	56,042	30,047	831,673
Miscellaneous equipment	490,658	—	116,058	374,600
Communication equipment	272,137	17,955	2,629	287,463
Paratransit vehicles	4,414,323	26,197	—	4,440,520
Rideshare vehicles	<u>1,859,552</u>	<u>387,859</u>	<u>321,485</u>	<u>1,925,926</u>
Total at historical cost	45,785,725	1,058,329	591,140	46,252,914
Less accumulated depreciation and amortization	<u>21,849,863</u>	<u>3,566,290</u>	<u>528,973</u>	<u>24,887,180</u>
Net property and equipment	<u>\$23,935,862</u>	<u>\$(2,507,961)</u>	<u>\$ 62,167</u>	<u>\$21,365,734</u>

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Land	\$ 185,009	\$ —	\$ —	\$ 185,009
Buildings	7,782,170	813,464	86,645	8,508,989
Revenue equipment	27,957,586	937,330	2,007,791	26,887,125
Fare collection equipment	994,308	1,968	—	996,276
Service cars and trucks	494,719	114,826	80,229	529,316
Shop and garage equipment	550,321	10,921	78,014	483,228
Furniture and office equipment	358,027	1,452	6,045	353,434
Computer equipment	607,561	210,501	12,384	805,678
Miscellaneous equipment	568,307	7,903	85,552	490,658
Communication equipment	285,580	6,869	20,312	272,137
Paratransit vehicles	4,262,509	732,978	581,164	4,414,323
Rideshare vehicles	<u>1,648,262</u>	<u>458,533</u>	<u>247,243</u>	<u>1,859,552</u>
Total at historical cost	45,694,359	3,296,745	3,205,379	45,785,725
Less accumulated depreciation and amortization	<u>21,468,422</u>	<u>3,374,410</u>	<u>2,992,969</u>	<u>21,849,863</u>
Net property and equipment	<u>\$24,225,937</u>	<u>\$(77,665)</u>	<u>\$ 212,410</u>	<u>\$23,935,862</u>

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

NOTE 3 PROPERTY AND EQUIPMENT (continued)

At June 30, 2006 and 2005, revenue equipment includes transportation vehicles under capital lease with historical cost of \$4,440,004 and accumulated amortization of \$1,276,147 and \$907,696, respectively. Amortization expense for these assets totaled \$368,432 and \$368,452 for the years ended June 30, 2006 and 2005, 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, 2006:

The Authority has entered into an agreement to acquire 16 buses under a capital lease. The related liability under the lease at June 30, 2006 is \$1,010,543. The obligation is due in semiannual installments of \$238,840 through November, 2008. The interest rate at June 30, 2006 was 4.55%.

At June 30, 2006, future minimum lease payments are as follows:

2007	\$ 477,679
2008	477,679
2009	<u>121,019</u>
Total	1,076,377
Less amount representing interest	<u>65,834</u>
	1,010,543
Less current obligations under capital lease	<u>435,987</u>
Capital lease obligations, net of current obligations	<u>\$ 574,556</u>

A summary of changes in capital lease is as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2006</u>
Capital lease	\$ <u>3,640,085</u>	\$ <u>—</u>	\$ <u>2,629,542</u>	\$ <u>1,010,543</u>
	<u>July 1, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2005</u>
Capital lease	\$ <u>3,939,400</u>	\$ <u>—</u>	\$ <u>299,315</u>	\$ <u>3,640,085</u>

Payments were made in excess of current maturities of \$2,316,200 for the year ended June 30, 2006.

NOTE 5 ACCOUNTS RECEIVABLE—FTA

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

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

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, 2006, 2005 and 2004, were \$448,307, \$419,073 and \$401,247, respectively, equal to the required contributions for each year.

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, 2006 and 2005 is \$108,799 and \$129,877, respectively. The Authority's policy is to fund the premiums as they come due. Consequently, the obligation at June 30, 2006 is unfunded. At June 30, 2006 and 2005 there were 12 and 16 retirees receiving benefits, respectively. Benefits paid were \$48,271 and \$61,835 for the years ended June 30, 2006 and 2005, respectively.

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, 2006 and 2005, the Authority had established reserves of \$750,000 and \$575,000, 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Accrued claims at beginning of year	\$ 575,000	\$ 565,000
Claims paid	(275,837)	(455,074)
Amount reserved	<u>450,837</u>	<u>465,074</u>
Accrued claims at end of year	<u>\$ 750,000</u>	<u>\$ 575,000</u>

Des Moines Regional Transit Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 8 RISK MANAGEMENT (continued)

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.

NOTE 9 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the Authority. The statements which will impact the Authority are as follows:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Authority beginning with its year ending June 30, 2008. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Authority beginning with its year ending June 30, 2009. This Statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

The Authority's management has not yet determined the effect these Statements will have on the Authority's financial statements.

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
COMMISSION DESIGNATED NET ASSETS		
For fixed asset purchases		
Fixed route	\$1,904,884	\$1,469,260
Paratransit	436,114	335,800
Rideshare	471,900	464,924
Lease payments	18,871	389,272
Total for fixed asset purchases	<u>2,831,769</u>	<u>2,659,256</u>
Other		
Contributed capital	490,619	481,086
Liability claims	246,400	433,307
Contingency	50,000	50,000
Total other	<u>787,019</u>	<u>964,393</u>
Total commission designated net assets	<u>3,618,788</u>	<u>3,623,649</u>
UNDESIGNATED NET ASSETS		
Fixed route	1,503,643	1,632,538
Paratransit	191,802	277,859
Rideshare	95,382	104,211
Total undesignated net assets	<u>1,790,827</u>	<u>2,014,608</u>
Total unrestricted net assets	<u>\$5,409,615</u>	<u>\$5,638,257</u>
UNRESTRICTED NET ASSETS—fixed route		
Amount received as local assistance	\$4,885,554	\$4,538,252
Prior year funds applied to current year	600,000	500,000
Required local assistance (except paratransit)	(4,511,087)	(3,843,733)
Transferred to ADA funding	(270,000)	(270,000)
Current year balance from operations	<u>704,467</u>	<u>924,519</u>
Balance July 1	1,632,538	1,792,307
Transferred to fixed asset fund	(233,362)	(584,288)
Transferred to current year	(600,000)	(500,000)
Remaining prior year balance	<u>799,176</u>	<u>708,019</u>
Total municipal operating funds remaining	<u>\$1,503,643</u>	<u>\$1,632,538</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Passenger revenue	\$ 2,429,433	\$ 2,072,175
Contracted service	<u>995,212</u>	<u>874,562</u>
Total operating revenues	<u>3,424,645</u>	<u>2,946,737</u>
OPERATING EXPENSES		
Transportation	6,611,170	5,899,702
Maintenance	2,551,299	2,436,396
Insurance	588,569	554,611
General and administration	719,013	663,836
Accounting	367,177	332,414
Planning	397,819	366,182
Personnel	299,279	251,741
Marketing	392,029	294,100
Advertising	74,101	58,651
Building and grounds	611,945	551,027
Paratransit (fixed route administrative charge)	(9,333)	(67,778)
Rideshare (fixed route administrative charge)	<u>(6,500)</u>	<u>(6,500)</u>
Operating expenses except depreciation	<u>12,596,568</u>	<u>11,334,382</u>
Operating loss before depreciation	(9,171,923)	(8,387,645)
DEPRECIATION	<u>2,768,865</u>	<u>2,682,114</u>
Operating loss including depreciation	<u>(11,940,788)</u>	<u>(11,069,759)</u>
OTHER INCOME (EXPENSE)		
Government operating assistance		
Member municipalities	4,615,554	4,268,252
FTA operating assistance	2,573,271	2,611,603
IDOT operating assistance	789,443	753,641
IDOT special projects	4,916	9,167
FTA grant income	1,083,582	1,061,795
Gain (loss) on disposition of fixed assets	23,251	(148,438)
Interest income	157,548	69,095
Advertising income	212,347	228,833
Miscellaneous income	101,806	112,909
Interest expense	<u>(148,983)</u>	<u>(211,839)</u>
Total operating assistance and other income	<u>9,412,735</u>	<u>8,755,018</u>
Net loss after other income	<u>\$ (2,528,053)</u>	<u>\$ (2,314,741)</u>

See Accompanying Independent Auditor's Report.

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

	Year ended June 30	
	2006	2005
OPERATING REVENUES		
Service income		
Polk County	\$ 719,765	\$ 639,646
State	38,861	70,596
LINK	2,850	68,177
Fare paying clients	46,951	43,025
Service income, other	<u>906,356</u>	<u>838,802</u>
Total operating revenues	<u>1,714,783</u>	<u>1,660,246</u>
OPERATING EXPENSES		
Administrative wages	267,051	204,510
Mechanics wages	121,935	101,640
Drivers wages	856,541	765,928
Employee benefits	205,619	197,209
RTA staff assistance	159,706	136,845
Rent	18,000	18,000
Payroll taxes	167,399	146,514
Insurance	60,000	60,000
Fuel and lubricants	297,638	192,338
Maintenance and repairs	174,405	105,978
Printing	89	—
Contracted services, cabs	179,177	166,630
Legal and accounting	6,158	6,522
Data processing	14,800	14,800
Office expenses	3,163	4,512
Credit for interdivision services	(310,338)	(177,678)
Other	<u>36,995</u>	<u>2,290</u>
Total operating expenses	<u>2,258,338</u>	<u>1,946,038</u>
Operating loss before depreciation	(543,555)	(285,792)
DEPRECIATION	<u>408,798</u>	<u>376,198</u>
Operating loss including depreciation	<u>(952,353)</u>	<u>(661,990)</u>
OTHER INCOME		
Government operating assistance		
ADA subsidy	270,000	270,000
IDOT Transportation Fellowship	121,329	—
FTA grant income	134,881	91,221
FTA operating assistance	23,025	37,682
Advertising and other income	<u>8,263</u>	<u>8,254</u>
Total other income	<u>557,498</u>	<u>407,157</u>
Net loss after other income	<u>\$ (394,855)</u>	<u>\$ (254,833)</u>

See Accompanying Independent Auditor's Report.

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

	Year ended June 30	
	2006	2005
OPERATING REVENUES	\$ <u>526,127</u>	\$ <u>460,003</u>
OPERATING EXPENSES		
Wages and benefits	88,286	103,310
Service contracts	3,654	4,259
Travel	508	1,572
Professional fees	4,000	4,228
Office supplies	52	272
Van miscellaneous	2,123	747
Administrative miscellaneous	2,984	2,527
Office rent	6,500	6,500
Promotional events	4,491	2,440
Van phones	9,168	7,336
Insurance	82,475	76,801
Maintenance and repairs	77,554	45,905
Gas and oil	173,367	146,519
Drug screening	9,019	4,767
Van personal use	<u>(2,185)</u>	<u>(1,259)</u>
Total operating expenses	<u>461,996</u>	<u>405,924</u>
Operating income before depreciation	64,131	54,079
DEPRECIATION	<u>388,627</u>	<u>316,098</u>
Operating loss including depreciation	<u>(324,496)</u>	<u>(262,019)</u>
OTHER INCOME	<u>4,662</u>	<u>5,059</u>
Net loss after other income	\$ <u>(319,834)</u>	\$ <u>(256,960)</u>

See Accompanying Independent Auditor's Report.

Des Moines Regional Transit Authority
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Direct		
Department of Transportation/Federal Transit Administration		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	\$3,814,442
Federal Transit Formula Grants	20.507	<u>2,022,578</u>
Total Federal Transit Cluster		5,837,020
Indirect		
Iowa Department of Transportation		
Department of Transportation/Federal Transit Administration		
Federal Transit Cluster		
Federal Transit Formula Grants	20.507	<u>128,630</u>
Total Federal Transit Cluster - indirect		128,630
Federal Transit Job Access - Reverse Commute	20.516	821,261
Federal Transit Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	<u>121,319</u>
Total indirect		<u>1,071,210</u>
Total federal expenditures		<u>\$6,908,230</u>

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Des Moines Regional 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.

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

To the Commission
Des Moines Regional Transit Authority
Des Moines, Iowa

We have audited the financial statements of Des Moines Regional Transit Authority as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. 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 Regional 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 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 Des Moines Regional 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 or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Authority. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Des Moines Regional Transit Authority and other parties to whom the Authority may report, including federal awarding agencies and pass-through entities. This report 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
August 11, 2006

**INDEPENDENT AUDITOR'S 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 Commission
Des Moines Regional Transit Authority
Des Moines, Iowa

Compliance

We have audited the compliance of Des Moines Regional 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, 2006. The Des Moines Regional 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 Regional Transit Authority's management. Our responsibility is to express an opinion of the Des Moines Regional 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 Regional 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 Regional Transit Authority's compliance with those requirements.

In our opinion, the Des Moines Regional 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, 2006.

Internal Control Over Compliance

The management of Des Moines Regional Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Des Moines Regional 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, a public record by law, is intended solely for the information and use of the officials and employees of the Des Moines Regional Transit Authority and other parties to whom the Des Moines Regional Transit Authority may report, including federal awarding agencies and pass-through entities. This report 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
August 11, 2006

Des Moines Regional Transit Authority
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

Part I. Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses 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 material weaknesses in internal controls over major programs were noted.
- (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, 20.507 - Federal Transit Cluster
- (h) The dollar threshold used to distinguish between type A and B programs was \$300,000.
- (i) The Des Moines Regional Transit Authority does qualify as a low-risk auditee.

Part II. Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Reportable Conditions

No matters were noted.

Part III. Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance

No matters were noted.

Reportable Conditions

No material weaknesses in internal control over the major programs were noted.