Des Moines Area Regional Transit Authority
Des Moines, Iowa

FINANCIAL REPORT

June 30, 2012

C O N T E N T S

Des Moines Area Regional Transit Authority
OFFICIALS

Name and Title	Representing
COMMISSION	
Steve Van Oort, Chair	Region 7 - Ankeny, Des Moines, Polk City, Sheldahl
Steve Brody, Vice Chair	Region 2 - West Des Moines, Windsor Heights, Clive
Skip Conkling, Member	Region 1 - Altoona, Bondurant, Carlisle, Des Moines, Elkhart, Mitchellville, Runnells
Christine Hensley, Member	Region 3 - Des Moines
Tom Gayman, Member	Region 4 - Granger, Grimes, Johnston, Urbandale
Bob Mahaffey, Secretary/Treasurer	Region 5 - Des Moines, Pleasant Hill
Vacant	Region 6 - Des Moines
Angela Connolly, Member	At-Large
Gaye Johnson, Member	At-Large
AUTHORITY	
Elizabeth Presutti, General Manager	

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Des Moines Area Regional Transit Authority as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Des Moines Area Regional Transit Authority as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013, on our consideration of the Des Moines Area Regional Transit Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11, budgetary comparison information on pages 28-29 and the schedule of funding progress for the retiree health plan on page 30 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

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Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information as listed on pages 31-36 on the contents page, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 26, 2013

This section of the Des Moines Area Regional Transit Authority's (DART) annual financial report provides an overview of financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Independent Auditor's Report on pages 4-5 and DART's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Total assets increased $19,578,405 for the twelve month period ending June 30, 2012.
  - Net additions to capital assets net of accumulated depreciation totaled $14,354,040. Major purchases are outlined on page 20, in Note 3 Capital Assets, which include revenue vehicles for On Call and Rideshare and land and buildings related to the completion of the bus storage facility.
  - Total capital assets includes Construction in Progress of $17,665,473 for the following projects: Transit Hub and Automatic Vehicle Locators (AVL).
  - Current assets increased.

▪ Cash and cash equivalents increased	$2,806,304
▪ Trade accounts receivable increased	$ 120,880
▪ Federal grant receivables decreased	$ (569,992)
▪ Property tax receivables increased	$2,944,039
▪ Inventories increased	$ 46,189
▪ Prepaid expenses decreased	$ (112,220)

- Total liabilities increased $3,650,652 for the twelve month period ending June 30, 2012.
  - Current liabilities increased $4,271,323, which includes an increase in accounts payable and construction contracts payable and a decrease in the reserve for self insurance claims resulting from the settlement of various claims during FY2012.
  - Current liabilities increased.

▪ Accounts payable increased	$ 774,732
▪ Construction contracts payable increased	$1,786,178
▪ Deferred property taxes increased	$2,968,552
▪ Reserves for self insurance claims decreased	$ (897,000)

  - Long-term liabilities decreased $620,671 due to payments on capital leases and general obligation bonds payable.
- Total net assets increased by $15,927,753 due to the increase in total capital assets, net, the decrease in capital lease obligations, and total revenues, including revenue from federal grants and member municipalities, exceeding total expenses in FY 2012.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

A summary of net assets is presented below:

Table 1
Des Moines Area Regional Transit Authority
Net Assets
June 30

	2012	2011	2010
CURRENT AND OTHER ASSETS	$21,705,444	$16,481,079	$16,671,929
CAPITAL ASSETS, NET OF DEPRECIATION	43,958,156	29,604,116	29,529,881
TOTAL ASSETS	**$65,663,600**	**$46,085,195**	**$46,201,810**
CURRENT LIABILITIES	$15,161,172	$10,889,849	$11,843,109
LONG-TERM LIABILITIES	2,956,950	3,577,621	4,085,352
TOTAL LIABILITIES	**18,118,122**	**14,467,470**	**15,928,461**
INVESTED IN CAPITAL ASSETS*	43,462,531	28,817,786	28,463,754
UNRESTRICTED NET ASSETS	4,082,947	2,799,939	1,809,595
TOTAL NET ASSETS	**47,545,478**	**31,617,725**	**30,273,349**
TOTAL LIABILITIES AND NET ASSETS	**$65,663,600**	**$46,085,195**	**$46,201,810**

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

Table 2
Des Moines Area Regional Transit Authority
Changes in Net Assets
June 30

	2012	2011	2010
OPERATING REVENUES			
Passenger fares	$ 3,961,955	$ 3,385,426	$ 3,474,900
Other fares	4,403,057	4,894,517	5,518,758
TOTAL OPERATING REVENUES	**8,365,012**	**8,279,943**	**8,993,658**
NON-OPERATING REVENUES	14,996,146	15,426,029	14,375,008
TOTAL REVENUES	**23,361,158**	**23,705,972**	**23,368,666**
OPERATING EXPENSES	19,664,441	20,256,416	20,388,593
DEPRECIATION	4,892,120	4,874,627	5,193,612
TOTAL EXPENSES	**24,556,561**	**25,131,043**	**25,582,205**
Funds received for Capital Purchases	17,123,156	2,769,447	7,292,648
CHANGE IN NET ASSETS	**$15,927,753**	**$ 1,344,376**	**$ 5,079,109**

YEAR-TO-YEAR COMPARISON

In FY2012, ridership for Fixed Route increased 10.2%, Rideshare customers increased 1.35% and Paratransit ridership decreased by 3.44%. Passenger fares are up 17% from FY2011. Other fares decreased by 10% due to a decrease in contracted services. Multiple factors contributed to the decrease, including FY2011 contract cancellations that also impacted current year revenue. Another factor, Paratransit contracted revenue from Polk County, decreased by 7.4%. Total operating revenues increased by 1% from FY2011.

Fixed Route had an overall decrease of 2.4% in total operating revenues. The decrease was seen in the contracted services area, which includes the unlimited access program, OTT passes, and special contracted services. Passenger fares rose by 12% which offset the reduction.

Paratransit ridership decreased by 3.44% and had a 2.8% increase in total operating revenues. The average trip length increased by 14% over the prior year.

Rideshare had a 1.35% increase in ridership and a 13.4% increase in operating revenues:

- 95 vans were in operation at year-end compared to 94 vans in the prior year.
- Average monthly fare per van pool was up 8.9% - $871 in FY2012 versus $801 in FY2011.
- Rideshare did incorporate a fare increase of 2% for FY2012, which positively impacted operating revenues.

Non-operating revenues decreased 2.8%.

- Property tax revenue is up 6% from increased property tax levies and valuations.
- A reduction in FTA Operating Assistance for FY2012 was a contributor to the overall decrease. ARRA funds were not received in FY2012 as they were in FY2011.
- FY2011 revenue included $494,569 of income resulting from the acquisition of abandoned railroad right of way land and easements; these did not reoccur in FY2012.

Operating expenses were 2.92% less than the prior year.

YEAR-TO-YEAR COMPARISON (continued)

Fixed Route had a 1.47% decrease of $224,717 in operating expense:

- Total miles operated for Fixed Route increased by 1.45% from FY2011.
- Insurance expense decreased by $790,119 from FY2011 due to a decrease in claims activity and settlements for old cases coming in well under anticipated reserve amounts.

Paratransit expenses decreased 12.12% from FY2011, $492,403:

- A decrease in miles operated lead to a 24% decrease in fuel and lubricants expense from FY2011, $109,583.
- Contracted services, cabs expense decreased 38.47% as they are taking fewer trips.

Rideshare had an increase in expenses from the previous year of 13.49%, $125,142:

- A 50% increase in overhead allocation was the driver of increased operating expenses, $130,667.
- Fuel increased 8.7% over the prior year due to more miles driven (approximately 3,500).

BUDGETARY HIGHLIGHTS

DART adopts a consolidated budget for all three operating divisions, Fixed Route, Paratransit, and Rideshare.

- Fixed Route
    - Operating revenue was 15.71% over budget. The large portion can be attributed to an internal accounting change for contributions for capital. Actual operation revenue had an approximate 6% increase over budget expectations.
    - Total ridership increased in FY2012, creating an increase in passenger fares.
    - Non-operating revenues were 4% over budget.
    - Operating expenses were 15% less than the adopted budget.
- Paratransit
    - Operating revenue was 20.43% below budget. The number of trips was less than projected due to agency funding constraints.
    - Operating expenses were 3.75% under budget. Vehicle repair costs and cab services were areas of significant savings compared to budget due to less miles traveled.
- Rideshare
    - Total operating revenue was 22% above budget. A significant portion of this was attributed to an internal accounting change for contributions for capital. Actual passenger fair operations had a 4.5% increase over budget expectations.
    - Operating expenses were 11.5% below budget due to savings in budgeted fuel and vehicle maintenance and equipment repair parts.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2012 DART has invested approximately $43.96 million in capital assets, net of depreciation. This amount is an increase of $14.36 million from June 30, 2011.

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

	2012	2011	2010
LAND	$ 1,430,823	$ 1,430,823	$ 185,009
CONSTRUCTION IN PROGRESS	17,665,473	1,562,204	1,897,305
BUILDINGS & IMPROVEMENTS	6,672,073	6,536,641	4,187,337
REVENUE VEHICLES & EQUIPMENT	16,117,582	18,054,797	21,421,577
EQUIPMENT	2,072,205	2,019,651	1,838,653
TOTALS	**$43,958,156**	**$29,604,116**	**$29,529,881**

- Additions to Capital Assets totaled $19,237,112. Major purchases were approximately:

Rideshare vans (24)	$ 663,000
Buildings and land	$ 700,000
Paratransit buses (2)	$ 720,000
Communications equipment	$ 10,000
On Call buses (2 light duty)	$ 126,000
Fixed route buses (2 HD)	$ 795,000
Other equipment	$ 112,000
Construction in progress, net of transfers	$16,103,000

- Disposals totaling $2,104,637 were made from buildings, revenue vehicles equipment, and equipment. Disposal related primarily to the disposition of fully depreciated capital assets that are no longer owned by DART.

- DART has a fixed-route fleet of 115 vehicles, On Call has 13 vehicles, and a Paratransit fleet of 30 vehicles.

Debt Administration

- DART has a (12) year lease agreement for 16 buses and 21 radios with Bankers Trust. DART has secured federal funds to cover the majority of the lease costs, with the cities that subsidize DART agreeing to include lease payments in their financial support of this operation over the remaining years.
- DART has a (5) year $800,000 capital lease with Bank of the West as funding for a portion of the software system implemented in FY2010.
- DART issued $3,500,000 in Limited Tax General Obligation Bonds during FY2010. The bonds mature in varying annual amounts ranging from $320,000 to $400,000, with the final maturity due in the year ending June 30, 2020. The proceeds were used to pay certain costs of issuance related to the bonds and to provide funds for payment of claims and repayment of any existing debt obligation incurred for the payment of claims. The bonds will be repaid from revenues and other available funds and are secured by substantially all assets of the Authority.

Debt Administration (continued)

Current Liabilities include;

- DART has $265,000 in self insurance reserves committed to pending outstanding liability claims. The company self insures accidents for the first $500,000 and carries an umbrella liability policy for $10 million above that. DART currently budgets to reserve (1) for the recommended base for normal course of business claims, (2) for the current pending claims, and (3) for future catastrophe events.

- Post-retirement Obligations totaled $235,359 at June 30, 2012. GASB 45 required an actuarial study to determine the reserve for a three year period. A new study was completed for FY2012 which will satisfy requirements to FY2015. These funds cover medical and life insurance benefits for retired employees. Benefits are accrued on life expectancy and premium costs, and adjusted each year. The final reserve is based on the actuary study.

OTHER CURRENTLY KNOWN FACTS, DECISIONS or CONDITIONS

The DART Commission approved a balanced budget for FY2013 in the amount of $25,681,492.

DART will continue to focus on building the safety culture and maintaining appropriate and adequate self insurance reserves.

DART Central Station was completed in the fall of 2012 and is now fully operational.

In conclusion, DART expects operating costs to continue to rise in the current economic environment.

CONTACTING DART'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, government officials and creditors with a general overview of DART's finances and to show DART's accountability for the money it receives. If you have questions about this report or need additional information, contact the Des Moines Area Regional Transit Authority at (515) 283-8119 or write in care of: Chief Financial Officer, Des Moines Area Regional Transit, 620 Cherry Street, Des Moines, IA 50309.

FINANCIAL STATEMENTS

Des Moines Area Regional Transit Authority
BALANCE SHEETS

	June 30	
ASSETS	**2012**	**2011**
CURRENT ASSETS		
Cash and cash equivalents	$ 7,770,458	$ 4,964,154
Accounts receivable		
Trade (less allowance for doubtful accounts 2012 and 2011 $31,127)	787,067	666,187
Grant funds	1,966,476	2,536,468
Other	–	1,180
Property taxes receivable		
Succeeding year	9,984,983	7,016,431
Delinquent	53,509	78,022
Inventories	785,251	739,062
Prepaid expenses	280,455	392,675
Total current assets	21,628,199	16,394,179
CAPITAL ASSETS	80,880,339	63,747,864
Less accumulated depreciation and amortization	36,922,183	34,143,748
Total capital assets	43,958,156	29,604,116
BOND ISSUANCE COSTS, net of accumulated amortization of $19,311 in 2012 and $9,656 in 2011	77,245	86,900
Total assets	$65,663,600	$46,085,195
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current obligations of capital leases	$ 287,670	$ 290,706
Current portion of general obligation bonds payable	325,000	320,000
Accounts payable	1,617,248	842,516
Construction contracts payable	1,786,178	–
Accrued and withheld payroll, payroll taxes and benefits	804,179	1,166,964
Succeeding year property taxes	9,984,983	7,016,431
Deferred revenue	83,877	84,195
Accrued interest payable	7,037	7,037
Accrued self insurance claims	265,000	1,162,000
Total current liabilities	15,161,172	10,889,849
LONG-TERM LIABILITIES		
Capital leases, less current obligations	207,955	495,624
Post retirement benefits payable	235,359	246,031
General obligation bonds payable, less current portion	2,513,636	2,835,966
Total long-term liabilities	2,956,950	3,577,621
Total liabilities	18,118,122	14,467,470
NET ASSETS		
Invested in capital assets, net of related debt	43,462,531	28,817,786
Unrestricted	4,082,947	2,799,939
Total net assets	47,545,478	31,617,725
Total liabilities and net assets	$65,663,600	$46,085,195

See Notes to Financial Statements.

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

	Year ended June 30, 2012			Total	Year ended June 30,
	Fixed route	**Paratransit**	**Rideshare**	**2012**	**2011**
OPERATING REVENUES	$ 4,786,489	$2,414,824	$1,163,699	$ 8,365,012	$ 8,279,943
OPERATING EXPENSES (EXCEPT DEPRECIATION AND AMORTIZATION)	15,047,497	3,563,957	1,052,987	19,664,441	20,256,416
Operating income (loss) before depreciation and amortization	(10,261,008)	(1,149,133)	110,712	(11,299,429)	(11,976,473)
DEPRECIATION AND AMORTIZATION	4,055,524	399,425	437,171	4,892,120	4,874,627
Operating loss including depreciation and amortization	(14,316,532)	(1,548,558)	(326,459)	(16,191,549)	(16,851,100)
OTHER INCOME (EXPENSE)					
Government operating assistance					
Member municipalities	680,002	374,920	–	1,054,922	1,194,004
Property tax	6,991,918	–	–	6,991,918	6,593,640
FTA operating assistance	4,373,124	238,335	–	4,611,459	5,017,168
IDOT operating assistance	1,081,014	958	–	1,081,972	1,122,310
IDOT special projects	236,295	–	–	236,295	196,693
FTA grant income	621,389	97,159	–	718,548	647,595
Gain on disposition of capital assets	40,143	1,025	85,139	126,307	33,897
Interest income	2,919	–	–	2,919	4,272
Advertising income	217,743	6,435	–	224,178	208,453
Miscellaneous income	50,258	–	40	50,298	85,450
Contribution of land via transfer of ownership	–	–	–	–	434,336
Interest expense	(102,670)	–	–	(102,670)	(111,789)
Total other income	14,192,135	718,832	85,179	14,996,146	15,426,029
Net (loss) before capital revenues	$ (124,397)	$ (829,726)	$ (241,280)	(1,195,403)	(1,425,071)
Capital revenue from federal and state grants				17,123,156	2,769,447
Increase in net assets				15,927,753	1,344,376
NET ASSETS, beginning				31,617,725	30,273,349
NET ASSETS, ending				$47,545,478	$31,617,725

See Notes to Financial Statements.

Des Moines Area Regional Transit Authority
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations	$ 8,244,994	$ 8,634,569
Cash paid to suppliers for goods and services	(9,602,494)	(10,307,958)
Cash paid to employees for services	(11,349,687)	(10,778,655)
Net cash (used in) operating activities	(12,707,187)	(12,452,044)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Municipal support	1,054,922	1,544,000
Property taxes received	7,016,431	6,585,712
Other government assistance	8,612,651	5,048,560
Principal payments on general obligation bonds	(320,000)	(320,000)
Interest paid	(71,793)	(70,002)
Cash received from other sources	109,376	71,147
Net cash provided by noncapital financing activities	16,401,587	12,859,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,919	4,272
Net cash provided by investing activities	2,919	4,272
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal, state and municipal funds received for capital expenditures	15,893,870	4,907,728
Proceeds on disposition of capital assets	126,915	129,420
Interest paid	(28,207)	(39,116)
Purchase of capital assets	(16,592,888)	(5,057,018)
Principal payments on capital lease	(290,705)	(279,797)
Net cash (used in) capital and related financing activities	(891,015)	(338,783)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,806,304	72,862
CASH AND CASH EQUIVALENTS		
Beginning	4,964,154	4,891,292
Ending	$ 7,770,458	$ 4,964,154

See Notes to Financial Statements.

Des Moines Area Regional Transit Authority
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2012	2011
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES		
Loss from operations	$(16,191,549)	$(16,851,100)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation and amortization	4,892,120	4,874,627
(Increase) decrease in accounts receivable, net of noncapital financing activities	(119,700)	351,492
(Increase) decrease in inventories	(46,189)	129,203
(Increase) decrease in prepaid expenses	112,220	(126,236)
Increase (decrease) in accounts payable, net of amounts for capital assets	(83,314)	23,315
Increase (decrease) in accrued and withheld payroll, payroll taxes and benefits	(362,785)	43,217
Increase (decrease) in deferred revenue	(318)	3,134
(Decrease) in accrued self insurance claims	(897,000)	(1,000,000)
Increase (decrease) in post retirement benefits payable	(10,672)	100,304
Net cash (used in) operating activities	$(12,707,187)	$(12,452,044)

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITES

During the year ended June 30, 2012, $858,046 and $1,786,178 of capital asset additions were included in accounts payable and construction contracts payable, respectively.

During the year ended June 30, 2011, the Authority acquired land in the amount of $434,336 by filing an affidavit for ownership. The value of the land was determined based on an independent appraisal.

See Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Commission is comprised of two at-large representatives appointed by Polk County, and one representative from each of seven Regions, comprising of the Cities of Des Moines; West Des Moines; Clive; Urbandale; Windsor Heights; Ankeny; Altoona; Mitchellville; Runnells; Bondurant; Pleasant Hill; Carlisle; Elkhart; Alleman; Sheldahl; Polk City; Granger; Grimes and Johnston.

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

The Authority has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Boards of Supervisors. Current year delinquent property taxes receivable represents taxes collected by the County but not remitted to the Authority at June 30, 2012 and unpaid taxes. The succeeding year property tax receivable represents taxes certified by the Boards of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Boards of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Inventories

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

Net Assets

Net assets are presented in the following two components:

Invested in capital assets, net of related debt

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

Unrestricted

Unrestricted net assets have no externally imposed restrictions on use.

Capital Assets

Capital assets are stated at cost. The costs of normal maintenance and repair not adding to the value of the assets or materially extending asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Reportable capital assets are defined by the Authority as assets with initial, individual costs in excess of $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Revenue equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Estimated lives for the period are as follows:

Building	5 - 40 years
Revenue equipment	4 - 15 years
Equipment and software	3 - 10 years

Federal and State Grants

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Authority employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. The cost of vacation accumulations is recorded as liabilities and expenses. The compensated absences liability, included in accrued and withheld, payroll taxes, payroll and benefits, has been computed based on rates of pay in effect at June 30, 2012 and 2011, respectively.

Succeeding Year Property Taxes and Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists primarily of succeeding year property tax receivable.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements did not exceed the amount budgeted.

Use of Estimates

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

Advertising Costs

The Authority expenses all advertising costs as they are incurred. Total advertising costs for the years ended June 30, 2012 and 2011 were $253,527 and $208,659, respectively.

Reclassification

Certain reclassifications have been made in the June 30, 2011 financial statements to conform to June 30, 2012 presentation. These reclassifications had no impact on net assets or the change in net assets.

NOTE 2 CASH AND INVESTMENTS

The Authority's deposits in banks at June 30, 2012 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.

NOTE 3 CAPITAL ASSETS

Capital assets activity consists of the following:

	July 1, 2011	Additions	Deletions	Transfers	June 30, 2012
Capital assets not being depreciated					
Land	$ 1,430,823	$ –	$ –	$ –	$ 1,430,823
Construction in progress	1,562,204	16,103,269	–	–	17,665,473
Total capital assets not being depreciated	2,993,027	16,103,269	–	–	19,096,296
Capital assets being depreciated/amortized					
Buildings	12,572,123	700,387	111,554	–	13,160,956
Revenue equipment	34,897,530	795,601	1,279,661	–	34,413,470
On Call revenue equipment	710,502	126,292	–	–	836,794
Fare collection equipment	1,214,757	–	–	–	1,214,757
Service cars and trucks	450,387	7,255	24,628	–	433,014
Shop and garage equipment	477,607	85,880	54,915	–	508,572
Furniture and office equipment	70,854	–	–	–	70,854
Computer equipment	2,696,305	21,848	19,183	–	2,698,970
Miscellaneous equipment	475,126	3,513	32,990	–	445,649
Communication equipment	955,268	9,464	–	–	964,732
Paratransit vehicles	3,569,683	720,198	186,838	–	4,103,043
Rideshare vehicles	2,664,695	663,405	394,868	–	2,933,232
Total capital assets being depreciated/amortized	60,754,837	3,133,843	2,104,637	–	61,784,043
Less accumulated depreciation and amortization	34,143,748	4,882,464	2,104,029	–	36,922,183
Total capital assets being depreciated/amortized, net	26,611,089	(1,748,621)	608	–	24,861,860
Net capital assets	$29,604,116	$14,354,648	$ 608	$ –	$43,958,156

	July 1, 2010	Additions	Deletions	Transfers	June 30, 2011
Capital assets not being depreciated					
Land	$ 185,009	$1,124,065	$ 29,100	$ 150,849	$ 1,430,823
Construction in progress	1,897,305	2,168,433	–	(2,503,534)	1,562,204
Total capital assets not being depreciated	2,082,314	3,292,498	29,100	(2,352,685)	2,993,027
Capital assets being depreciated/amortized					
Buildings	9,754,851	588,653	–	2,228,619	12,572,123
Revenue equipment	35,012,359	43,028	157,857	–	34,897,530
On Call revenue equipment	710,502	–	–	–	710,502
Fare collection equipment	1,214,757	–	–	–	1,214,757
Service cars and trucks	496,393	–	46,006	–	450,387
Shop and garage equipment	441,628	35,979	–	–	477,607
Furniture and office equipment	76,781	–	5,927	–	70,854
Computer equipment	2,809,814	43,904	157,413	–	2,696,305
Miscellaneous equipment	449,254	41,272	15,400	–	475,126
Communication equipment	952,456	41,831	163,085	124,066	955,268
Paratransit vehicles	3,964,850	364,312	759,479	–	3,569,683
Rideshare vehicles	2,488,600	583,252	407,157	–	2,664,695
Total capital assets being depreciated/amortized	58,372,245	1,742,231	1,712,324	2,352,685	60,754,837
Less accumulated depreciation and amortization	30,924,678	4,864,971	1,645,901	–	34,143,748
Total capital assets being depreciated/amortized, net	27,447,567	(3,122,740)	66,423	2,352,685	26,611,089
Net capital assets	$29,529,881	$ 169,758	$ 95,523	$ –	$29,604,116

NOTE 3 CAPITAL ASSETS (continued)

At June 30, 2012 and 2011, revenue equipment includes transportation vehicles under capital lease with historical cost of $4,421,419 and accumulated amortization of $3,477,261 and $3,108,809, respectively. Amortization expense for these assets totaled $368,452 for the years ended June 30, 2012 and 2011.

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

At June 30, 2012, construction in progress consists of various projects, including automatic vehicle specifications and procurement in the amount of $2,089,874, costs related to the transit hub project in the amount of $14,968,123, and other minor projects totaling $607,476.

NOTE 4 CAPITAL LEASES

Capital leases consisted of the following as of June 30, 2012:

An agreement to acquire 16 buses under a capital lease. The related liability under the lease at June 30, 2012 is $338,899. The obligation is due in semiannual installments of $72,549 through November, 2014. The interest rate at June 30, 2012 was 4.55%.

An agreement to finance the acquisition of software under a capital lease. The related liability under the lease at June 30, 2012 is $156,726. The obligation is due in monthly installments of $14,485 through May, 2013. The interest rate at June 30, 2012 was 3.31%.

At June 30, 2012, future minimum lease payments are as follows:

2013	$ 304,428
2014	145,099
2015	72,549
Total	522,076
Less amount representing interest	26,451
	495,625
Less current obligations under capital lease	287,670
Capital lease obligations, net of current obligations	$ 207,955

A summary of changes in capital leases are as follows:

	July 1, 2011	Additions	Payments	June 30, 2012	Due within one year
Capital lease	$ 786,330	$ –	$ 290,705	$ 495,625	$ 287,670

	July 1, 2010	Additions	Payments	June 30, 2011	Due within one year
Capital lease	$1,066,127	$ –	$ 279,797	$ 786,330	$ 290,706

NOTE 4 CAPITAL LEASES (continued)

Total interest costs were $102,670 and $111,789 for the years ended June 30, 2012 and 2011, respectively. Of the total interest cost for the year ended June 30, 2012, $28,207 was incurred on capital leases, and $74,463 (which includes $2,671 of bond issuance discount amortization) was incurred on the general obligation bonds payable. Of the total interest cost for the year ended June 30, 2011, $39,116 was incurred on capital leases and $72,673 was incurred on the general obligation bonds payable.

NOTE 5 GENERAL OBLIGATION BONDS PAYABLE

In June 2010, the Authority issued $3,500,000 in Limited Tax General Obligation Bonds with interest rates ranging from 1.00% to 3.15% per annum. The general obligation bonds mature in varying annual amounts, ranging from $325,000 to $400,000, with the final maturity due in the year ending June 30, 2020.

The following is a summary of changes in general obligation bonds of the Authority as of June 30, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Due within one year
General obligation bonds	$3,155,966	$ –	$ 317,330	$2,838,636 (1)	$ 325,000

(1) Bonds were sold at a discount; unamortized discount at June 30, 2012 and 2011 totaled $21,364 and $24,034, respectively.

A summary of the annual general obligation bond principal and interest requirements to maturity by year is as follows:

Year ending June 30	Principal	Interest	Total
2013	$ 325,000	$ 67,893	$ 392,893
2014	330,000	63,830	393,830
2015	340,000	58,550	398,550
2016	350,000	51,750	401,750
2017	350,000	43,875	393,875
2018-2021	1,165,000	71,445	1,236,445
	$2,860,000	$ 357,343	$3,217,343

NOTE 6 ACCOUNTS RECEIVABLE—GRANT FUNDS

Accounts receivable–grant funds is capital grant and planning funds due from the Federal Transit Authority (FTA).

NOTE 7 PENSION AND RETIREMENT BENEFITS

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

NOTE 7 PENSION AND RETIREMENT BENEFITS (continued)

Plan members are required to contribute 5.38% (5.78% after July 1, 2012) of their annual salary and the Authority is required to contribute 8.07% (8.67% after July 1, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Authority's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010, were $801,574, $672,999 and $650,966, respectively, equal to the required contributions for each year.

NOTE 8 DEFINED CONTRIBUTION PLAN

The Authority has a defined contribution plan covering all eligible employees who agree to make contributions to the Plan. The Authority made a contribution to the Plan for the year ended June 30, 2012 and 2011 that matches participant's contributions to the Plan up to 5%, of the individual participant's eligible compensation. Total expense for the years ended June 30, 2012 and 2011 was $56,510 and $25,565, respectively.

NOTE 9 POST EMPLOYMENT BENEFITS

Plan Description

The Authority sponsors a single-employer health care plan that provides health and dental benefits to active and retired employees and their spouses, and eligible dependents. There are 7 active and 4 retired members in the plan. Active employees who have been employed since 1986 from the ATU union are eligible for benefits if they become disabled and subsequently retire prior to Medicare eligibility. In addition, a special, frozen class of retirees over 65 receives a contribution to subsidize Medicare Supplement policy costs until death.

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

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

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

Required monthly contributions vary by plan and are 100% of premium for health and 20% of premium for dental, are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group has not been determined. Retiree expenses are then offset by monthly contributions.

Funding Policy

The Authority establishes and amends contribution requirements.

The current funding policy of the Authority is to pay health insurance premiums as they occur. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2012, the Authority contributed $12,764.

NOTE 9 POST EMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year to the Authority, the amount actuarially contributed to the plan, and changes in the Authority's annual OPEB obligation.

Annual required contribution	$ 5,704
Interest on net OPEB obligation	10,069
Adjustment to annual required contribution	(13,681)
Annual OPEB cost (expense)	2,092
Contributions and payments made	12,764
Decrease in net OPEB obligation	(10,672)
Net OPEB obligation, July 1, 2011	246,031
Net OPEB obligation, June 30, 2012	$ 235,359

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 follows.

Fiscal year ended	Annual OPEB cost	Percentage of Annual OPEB cost contributed	Net OPEB obligation
June 30, 2012	$ 2,092	610.1%	$ 235,359
June 30, 2011	$ 124,373	19.4%	$ 246,031
June 30, 2010	$ 121,336	27.0%	$ 145,727

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $102,574 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of $(102,574) as of June 30, 2012. The covered payroll (annual payroll of active employees covered by the plan) was approximately $10,976,000, and the ratio of the UAAL to the covered payroll was 0.9%. As of June 30, 2012, 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 assumptions about the future employment, mortality, and the healthcare cost trend. Actuarially determined amounts regarding the funded status of the plan and the annual required contributions of the employer 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 following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 9 POST EMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included 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.

In the July 1, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent discount rate, an annual health care cost trend rate of 8.0 percent reduced by decrements of .50 percent annually to an ultimate rate of 4.0 percent for medical costs. The UAAL is being amortized as a closed level dollar. The amortization of UAAL is done over a period of 30 years. There were no benefit increases considered.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were based on a graduated scale at 0.070 for those aged 55-57, up to 0.150 for those 65 and older.

Projected claim costs of the medical plan are approximately $1,006 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

There are no audited financial statements for this plan.

NOTE 10 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 purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Authority assumes liability for any deductibles and claims in excess of coverage limitations.

The Authority is partially self-insured with respect to general liability insurance. The Authority purchases an umbrella insurance policy with a $500,000 retained limit per occurrence and $10,000,000 aggregate limit with regard to their general liability insurance.

At June 30, 2012 and 2011, the Authority had established reserves of $265,000 and $1,162,000, respectively, for claims. These estimates are based on insurance claims processor and legal counsel estimates of probable liability and include estimates of claims that have been incurred but unreported. Additionally, other claims have been asserted against the Authority in the ordinary course of business. Management is unable to estimate the cost of these claims or determine a range of loss and, accordingly, no accrual has been made for them.

The following is a summary of claims paid and liabilities recorded for the years ended June 30, 2012 and 2011:

	2012	2011
Accrued claims at beginning of year	$1,162,000	$2,162,000
Claims paid	(491,500)	(1,436,258)
Amount reserved	20,000	555,800
Reduction in reserve	(425,500)	(119,542)
Accrued claims at end of year	$ 265,000	$1,162,000

NOTE 11 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

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

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, will be effective for the Authority with its year ending June 30, 2013. This statement modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. This Statement also clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*, will be effective for the Authority beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the Authority beginning with its year ending June 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the Authority beginning with its year ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and 12*, will be effective for the Authority beginning with its year ending June 30, 2014. This Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,* will be effective for the Authority beginning with its year ending June 30, 2015. This Statement is to improve accounting and financial reporting by state and local governments for pensions.

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

NOTE 12 COMMITMENTS

The Authority has entered into contract commitments for the completion of the architectural, engineering, and construction phases of the transit hub project. The total contract commitment with the primary contractor is $16,044,612, of which $12,412,180 has been incurred as of June 30, 2012. The unpaid commitment balance including amounts in construction contracts payable at year end is $5,418,610, which will be funded by current reserves and federal and state grant funds. Costs incurred on this project as of June 30, 2012, are included in construction in progress as a component of capital assets. In November 2012, the DART Central Station (transit hub project) was placed into service, and all bus operations and administrative services were moved to the new facility at that time. The total cost of the DART Central Station, including all furniture and fixtures, was approximately $21,000,000.

NOTE 13 SUBSEQUENT EVENTS

The transit hub project was completed in November 2012, as disclosed in Note 12.

The Authority has entered into various contracts representing commitments for consulting, construction, capital asset purchases and services subsequent to the balance sheet date of June 30, 2012.

Des Moines Area Regional Transit Authority
BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL
Required Supplementary Information
Year ended June 30, 2012

	Actual	Adjustment to budget basis	Total actual	Budgeted amounts Original	Budgeted amounts Final	Final to actual variance
REVENUES	$40,586,984	$ –	$40,586,984	$25,617,261	$25,617,261	$14,969,723
EXPENSES	24,659,231	(4,066,647)	20,592,584	23,909,070	23,909,070	(3,316,486)
Excess of revenues over expenses	15,927,753	4,066,647	19,994,400	1,708,191	1,708,191	$18,286,209
BALANCES, beginning of year	31,617,725	–	31,617,725	31,617,725	31,617,725	
BALANCES, end of year	$47,545,478	$ 4,066,647	$51,612,125	$33,325,916	$33,325,916	

See Accompanying Independent Auditor's Report.

Des Moines Area Regional Transit Authority
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison.

In accordance with the Code of Iowa, the Authority Commission annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget and appropriations lapse at year end.

The Authority prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The major difference between budget and GAAP bases is that the federal share of depreciation expense is not included in operating expenditures on the budget basis. During the year ended June 30, 2012, expenses did not exceed the amount budgeted.

Des Moines Area Regional Transit Authority
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

Fiscal year ended	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b - a)/c)
June 30, 2010	January 1, 2009	$ –	$907	$907	0.0%	$10,950	8.3%
June 30, 2011	January 1, 2009	$ –	$907	$907	0.0%	$10,922	8.3%
June 30, 2012	July 1, 2011	$ –	$103	$103	0.0%	$10,976	0.9%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See Accompanying Independent Auditor's Report.

Des Moines Area Regional Transit Authority
SCHEDULES OF UNRESTRICTED NET ASSETS (DEFICIT)

	Year ended June 30	
	2012	**2011**
COMMISSION DESIGNATED NET ASSETS (DEFICIT)		
For fixed asset purchases		
Fixed route	$ 40,659	$ (45,897)
Paratransit	887,861	706,966
Rideshare	879,402	849,172
Total for fixed asset purchases	1,807,922	1,510,241
Other		
Contributed capital	490,619	490,619
Total commission designated net assets	2,298,541	2,000,860
UNDESIGNATED NET ASSETS (DEFICIT)		
Fixed route	6,589,764	4,257,779
Paratransit	(3,487,233)	(2,618,531)
Rideshare	(1,318,125)	(840,169)
Total undesignated net assets (deficit)	1,784,406	799,079
Total unrestricted net assets	$4,082,947	$2,799,939

See Accompanying Independent Auditor's Report.

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

	Year ended June 30	
	2012	**2011**
OPERATING REVENUES		
Passenger revenue	$ 2,532,916	$ 2,261,233
Contracted service	2,253,573	2,643,614
Total operating revenues	4,786,489	4,904,847
OPERATING EXPENSES		
Transportation	6,352,065	6,364,030
Maintenance	5,495,183	4,882,571
Insurance	5,192	795,311
General and administration	968,553	987,225
Accounting and information technology	856,351	814,453
Planning	843,452	882,983
Personnel	295,924	273,465
Marketing	286,141	316,586
Advertising	249,452	202,409
Building and grounds	624,961	611,009
Overhead allocations	(929,777)	(857,831)
Operating expenses except depreciation	15,047,497	15,272,211
Operating loss before depreciation	(10,261,008)	(10,367,364)
DEPRECIATION AND AMORTIZATION	4,055,524	4,016,028
Operating loss including depreciation and amortization	(14,316,532)	(14,383,392)
OTHER INCOME (EXPENSE)		
Government operating assistance		
Member municipalities	680,002	830,004
Property tax	6,991,918	6,593,640
FTA operating assistance	4,373,124	4,804,385
IDOT operating assistance	1,081,014	1,122,310
IDOT special projects	236,295	196,693
FTA grant income	621,389	493,323
Gain (loss) on disposition of fixed assets	40,143	(4,642)
Interest income	2,919	4,272
Advertising income	217,743	201,433
Miscellaneous income	50,258	82,589
Contribution of land via transfer of ownership	–	434,336
Interest expense	(102,670)	(111,789)
Total operating assistance and other income	14,192,135	14,646,554
Net income (loss) after other income	$ (124,397)	$ 263,162

See Accompanying Independent Auditor's Report.

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

	Year ended June 30	
	2012	**2011**
OPERATING REVENUES		
Service income		
Polk County	$ 840,889	$ 908,576
Fare paying clients	85,786	83,706
Service income, other	1,488,149	1,356,643
Total operating revenues	2,414,824	2,348,925
OPERATING EXPENSES		
Wages	1,756,986	1,762,418
Employee benefits	259,878	294,047
Payroll taxes	307,288	268,886
Insurance	147,000	200,004
Fuel and lubricants	346,243	455,826
Maintenance and repairs	89,622	260,776
Contracted services, cabs	121,012	196,671
Other	(1,538)	21,545
Overhead allocations	537,466	596,187
Total operating expenses	3,563,957	4,056,360
Operating loss before depreciation	(1,149,133)	(1,707,435)
DEPRECIATION	399,425	467,895
Operating loss including depreciation	(1,548,558)	(2,175,330)
OTHER INCOME (EXPENSE)		
Government operating assistance		
ADA subsidy	374,920	364,000
FTA operating assistance	238,335	212,783
IDOT operating assistance	958	–
FTA grant income	97,159	154,272
Gain (loss) on disposition of fixed assets	1,025	(48,181)
Advertising income	6,435	7,020
Total other income	718,832	689,894
Net loss after other income	$ (829,726)	$(1,485,436)

See Accompanying Independent Auditor's Report.

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

	Year ended June 30	
	2012	**2011**
OPERATING REVENUES	$1,163,699	$1,026,171
OPERATING EXPENSES		
Wages and benefits	88,698	127,668
Service contracts	6,682	7,864
Van miscellaneous	13,946	6,175
Administrative miscellaneous	203	115
Promotional events	4,075	6,250
Insurance	49,844	38,817
Maintenance and repairs	67,742	83,037
Gas and oil	425,681	391,290
Drug screening	3,805	4,985
Overhead allocation	392,311	261,644
Total operating expenses	1,052,987	927,845
Operating income before depreciation	110,712	98,326
DEPRECIATION	437,171	390,704
Operating loss including depreciation	(326,459)	(292,378)
Gain on disposition of fixed assets	85,139	86,720
Miscellaneous income	40	2,861
Total other income	85,179	89,581
Net loss after other income	$ (241,280)	$ (202,797)

See Accompanying Independent Auditor's Report.

Des Moines Area Regional Transit Authority
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Direct		
Department of Transportation/Federal Transit Administration		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	$ 1,545,729
Federal Transit Formula Grants	20.507	6,957,687
Federal Transit Formula Grants - ARRA	20.507	1,823,444
Total Federal Transit Cluster		10,326,860
National Infrastructure Investments		
TIGER Discretionary Grants	20.933	8,144,442
Alternative Analysis	20.522	204,971
Transit Services Programs Cluster		
Federal Transit Job Access - Reverse Commute	20.516	163,048
New Freedom Program	20.521	113,771
Total Transit Services Programs Cluster		276,819
Total direct		18,953,092
Indirect		
Iowa Department of Transportation		
Department of Transportation/Federal Transit Administration		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	114,124
Federal Transit Formula Grants	20.507	458,478
Total Federal Transit Cluster		572,602
Formula Grants for other than Urbanized Areas	20.509	46,235
Transit Services Programs Cluster		
Federal Transit Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	161,159
National Research Programs-Public Transportation Research	20.514	47,600
City of Des Moines, Iowa - Department of Housing Services		
Department of Housing and Urban Development		
Community Development Block Grant - Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	4,998
Total indirect		832,594
Total federal expenditures		$19,785,686

See Accompanying Independent Auditor's Report.

BASIS OF PRESENTATION

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

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

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

We have audited the financial statements of Des Moines Area Regional Transit Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated March 26, 2013. 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

Management of Des Moines Area Regional Transit Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Des Moines Area Regional Transit Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Des Moines Area Regional Transit Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Des Moines Area Regional Transit Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 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 the 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 certain deficiencies in internal control over financial reporting, described in Part II of the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or 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 Des Moines Area Regional Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Authority. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Des Moines Area Regional Transit Authority's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Authority's responses, we did not audit the Authority's responses and, according, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Des Moines Area Regional Transit Authority and other parties to whom the Authority may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 26, 2013

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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

Compliance

We have audited the Des Moines Area Regional Transit Authority's compliance with the types of compliance 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 programs for the year ended June 30, 2012. The Des Moines Area Regional Transit Authority's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Des Moines Area Regional Transit Authority's management. Our responsibility is to express an opinion on the Des Moines Area Regional Transit Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Des Moines Area Regional Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Des Moines Area Regional Transit Authority's compliance with those requirements.

In our opinion, the Des Moines Area Regional Transit Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

Management of Des Moines Area Regional Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Des Moines Area Regional Transit Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Des Moines Area Regional Transit 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.

Des Moines Area Regional Transit Authority’s responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Authority’s responses, we did not audit the Authority’s responses and, according, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Des Moines Area Regional Transit Authority and other parties to whom the Des Moines Area Regional Transit Authority may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 26, 2013

Des Moines Regional Transit Authority
SUMMARY SCHEDULES OF PRIOR AUDIT FINDINGS
Year ended June 30, 2012

Summary

Findings related to the financial statements		**Status**
11-II-A	During the audit, we identified certain capital asset and grant-related general ledger accounts that were not being reconciled to underlying supporting detail on a regular basis.	Corrected

Des Moines Regional Transit Authority
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Part I. Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements.

(b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any noncompliance which is material to the financial statements.

(d) No material weaknesses in internal controls over the major programs were disclosed by the audit of the financial statements.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) Major programs were as follows:

*CFDA Number 20.500, 20.507 - Federal Transit Cluster
*CFDA Number 20.933 - National Infrastructure Investments - TIGER Discretionary Grants

(h) The dollar threshold used to distinguish between type A and B programs was $593,571.

(i) The Des Moines Area Regional Transit Authority qualifies as a low-risk auditee.

Des Moines Regional Transit Authority
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year ended June 30, 2012

Part II. Findings Related to the Financial Statements
Reported in Accordance with *Government Auditing Standards*

INTERNAL CONTROL DEFICIENCY

12-II-A Finding: During the audit, we identified several general ledger accounts that had not been reconciled to underlying supporting detail as of June 30, 2012.

Condition: The Authority did not adjust several general ledger accounts prior to the start of the audit due to the lack of personnel available to perform the reconciliation process.

Context: Entries were needed to adjust the Authority's accounts at year end to the supporting detailed records.

Effect: Actual results were not adjusted prior to audit.

Recommendation: We recommend the Authority revisit staffing to ensure account reconciliation procedures are performed on a regular basis in a timely manner. In addition, the Authority should identify a back-up who will perform the reconciliation process in the assigned individual's absence.

Response and corrective action plan: Staffing levels and assignments will be adjusted to ensure the reconciliation process is completed on a regular basis in a timely manner. A back-up will be identified to perform these procedures in the assigned individual's absence.

12-II-B Finding: During the audit, we identified invoices related to construction in progress costs that had not been properly accrued and capitalized at June 30, 2012.

Condition: Although reconciliation of detailed capital asset records to supporting documentation was being performed on a regular basis, Authority personnel responsible for reconciliation of the noted accounts were not aware that consideration should be given to invoices received subsequent to year end to ensure all fiscal year costs are appropriately accrued and capitalized.

Context: Entries were needed to adjust the Authority's accounts at year end to the supporting detailed records.

Effect: Actual results were not adjusted prior to audit.

Recommendation: We recommend the Authority review all construction payable invoices related to progress through the final month of the fiscal year to ensure all material invoices are captured in the appropriate fiscal year.

Response and corrective action plan: Review of cut-off policies and procedures will be performed with Authority personnel. Project invoices received subsequent to year end will be reviewed at each fiscal year end. Balances in construction in progress will be monitored and reviewed by an individual with appropriate knowledge and authority.

INSTANCES OF NONCOMPLIANCE

None

Part III. Findings and Questioned Costs for Federal Awards

INTERNAL CONTROL DEFICIENCIES

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

INSTANCES OF NONCOMPLIANCE

No matters were noted.

Part IV. Other Findings Related to Required Statutory Reporting

IV-A-12 <u>**Certified Budget**</u> - Disbursements during the year ended June 30, 2012 did not exceed the amount budgeted. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

IV-B-12 <u>**Questionable Disbursements**</u> - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-12 <u>**Travel Expense**</u> - No disbursements of Authority money for travel expenses of spouses of Authority officials or employees were noted.

IV-D-12 <u>**Business Transactions**</u> - No business transactions between the Authority and Authority officials or employees were noted.

IV-E-12 <u>**Bond Coverage**</u> - Surety bond coverage of Authority officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-12 <u>**Commission Minutes**</u> - No transactions were found that we believe should have been approved in the Commission minutes but were not.

IV-G-12 <u>**Deposits and Investments**</u> - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Commission's investment policy were noted.

IV-H-12 <u>**Debt and Capital Leases**</u> - No instances of noncompliance with debt provisions were noted.

Des Moines Regional Transit Authority
CORRECTIVE ACTION PLAN
Year Ended June 30, 2012

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
12-II-A	Certain accounts were not reconciled to the general ledger and adjusted to actual at year end by the Authority.	See response and corrective action plan at 12-II-A	June 30, 2013	Jamie Schug
12-II-B	Invoices related to construction in progress had not been properly accrued and capitalized at year end by the Authority.	See response and corrective action plan at 12-II-B	June 30, 2013	Jamie Schug