

Metropolitan Transit Authority of Black Hawk County

Financial Statements

June 30, 2010 and 2009



Metropolitan Transit Authority of Black Hawk County

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INDEPENDENT AUDITORS' 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, 2010 and 2009, as listed in the table of contents. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 the Metropolitan Transit Authority of Black Hawk County as of June 30, 2010 and 2009, 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 explained in Note 4 to the financial statements, the Metropolitan Transit Authority of Black Hawk County changed its method of accounting for post employment benefits.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 audit.

Management's Discussion and Analysis on pages 3 through 8 and the schedule of funding progress on page 19 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.



Waterloo, Iowa
January 28, 2011

Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2010

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 years ended June 30, 2010 and 2009. This analysis is intended to be read in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2010 and 2009, total assets of the Authority exceeded total liabilities by \$6,740,721 and \$6,677,031, respectively. The amount of unrestricted net assets as of June 30, 2010, was \$2,693,615 compared to \$2,232,388 as of June 30, 2009.

Capital contributions from federal, state and local governments were \$423,017 in 2010 and \$814,718 in 2009. Such contributions were used to make improvements to the operating facility and to purchase buses.

During fiscal year 2010, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The result of adopting GASB Statement No. 45 was to increase benefit expenses by \$119,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statements of net assets 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 statements of net assets can be found on page 9.

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 10 of this report.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2010**

The statements of cash flows summarize all of the Authority's cash flows into four categories: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. This statement presents cash receipts and disbursements without consideration of the earning event, when an obligation arises, or depreciation of assets. The statements of cash flows can be found on page 11 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statements of net assets, 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.

FINANCIAL ANALYSIS

Statements of Net Assets - Total assets of the Authority exceeded total liabilities by \$6,740,721 and \$6,677,031 as of June 30, 2010 and 2009, respectively. The largest portion of this excess (60%) in 2010 and (66%) in 2009 was invested in capital assets net of related outstanding debt. 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.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2010**

Condensed Statements of Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$3,047,830	\$2,642,519	\$ 2,243,200
Capital assets	<u>4,047,106</u>	<u>4,451,067</u>	<u>3,838,401</u>
Total Assets	<u>\$7,094,936</u>	<u>\$7,093,586</u>	<u>\$ 6,081,601</u>
Current liabilities	\$ 235,215	\$ 416,555	\$ 233,039
Long-term liabilities	<u>119,000</u>	<u>-</u>	<u>6,424</u>
Total Liabilities	<u>354,215</u>	<u>416,555</u>	<u>239,463</u>
Net assets			
Invested in capital assets, net of related debt	4,047,106	4,444,643	3,825,553
Unrestricted	<u>2,693,615</u>	<u>2,232,388</u>	<u>2,016,585</u>
Total Net Assets	<u>6,740,721</u>	<u>6,677,031</u>	<u>5,842,138</u>
Total Liabilities and Net Assets	<u>\$7,094,936</u>	<u>\$7,093,586</u>	<u>\$ 6,081,601</u>

Total net assets increased \$63,697 (1%) in 2010 primarily due to capital contributions for the purchase of vehicles for regular and paratransit routes. Total net assets increased \$834,893 (14%) in 2009 primarily due to capital contributions for the purchase of seven vehicles for regular routes.

Current assets consist of cash, cash equivalents, short-term investments, receivables, prepaid expenses and inventories. These assets increased by \$405,311 (15%) in 2010, due primarily to increases in receivables, prepaid expenses, cash and cash equivalents, and inventories. These increases were offset partially by a decrease in short-term investments. Current assets increased by \$399,319 (18%) in 2009, due primarily to increases in receivables and prepaid expenses offset partially by decreases in cash, cash equivalents and inventories. Cash and cash equivalents decreased mainly due to an increase in short-term investments.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2010**

Statements of Revenues, Expenses and Changes in Net Assets - The key elements of the changes in net assets are shown in the following table.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues			
Operating revenues:			
Passenger fares	\$ 560,333	\$ 587,773	\$ 481,787
Contract services	<u>182,230</u>	<u>179,092</u>	<u>178,259</u>
Total operating revenues	742,563	766,865	660,046
Investment income	2,767	8,078	37,065
Operating grants	3,447,077	3,423,170	3,305,869
Other nonoperating revenues	<u>124,521</u>	<u>111,559</u>	<u>114,772</u>
Total revenues	<u>4,316,928</u>	<u>4,309,672</u>	<u>4,117,752</u>
Expenses			
Operating expenses:			
Operations and maintenance	3,657,703	3,407,155	3,294,587
General and administrative	339,675	320,516	321,259
Depreciation	<u>678,877</u>	<u>561,826</u>	<u>469,663</u>
Total expenses	<u>4,676,255</u>	<u>4,289,497</u>	<u>4,085,509</u>
Income (loss) before capital contributions	(359,327)	20,175	32,243
Capital contributions, net of transfers	<u>423,017</u>	<u>814,718</u>	<u>851,676</u>
Increase in net assets	63,690	834,893	883,919
Net assets, beginning	<u>6,677,031</u>	<u>5,842,138</u>	<u>4,958,219</u>
Net assets, ending	<u>\$ 6,740,721</u>	<u>\$ 6,677,031</u>	<u>\$ 5,842,138</u>

The decrease in operating revenue of \$24,302 (3%) in 2010 was due primarily to the discontinuation of the UNI Park & Ride program and partially offset by increases in other passenger fares and contracted services. The increase in operating revenues of \$106,819 (16%) in 2009 was due to increases in passenger fares, the number of rides, and contract services.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2010**

Total expenses increased by \$386,758 (9%) in 2010 primarily because of the following increases and decreases: salaries, wages and benefits increased by \$245,353 (9%) because of increases in pay rates, the number of employees and healthcare costs; depreciation expense increased by \$117,044 (21%); and the Authority implemented the provisions of GASB Statement No. 45, resulting in recognition of \$119,000 of postemployment benefit expenses.

Total expenses increased by \$203,988 (5%) in 2009 because of the following increases and decreases: salaries and wages increased by \$247,633 (10%) because of increases in pay rates and the number of employees; operating supplies decreased by \$123,438 (17%) primarily because of lower diesel prices; and depreciation expense increased by \$92,163 (20%).

Capital contributions decreased \$391,701 (48%) in 2010 and \$36,958 (4%) in 2009 primarily due to less federal capital grants provided to purchase capital assets.

The Authority was working with the University of Northern Iowa (UNI) on a multimodal project for the benefit of UNI. A portion of the project costs (development /design, construction and equipment) were being funded by a capital grant with the Authority. For the year ended June 30, 2009, the Authority received capital grants totaling \$817,778, which was transferred to the UNI multimodel project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets - The Authority's investment in capital assets as of June 30, 2010 and 2009, amounted to \$4,047,106 and \$4,451,067 (net of accumulated depreciation), respectively. The total change in investments in capital assets (including additions and disposals, net of depreciation) was a decrease of \$403,961 (9%) for 2010 and an increase of 612,666 (16%) for 2009.

The following table summarizes capital assets net of depreciation:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Buildings and improvements	\$ 1,187,323	\$ 1,241,132	\$ 1,291,702
Equipment	130,230	141,529	191,302
Furniture and fixtures	10,989	14,040	19,057
Rolling stock	<u>2,718,564</u>	<u>3,054,366</u>	<u>2,336,340</u>
 Total	 <u>\$ 4,047,106</u>	 <u>\$ 4,451,067</u>	 <u>\$ 3,838,401</u>

Additional information on the Authority's capital assets can be found in Note 2 on pages 14 and 15.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2010**

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

Statements of Net Assets
As of June 30, 2010 and 2009

	Assets	
	2010	2009
Current Assets		
Cash and cash equivalents	\$ 1,198,431	\$ 1,012,130
Short term investments	-	400,000
Receivables	1,625,444	1,037,208
Prepaid expenses	51,017	47,477
Inventories	172,938	145,704
	<u>3,047,830</u>	<u>2,642,519</u>
Total Current Assets		
Capital Assets, net	<u>4,047,106</u>	<u>4,451,067</u>
Total Assets	<u>\$ 7,094,936</u>	<u>\$ 7,093,586</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ -	\$ 6,424
Accounts payable	60,259	230,214
Accrued expenses	159,404	164,811
Accrued IPERS	15,552	15,106
	<u>235,215</u>	<u>416,555</u>
Total Current Liabilities		
Long-Term Liabilities		
Other postemployment benefits	<u>119,000</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	4,047,106	4,444,643
Unrestricted	2,693,615	2,232,388
	<u>6,740,721</u>	<u>6,677,031</u>
Total Net Assets		
Total Liabilities and Net Assets	<u>\$ 7,094,936</u>	<u>\$ 7,093,586</u>

Metropolitan Transit Authority of Black Hawk County
 Statements of Revenues, Expenses and Changes in Net Assets
 For the years ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Passenger fares	\$ 560,333	\$ 587,773
Contract services	<u>182,230</u>	<u>179,092</u>
Total Operating Revenues	<u>742,563</u>	<u>766,865</u>
Operating Expenses		
Personal services	2,967,153	2,721,800
Operating supplies	594,262	602,001
Utilities	35,522	34,243
Other services and charges	400,441	369,627
Depreciation	<u>678,877</u>	<u>561,826</u>
Total Operating Expenses	<u>4,676,255</u>	<u>4,289,497</u>
Operating Loss	<u>(3,933,692)</u>	<u>(3,522,632)</u>
Nonoperating Revenues		
Interest income	2,767	8,078
Miscellaneous income	124,521	111,559
Operating grants - federal, state and local	<u>3,447,077</u>	<u>3,423,170</u>
Total Nonoperating Revenues	<u>3,574,365</u>	<u>3,542,807</u>
Net Income (Loss) Before Contributions	<u>(359,327)</u>	<u>20,175</u>
Capital Contributions		
Federal, state, local	423,017	1,632,496
Transfers out	<u>-</u>	<u>(817,778)</u>
Total Capital Contributions	<u>423,017</u>	<u>814,718</u>
Change in Net Assets	63,690	834,893
Net Assets, Beginning of Year	<u>6,677,031</u>	<u>5,842,138</u>
Net Assets, End of Year	<u><u>\$ 6,740,721</u></u>	<u><u>\$ 6,677,031</u></u>

Metropolitan Transit Authority of Black Hawk County

Statements of Cash Flows

For the years ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Receipts from customers	\$ 763,594	\$ 762,400
Payments to suppliers	(1,390,532)	(954,496)
Payments to employees	<u>(2,695,642)</u>	<u>(2,559,585)</u>
Net Cash Used In Operating Activities	<u>(3,322,580)</u>	<u>(2,751,681)</u>
Cash Flows from Noncapital Financing Activities		
Operating grants and subsidies	<u>2,962,331</u>	<u>2,681,125</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of property and equipment	(274,928)	(1,174,492)
Principal payments under capital leases and debt	(6,424)	(6,424)
Proceeds from sale of equipment	2,118	1,344
Capital grants	<u>423,017</u>	<u>814,718</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities:	<u>143,783</u>	<u>(364,854)</u>
Cash Flows from Investing Activities		
Interest	2,767	8,078
Purchase of short-term investments	-	(400,000)
Proceeds from sale of short-term investments	<u>400,000</u>	<u>-</u>
Net Cash Provided by (Used in) Investing Activities	<u>402,767</u>	<u>(391,922)</u>
Net Increase (Decrease) in Cash and Cash Equivalents:	186,301	(827,332)
Cash and Cash Equivalents at Beginning of Year	<u>1,012,130</u>	<u>1,839,462</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,198,431</u>	<u>\$ 1,012,130</u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating Loss	\$ (3,933,692)	\$ (3,522,632)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities		
Depreciation	678,877	561,826
Gain on sale of equipment	(2,105)	(1,344)
Changes in:		
Receivables	21,031	(4,464)
Other assets	(3,540)	(10,217)
Inventories	(27,234)	41,634
Accounts payable and accrued liabilities	<u>(55,917)</u>	<u>183,516</u>
Net Cash Used in Operating Activities	<u>\$ (3,322,580)</u>	<u>\$ (2,751,681)</u>

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.

BASIS OF PRESENTATION AND 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.

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

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 an original maturity of three months or less to be cash equivalents.

SHORT-TERM INVESTMENTS

Short-term investments are recorded at cost plus accrued interest, which approximates market. Short-term investments consist of certificates of deposit.

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 represent assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Depreciation is computed under the straight-line method over the economic useful lives of the assets. Estimated lives of capital assets are as follows:

Buildings and improvements	15 to 33 years
Equipment	5 to 10 years
Furniture and fixtures	5 to 10 years
Rolling stock	4 to 10 years

DEPOSITS

All deposits and short-term investments are held in a single financial institution. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2010 and 2009, the Authority was exposed to custodial credit risk as follows:

	2010	2009
Insured	\$ 250,000	\$ 250,000
Uninsured and uncollateralized	<u>948,431</u>	<u>1,162,130</u>
	<u>\$1,198,431</u>	<u>\$1,412,130</u>

CAPITAL CONTRIBUTIONS

Capital grants received for the acquisition and construction of capital assets are recorded as capital contributions.

COMPENSATED ABSENCES

Accumulated unpaid vacation and sick pay are accrued when incurred. As of June 30, 2010 and 2009, the Authority had accrued \$87,950 and \$79,579, respectively, for unpaid vacation and sick pay.

Metropolitan Transit Authority Of Black Hawk County

Notes to the Financial Statements

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

BOARD DESIGNATED NET ASSETS

\$1,480,000 and \$845,000 of the Authority's unrestricted net assets have been designated for cash flow reserves and capital replacement, respectively, by the Authority's board of trustees. Designated funds remain under control of the board of trustees, which may at its discretion later use the funds for other purposes.

IMPLEMENTATION OF NEW GASB STANDARD

During the year ended June 30, 2010, the Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. See Note 4.

NOTE 2 - CAPITAL ASSETS:

The following summarizes the Authority's capital assets and changes for the years ended June 30, 2010 and 2009.

	Balance June 30, 2009	Additions	Dispositions	Balance June 30, 2010
Cost:				
Buildings and improvements	\$ 2,830,642	\$ 17,670	\$ -	\$ 2,848,312
Equipment	663,122	29,225	30,799	661,548
Furniture and fixtures	65,084	-	7,423	57,661
Rolling stock	<u>6,591,461</u>	<u>228,033</u>	<u>943,683</u>	<u>5,875,811</u>
	<u>10,150,309</u>	<u>274,928</u>	<u>981,905</u>	<u>9,443,332</u>
Accumulated depreciation:				
Buildings and improvements	1,589,510	71,479	-	1,660,989
Equipment	521,593	40,505	30,780	531,318
Furniture and fixtures	51,044	3,051	7,423	46,672
Rolling stock	<u>3,537,095</u>	<u>563,835</u>	<u>943,683</u>	<u>3,157,247</u>
	<u>5,699,242</u>	<u>678,870</u>	<u>981,886</u>	<u>5,396,226</u>
Total Capital Assets, net	<u>\$ 4,451,067</u>	<u>\$ (403,942)</u>	<u>\$ (19)</u>	<u>\$ 4,047,106</u>

Metropolitan Transit Authority Of Black Hawk County
Notes to the Financial Statements

NOTE 2 - CAPITAL ASSETS (Cont'd.):

	Balance June 30, 2008	Additions	Dispositions	Balance June 30, 2009
Cost:				
Buildings and improvements	\$ 2,810,912	\$ 19,730	\$ -	\$ 2,830,642
Equipment	661,300	7,781	5,959	663,122
Furniture and fixtures	67,464	-	2,380	65,084
Rolling stock	<u>5,772,507</u>	<u>1,146,981</u>	<u>328,027</u>	<u>6,591,461</u>
	<u>9,312,183</u>	<u>1,174,492</u>	<u>336,366</u>	<u>10,150,309</u>
Accumulated depreciation:				
Buildings and improvements	1,519,210	70,300	-	1,589,510
Equipment	469,998	57,554	5,959	521,593
Furniture and fixtures	48,407	5,017	2,380	51,044
Rolling stock	<u>3,436,167</u>	<u>428,955</u>	<u>328,027</u>	<u>3,537,095</u>
	<u>5,473,782</u>	<u>561,826</u>	<u>336,366</u>	<u>5,699,242</u>
Total Capital Assets, net	<u>\$ 3,838,401</u>	<u>\$ 612,666</u>	<u>\$ -</u>	<u>\$ 4,451,067</u>

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, or via the IPERS website, www.ipers.org.

Plan members are required to contribute 4.30% (4.10% as of June 30, 2009) of their annual covered salary and the Authority is required to contribute 6.65% (6.35% as of June 30, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Authority's required contributions to IPERS for the years ended June 30, 2010 and 2009, were \$126,780 and \$118,570, respectively.

Metropolitan Transit Authority Of Black Hawk County

Notes to the Financial Statements

NOTE 4 – OTHER POSTEMPLOYMENT BENEFITS (OPEB):

The Authority operates a single-employer retiree benefit plan which provides the following benefits:

- A death benefit to normal and early retirees based on years of service at retirement. Benefit amounts range from \$0 to \$4,000, and
- Health coverage for early retirees who have reached age 60 with 10 years of service, or have 35 years of service at any age. The early retiree's contribution is the same as an active employee. Upon reaching age 65, the Authority provides a medicare supplemental policy to eligible retirees. The retiree pays 20% of the single premium cost.

Benefit provisions and contribution rates are established through negotiations between the Authority and the union representing the employees of the Authority, and are renegotiated each three-year bargaining period. The Authority is on a pay-as-you-go funding of the benefits. For the year ended June 30, 2010, contributions under the plan were \$41,000. The plan does not issue a stand-alone financial report.

The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Authority. The ARC and related information is being calculated using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation:

Annual required contribution	\$ 160,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	155,000
Contributions made	<u>(41,000)</u>
Increase in net OPEB obligation	119,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 119,000</u>

Metropolitan Transit Authority Of Black Hawk County

Notes to the Financial Statements

NOTE 4 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Cont'd.):

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 160,000	25.62%	\$ 119,000

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1,511,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,511,000. The covered payroll (annual payroll of active employees covered by the plan) was \$1,925,285 and the ratio of the UAAL to covered payroll was 53.1%. As of June 30, 2010, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the notes to the financial statements, presents only the initial year trend information as 2010 is the transition year.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the projected unit credit method was used. The actuarial assumptions include a 4.5% discount rate, a projected annual medical trend rate of 11% and an ultimate medical trend rate of 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Metropolitan Transit Authority Of Black Hawk County

Notes to the Financial Statements

NOTE 5 - 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 6 - 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 two fiscal years.

NOTE 7 - 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.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 28, 2011, the date which the financial statements were available for issue.

Metropolitan Transit Authority of Black Hawk County

Required Supplementary Information

June 30, 2010

Schedule of Funding Progress
Other Postemployment Benefits

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over funded) AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
2010	7/1/09	\$ -	\$ 1,511,000	\$ 1,511,000	- %	\$ 1,925,285	53.1%

Note: Fiscal year 2010 is the transition year for GASB Statement No. 45

Metropolitan Transit Authority of Black Hawk County

Single Audit Reports

Year Ended June 30, 2010



Metropolitan Transit Authority of Black Hawk County

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**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 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 (the Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 28, 2011. 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We

did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

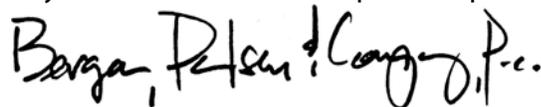
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 28, 2011.

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

This report is intended solely for the information and use of management, the board of trustees, others within the Authority, 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.



Waterloo, Iowa
January 28, 2011

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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 (the 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, 2010. The 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 referred to above is the responsibility of the Authority's management. Our responsibility is to express an opinion on the 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 identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about the 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 of the Authority's compliance with those requirements.

In our opinion, the Metropolitan Transit Authority of Black Hawk County complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

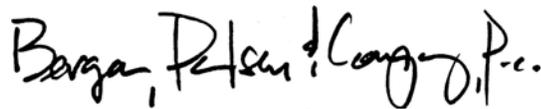
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated January 28, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 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.

This report is intended solely for the information and use of management, the board of trustees, others within the Authority, 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.



Waterloo, Iowa
January 28, 2011

Metropolitan Transit Authority of Black Hawk County

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grant/ Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Formula Grants:			
Operating Assistance	20.507	IA-90-X-360-0	\$ 1,478,602
Capital Investment Grants:			
Preventative Maintenance	20.500	IA-03-0108-00	8,000
Bus and Related Facilities	20.500	IA-03-0100-00	5,970
Passed through the Iowa Department of Transportation:			
Bus and Related Facilities	20.500	IA-04-0113-815-08	283,267
Transportation fo Elderly Persons and Persons with Disabilities	20.513	IA-16-X001-815-08/10	61,871
Job Access-Reverse Commute	20.516	IA-37-X000-815-10	78,103
			<u>\$ 1,915,813</u>

Basis of Presentation

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.

Metropolitan Transit Authority of Black Hawk County
Schedule of Findings and Questioned Costs
For the year ended June 30, 2010

Part I: Summary of Independent Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Metropolitan Transit Authority of Black Hawk County.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The significant deficiency is not considered a material weakness.
3. No instances of noncompliance material to the financial statements of the Metropolitan Transit Authority of Black Hawk County, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The audit did not disclose any significant deficiencies in internal control over the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Metropolitan Transit Authority of Black Hawk County expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a).
7. The major programs tested are CFDA Number 20.507 – Federal Transit Formula Grants, and CFDA Number 20.500 – Federal Transit Capital Investment 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 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

09-II-1

Condition – The Board of Trustees and management share the ultimate responsibility for the Authority's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control should not be outsourced. The Authority engages Bergan Paulsen to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, Bergan Paulsen cannot be considered part of the Authority's internal control system. To establish proper internal control over the preparation of its financial statements, including disclosures, the Authority would have to design and implement a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures would be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Authority's activities and operations.

Authority's Response - The Authority has determined that it would not be cost effective to implement procedures to perform a review of the Authority's financial statements and related disclosures to provide a high level of assurance that any potential material omissions or other errors would be identified and corrected. However, the Authority believes that there is a low risk that potential material omissions or other errors will go undetected.

Part III: Findings and Questioned Costs for Federal Awards

The audit did not disclose audit findings which are required to be reported in accordance with OMB Circular A-133.

Part IV: Status of Prior Year Findings

For the year ended June 30, 2009, there were no findings and questioned costs.

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January 28, 2011

Metropolitan Transit Authority
of Black Hawk County
1515 Black Hawk Street
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In planning and performing our audit of the financial statements of the Metropolitan Transit Authority of Black Hawk County (the Authority) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we noted certain matters involving the internal control and operational matters that are presented for your consideration. This letter does not affect our report dated January 28, 2011, on the financial statements of the Metropolitan Transit Authority of Black Hawk County. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Metropolitan Transit Authority
of Black Hawk County
January 28, 2011
Page 2

1. We recommend that controls be put in place to add and delete vendors from the master list. Currently, anyone with access to Peachtree has the ability to update the listing. In addition, we recommend that all employees be removed from the vendor listing as it is no longer used for the cafeteria plan pay-out, and inactive vendors should be removed as well.
2. We recommend that the inventory general ledger accounts be adjusted to the extended physical inventory balance, based on the physical inventories taken twice a year.
3. We recommend the Authority implement a whistle-blower policy and a document retention and destruction policy.
4. We recommend that officers, board members and key employees sign an annual conflict of interest statement. In addition, we recommend that a "Declaration of Conflicts of Interest" agenda item be added to the board meeting agenda.
5. We recommend that the Procurement and Procedures Manual be updated to include all federally required procurement clauses as outlined in FTA Circular 4220.1F, Appendix D.

Sincerely,

BERGAN PAULSEN & COMPANY, P.C.



David A. Richter, CPA
Shareholder

DAR:jf

Enclosure