

Metropolitan Transit Authority of Black Hawk County

Financial Statements

June 30, 2011 and 2010



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

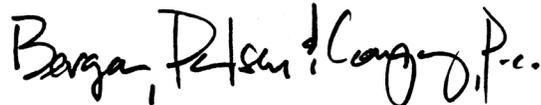
We have audited the accompanying financial statements of the Metropolitan Transit Authority of Black Hawk County (the Authority) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our 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 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 the 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress on pages 3 through 8 and on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Waterloo, Iowa
November 30, 2011

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2011 and 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, 2011 and 2010. This analysis is intended to be read in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2011 and 2010, total assets of the Authority exceeded total liabilities by \$7,705,749 and \$6,740,721, respectively. The amount of unrestricted net assets as of June 30, 2011, was \$2,578,576 compared to \$2,693,615 as of June 30, 2010.

Capital contributions from federal, state and local governments were \$1,713,115 in 2011 and \$423,017 in 2010. Such contributions were used to make improvements to the operating facility and to purchase buses.

The Authority adheres to 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 GASB Statement No. 45 was to increase benefit expenses by \$129,355 in 2011 and \$119,000 in 2010.

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, 2011 and 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 \$7,705,749 and \$6,740,721 as of June 30, 2011 and 2010, respectively. The largest portion of this excess (67%) in 2011 and (60%) in 2010 was invested in capital assets. 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, 2011 and 2010**

Condensed Statements of Net Assets

| | 2011 | 2010 | 2009 |
|---|--------------------|--------------------|--------------------|
| Current assets | \$3,060,976 | \$3,047,830 | \$2,642,519 |
| Capital assets | <u>5,127,173</u> | <u>4,047,106</u> | <u>4,451,067</u> |
| Total Assets | <u>\$8,188,149</u> | <u>\$7,094,936</u> | <u>\$7,093,586</u> |
| Current liabilities | \$ 234,045 | \$ 235,215 | \$ 416,555 |
| Long-term liabilities | <u>248,355</u> | <u>119,000</u> | <u>-</u> |
| Total Liabilities | <u>482,400</u> | <u>354,215</u> | <u>416,555</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 5,127,173 | 4,047,106 | 4,444,643 |
| Unrestricted | <u>2,578,576</u> | <u>2,693,615</u> | <u>2,232,388</u> |
| Total Net Assets | <u>7,705,749</u> | <u>6,740,721</u> | <u>6,677,031</u> |
| Total Liabilities and Net Assets | <u>\$8,188,149</u> | <u>\$7,094,936</u> | <u>\$7,093,586</u> |

Total net assets increased \$965,028 (14%) in 2011 primarily due to capital contributions for the purchase of five vehicles for regular routes. Total net assets increased \$63,690 (1%) in 2010 primarily due to capital contributions for the purchase of vehicles for regular and paratransit routes.

Current assets consist of cash, receivables, prepaid expenses and inventories. These assets increased by \$13,146 (.4%) in 2011 and \$405,311 (15%) in 2010. The increase in 2010 is due primarily to an increase in receivables related to the timing of the receipt of operating assistance.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2011 and 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>2011</u> | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|--------------------|
| Revenues | | | |
| Operating revenues: | | | |
| Passenger fares | \$ 514,704 | \$ 560,333 | \$ 587,773 |
| Contract services | <u>210,088</u> | <u>182,230</u> | <u>179,092</u> |
| Total operating revenues | 724,792 | 742,563 | 766,865 |
| Investment income | 10 | 2,767 | 8,078 |
| Operating grants | 3,626,079 | 3,520,481 | 3,423,170 |
| Other nonoperating revenues | <u>7,705</u> | <u>51,117</u> | <u>111,559</u> |
| Total revenues | <u>4,358,586</u> | <u>4,316,928</u> | <u>4,309,672</u> |
| Expenses | | | |
| Operating expenses: | | | |
| Operations and maintenance | 3,979,998 | 3,657,703 | 3,407,155 |
| General and administrative | 323,536 | 339,675 | 320,516 |
| Depreciation | <u>803,139</u> | <u>678,877</u> | <u>561,826</u> |
| Total expenses | <u>5,106,673</u> | <u>4,676,255</u> | <u>4,289,497</u> |
| Income (loss) before capital contributions | (748,087) | (359,327) | 20,175 |
| Capital contributions, net of transfers | <u>1,713,115</u> | <u>423,017</u> | <u>814,718</u> |
| Increase in net assets | 965,028 | 63,690 | 834,893 |
| Net assets, beginning | <u>6,740,721</u> | <u>6,677,031</u> | <u>5,842,138</u> |
| Net assets, ending | <u>\$ 7,705,749</u> | <u>\$ 6,740,721</u> | <u>\$6,677,031</u> |

The decrease in operating revenue of \$17,771 (2%) in 2011 was due primarily to the decrease in the number of riders on fixed routes and partially offset by increases in contract services. 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.

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2011 and 2010**

Total expenses increased by \$430,418 (9%) in 2011 primarily because of the following increases and decreases: salaries, wages and benefits increased by \$111,385 (4%) because of increases in pay rates, healthcare costs, and the recognition of \$129,355 of postemployment benefits as a result of GASB Statement No. 45; operating supplies increased by \$165,330 (28%) primarily due to increases in diesel prices, outside maintenance and purchases of bus parts; other services and charges increased by \$29,617 (7%) primarily due to increased insurance costs; and depreciation expense increased by \$124,262 (18%).

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, healthcare costs and the Authorities implementation of provisions of GASB Statement No. 45, resulting in recognition of \$119,000 of postemployment benefit expenses; and depreciation expense increased by \$117,044 (21%).

Capital contributions increased \$1,290,098 in 2011 and decreased \$391,701 in 2010. The primary reason for the change is due to federal capital grants available for capital projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets - The Authority's investment in capital assets as of June 30, 2011 and 2010, amounted to \$5,127,173 and \$4,047,106 (net of accumulated depreciation), respectively. The total change in investments in capital assets (including additions and disposals, net of depreciation) was an increase of \$1,080,067 (27%) for 2011 and a decrease of 403,961 (9%) for 2010.

The following table summarizes capital assets net of depreciation:

| | 2011 | 2010 | 2009 |
|----------------------------|--------------------|---------------------|---------------------|
| Buildings and improvements | \$1,115,160 | \$ 1,187,323 | \$ 1,241,132 |
| Equipment | 221,458 | 130,230 | 141,529 |
| Furniture and fixtures | 8,252 | 10,989 | 14,040 |
| Rolling stock | <u>3,782,303</u> | <u>2,718,564</u> | <u>3,054,366</u> |
| Total | <u>\$5,127,173</u> | <u>\$ 4,047,106</u> | <u>\$ 4,451,067</u> |

**Metropolitan Transit Authority of Black Hawk County
Management's Discussion and Analysis
June 30, 2011 and 2010**

As of June 30, 2011, the Authority had commitments of approximately \$1,080,000 for acquisition of rolling stock, which will be received in fiscal year 2012.

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

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, 2011 and 2010

| | Assets | |
|---|-----------------------------------|---------------------|
| | 2011 | 2010 |
| Current Assets | | |
| Cash | \$ 1,797,869 | \$ 1,198,431 |
| Receivables | 1,036,432 | 1,625,444 |
| Prepaid expenses | 46,023 | 51,017 |
| Inventories | 180,652 | 172,938 |
| | <u>3,060,976</u> | <u>3,047,830</u> |
| Total Current Assets | | |
| Capital Assets, net | <u>5,127,173</u> | <u>4,047,106</u> |
| Total Assets | <u>\$ 8,188,149</u> | <u>\$ 7,094,936</u> |
| | Liabilities and Net Assets | |
| Current Liabilities | | |
| Accounts payable | \$ 51,997 | \$ 60,259 |
| Accrued expenses | 164,872 | 159,404 |
| Accrued IPERS | 17,176 | 15,552 |
| | <u>234,045</u> | <u>235,215</u> |
| Total Current Liabilities | | |
| Long-Term Liabilities | | |
| Other postemployment benefits | <u>248,355</u> | <u>119,000</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 5,127,173 | 4,047,106 |
| Unrestricted | <u>2,578,576</u> | <u>2,693,615</u> |
| Total Net Assets | <u>7,705,749</u> | <u>6,740,721</u> |
| Total Liabilities and Net Assets | <u>\$ 8,188,149</u> | <u>\$ 7,094,936</u> |

Metropolitan Transit Authority of Black Hawk County
 Statements of Revenues, Expenses and Changes in Net Assets
 For the years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|----------------------------|----------------------------|
| Operating Revenues | | |
| Passenger fares | \$ 514,704 | \$ 560,333 |
| Contract services | <u>210,088</u> | <u>182,230</u> |
| Total Operating Revenues | <u>724,792</u> | <u>742,563</u> |
| Operating Expenses | | |
| Personal services | 3,078,538 | 2,967,153 |
| Operating supplies | 759,592 | 594,262 |
| Utilities | 35,346 | 35,522 |
| Other services and charges | 430,058 | 400,441 |
| Depreciation | <u>803,139</u> | <u>678,877</u> |
| Total Operating Expenses | <u>5,106,673</u> | <u>4,676,255</u> |
| Operating Loss | <u>(4,381,881)</u> | <u>(3,933,692)</u> |
| Nonoperating Revenues | | |
| Miscellaneous income | 7,715 | 53,884 |
| Operating grants - federal, state and local | <u>3,626,079</u> | <u>3,520,481</u> |
| Total Nonoperating Revenues | <u>3,633,794</u> | <u>3,574,365</u> |
| Net Loss Before Contributions | (748,087) | (359,327) |
| Capital Contributions | | |
| Federal, state, local | <u>1,713,115</u> | <u>423,017</u> |
| Change in Net Assets | 965,028 | 63,690 |
| Net Assets, Beginning of Year | <u>6,740,721</u> | <u>6,677,031</u> |
| Net Assets, End of Year | <u><u>\$ 7,705,749</u></u> | <u><u>\$ 6,740,721</u></u> |

Metropolitan Transit Authority of Black Hawk County

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 699,132 | \$ 763,594 |
| Payments to suppliers | (1,358,164) | (1,390,532) |
| Payments to employees | <u>(2,783,515)</u> | <u>(2,695,642)</u> |
| Net Cash Used In Operating Activities | <u>(3,442,547)</u> | <u>(3,322,580)</u> |
| Cash Flows From Noncapital Financing Activities: | | |
| Operating grants and subsidies | <u>4,248,456</u> | <u>2,962,331</u> |
| Cash Flows From Capital and Related Financing Activities: | | |
| Purchases of property and equipment | (1,943,956) | (274,928) |
| Principal payments under capital leases and debt | - | (6,424) |
| Proceeds from sale of equipment | 24,360 | 2,118 |
| Capital grants | <u>1,713,115</u> | <u>423,017</u> |
| Net Cash Provided by (Used in) Capital and Related Financing Activities: | <u>(206,481)</u> | <u>143,783</u> |
| Cash Flows From Investing Activities | | |
| Interest | 10 | 2,767 |
| Proceeds from sale of short-term investments | <u>-</u> | <u>400,000</u> |
| Net Cash Provided by Investing Activities | <u>10</u> | <u>402,767</u> |
| Net Increase in Cash | 599,438 | 186,301 |
| Cash at Beginning of Year | <u>1,198,431</u> | <u>1,012,130</u> |
| Cash at End of Year | <u>\$ 1,797,869</u> | <u>\$ 1,198,431</u> |
| Reconciliation of Operating Loss to Net Cash Used In Operating Activities: | | |
| Operating loss | \$ (4,381,881) | \$ (3,933,692) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | |
| Depreciation | 803,139 | 678,877 |
| (Gain) loss on sale of equipment | 36,390 | (2,105) |
| Changes in: | | |
| Receivables | (25,660) | 21,031 |
| Other assets | 4,994 | (3,540) |
| Inventories | (7,714) | (27,234) |
| Accounts payable and accrued liabilities | <u>128,185</u> | <u>(55,917)</u> |
| Net Cash Used in Operating Activities | <u>\$ (3,442,547)</u> | <u>\$ (3,322,580)</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 basic financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments within the United States of America.

In accordance with GAAP, the Authority's operations are accounted for as a business-type activity. In this regard, the Authority follows the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when they are earned, and expenses are recorded when they are incurred, irrespective of when paid.

Under GAAP, the Authority has the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Authority has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

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.

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.

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 |

CASH AND INVESTMENTS

The Authority's deposits, which are held in a single financial institution, 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.

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, 2011 and 2010, the Authority had accrued \$83,643 and \$87,950, 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

\$1,200,000 and \$156,000 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, 2011 and 2010.

| | Balance June 30, 2010 | Additions | Dispositions | Balance June 30, 2011 |
|----------------------------|--------------------------|---------------------|------------------|--------------------------|
| Cost: | | | | |
| Buildings and improvements | \$ 2,848,312 | \$ - | \$ - | \$ 2,848,312 |
| Equipment | 661,548 | 137,241 | 44,719 | 754,070 |
| Furniture and fixtures | 57,661 | - | - | 57,661 |
| Rolling stock | <u>5,939,934</u> | <u>1,806,715</u> | <u>450,583</u> | <u>7,296,066</u> |
| | <u>9,507,455</u> | <u>1,943,956</u> | <u>495,302</u> | <u>10,956,109</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 1,660,989 | 72,163 | - | 1,733,152 |
| Equipment | 531,318 | 46,013 | 44,719 | 532,612 |
| Furniture and fixtures | 46,672 | 2,737 | - | 49,409 |
| Rolling stock | <u>3,221,370</u> | <u>682,226</u> | <u>389,833</u> | <u>3,513,763</u> |
| | <u>5,460,349</u> | <u>803,139</u> | <u>434,552</u> | <u>5,828,936</u> |
| Total Capital Assets, net | <u>\$ 4,047,106</u> | <u>\$ 1,140,817</u> | <u>\$ 60,750</u> | <u>\$ 5,127,173</u> |

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

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

| | 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>879,560</u> | <u>5,939,934</u> |
| | <u>10,150,309</u> | <u>274,928</u> | <u>917,782</u> | <u>9,507,455</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>563,842</u> | <u>879,567</u> | <u>3,221,370</u> |
| | <u>5,699,242</u> | <u>678,877</u> | <u>917,770</u> | <u>5,460,349</u> |
| Total Capital Assets, net | <u>\$ 4,451,067</u> | <u>\$(403,949)</u> | <u>\$ 12</u> | <u>\$ 4,047,106</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 4.50% (4.30% as of June 30, 2010) of their annual covered salary and the Authority is required to contribute 6.95% (6.65% as of June 30, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Authority's required contributions to IPERS for the years ended June 30, 2011 and 2010, were \$136,501 and \$126,780, 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 years ended June 30, 2011 and 2010, contributions under the plan were \$36,000 and \$41,000, respectively. 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, 2011, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation:

| | |
|--|-------------------|
| Annual required contribution | \$ 165,648 |
| Interest on net OPEB obligation | 5,355 |
| Adjustment to annual required contribution | <u>(5,648)</u> |
| Annual OPEB cost | 165,355 |
| Contributions made | <u>(36,000)</u> |
| Increase in net OPEB obligation | 129,355 |
| Net OPEB obligation beginning of year | <u>119,000</u> |
| Net OPEB obligation end of year | <u>\$ 248,355</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, 2011 and 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 |
| June 30, 2011 | \$ 165,355 | 21.77% | \$ 248,355 |

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 results of the July 1, 2009 valuation were rolled forward to June 30, 2011. 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 as of June 30, 2009. 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 78%. As of June 30, 2011, 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

As of June 30, 2011, the Authority had commitments of approximately \$1,080,000 for acquisition of rolling stock, which will be received in fiscal year 2012.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2011, the date which the financial statements were available for issue.

Metropolitan Transit Authority of Black Hawk County

Required Supplementary Information

June 30, 2011

Schedule of Funding Progress
Other Postemployment Benefits

| 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 |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| 7/1/09 | \$ - | \$ 1,511,000 | \$ 1,511,000 | - % | \$ 1,925,285 | 78.48% |

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, 2011



Metropolitan Transit Authority of Black Hawk County

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| Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 3 - 5 |
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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

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, 2011, and have issued our report thereon dated November 30, 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 exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 item 2011-II-1, 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.

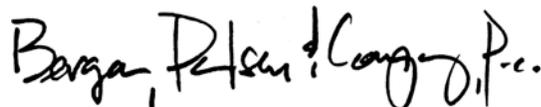
Compliance and Other Matters

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 November 30, 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
November 30, 2011

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

To the Board of Trustees
Metropolitan Transit Authority of Black Hawk County

Compliance

We have audited the Metropolitan Transit Authority of Black Hawk County's (the Authority) compliance with the types of requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2011. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the 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 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 could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

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

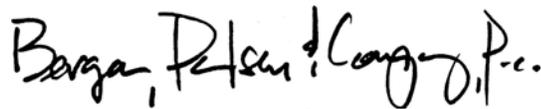
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2011, and have issued our report thereon dated November 30, 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
November 30, 2011

Metropolitan Transit Authority of Black Hawk County

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2011

| <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-X369-01 | \$ 1,480,415 |
| Passed through the Iowa Department of Transportation: | | | |
| ARRA Non-Urbanized Capital Assistance Project | 20.507 | 96-0001-815-09 | 1,642,414 |
| New Freedom Capital Assistance Project | 20.521 | 57-X001-815-11 | 17,203 |
| Capital Assistance | 20.500 | 04-0113-815-10 | 32,000 |
| Transportation for Elderly Persons and Persons with Disabilities | 20.513 | 16-X001-815-10 | 10,428 |
| Job Access-Reverse Commute | 20.516 | 37-X000-815-10 | 40,125 |
| Job Access-Reverse Commute | 20.516 | 37-X017-815-11 | 119,101 |
| | | | <u>\$ 3,341,686</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, 2011

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 were disclosed during the audit.
4. The audit did not disclose any significant deficiencies in internal control over the major federal award program.
5. The auditors' report on compliance for the major federal award program for the Metropolitan Transit Authority of Black Hawk County expresses an unqualified opinion on the major federal program.
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 program tested is CFDA Number 20.507 – Federal Transit Formula Grants.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The Metropolitan Transit Authority of Black Hawk County qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

11-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, 2010, there were no findings and questioned costs.

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November 30, 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, 2011, 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.

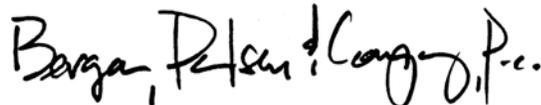
Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant 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 November 30, 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
November 30, 2011
Page 2

1. 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.
2. 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.
3. 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