

**DES MOINES AREA REGIONAL
TRANSIT AUTHORITY**

Des Moines, Iowa

FINANCIAL STATEMENTS

Including Independent Auditor's Report
And Report on Federal Awards

As of and for the Year Ended June 30, 2013

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

Des Moines, Iowa

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DES MOINES AREA REGIONAL TRANSIT AUTHORITY

Des Moines, Iowa

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
Joann Muldoon	Region 6 - Des Moines
Angela Connolly, Member	At-Large
Gaye Johnson, Member	At-Large
AUTHORITY	
Elizabeth Presutti, General Manager	

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Des Moines Area Regional Transit Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Des Moines Area Regional Transit Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Des Moines Area Regional Transit Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Des Moines Area Regional Transit Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Commission
Des Moines Area Regional Transit Authority

Emphasis of Matter

As discussed in the Note 1, Des Moines Area Regional Transit Authority adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Position – Budget to Actual and Schedule of Funding Progress information as listed in the table of contents 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. Management has elected to include more information in the Management's Discussion and Analysis than is required by the standards. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The Schedules of Revenues, Expenses and Changes in Net Position – Fixed Route, Paratransit, and Rideshare Divisions are presented for purposes of additional analysis and is not a required part of the financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit 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 Schedules of Revenues, Expenses and Changes in Net Position – Fixed Route, Paratransit, and Rideshare Divisions are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated February 3, 2014 on our consideration of the Des Moines Area Regional Transit 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* in considering the Des Moines Area Regional Transit Authority's internal control over financial reporting and compliance.



Madison, Wisconsin
February 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 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, 2013. Please read it in conjunction with the Independent Auditors' Report on pages 2-3 and DART's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- > Total assets increased \$12,038,107 for the twelve month period ending June 30, 2013.
 - Net additions to capital assets net of accumulated depreciation totaled \$10,076,513. Major purchases are outlined in Note 3 Capital Assets, which include revenue vehicles for Fixed Route, Paratransit, and On Call as well as building and computer equipment related to the completion of Dart Central Station.
 - Total capital assets include Construction in Progress of \$4,359,832 for the following projects: Automatic Vehicle Locators (AVL), Trip Planner, and Rideshare revenue vehicles.
 - Current assets increased.
 - » Cash and cash equivalents decreased \$(1,799,888)
 - » Trade accounts receivable decreased (297,172)
 - » Federal grant receivables increased 2,025,956
 - » Property tax receivables increased 2,073,863
 - » Inventories increased 550
 - » Prepaid expenses decreased (43,728)
- > Total liabilities increased \$470,604 for the twelve month period ending June 30, 2013.
 - Current liabilities increased \$950,294, which includes an increase in succeeding year property taxes, accrued payroll and benefits, and accounts payable. There was a decrease in construction contracts payable, current capital lease obligations, and in the reserve for self insurance claims resulting from decline in projections for FY2014.
 - Current liabilities increased.
 - » Succeeding year property taxes increased \$2,040,413
 - » Accrued payroll and benefits increased 116,869
 - » Accounts payable increased 47,754
 - » Accrued self-insurance claims decreased (160,000)
 - » Construction contracts payable decreased (947,261)
 - Long-term liabilities decreased \$479,690 due to payments on capital leases and general obligation bonds payable.
- > Total net position increased by \$11,567,503 primarily due to an increase in property taxes and significant capital contributions from state and federal grants.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2013

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's basic financial statements consist of a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. 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 position is presented below:

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 23,667,038	\$ 21,705,444	\$ 16,481,079
Capital assets; net of depreciation	54,034,669	43,958,156	29,604,116
Total Assets	<u>77,701,707</u>	<u>65,663,600</u>	<u>46,085,195</u>
Current liabilities	16,111,466	15,161,172	10,889,849
Long-term liabilities	<u>2,477,260</u>	<u>2,956,950</u>	<u>3,577,621</u>
Total Liabilities	<u>18,588,726</u>	<u>18,118,122</u>	<u>14,467,470</u>
Net investment in capital assets	53,826,714	43,462,531	28,817,786
Unrestricted net position	<u>5,286,267</u>	<u>2,956,950</u>	<u>2,799,939</u>
Total Net Position	<u>59,112,981</u>	<u>47,545,478</u>	<u>31,617,725</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 77,701,707</u>	<u>\$ 65,663,600</u>	<u>\$ 46,085,195</u>

*The line item "Net Investment 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.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2013

OVERVIEW OF FINANCIAL STATEMENTS (cont.)

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES			
Passenger fares	\$ 3,531,603	\$ 3,961,955	\$ 3,385,426
Other fares	3,713,621	4,403,057	4,894,517
Advertising income	147,829	224,178	208,453
Total Operating Revenues	<u>7,393,053</u>	<u>8,589,190</u>	<u>8,488,396</u>
NONOPERATING REVENUES	<u>17,511,131</u>	<u>14,771,968</u>	<u>15,217,576</u>
Total Revenues	<u>24,904,184</u>	<u>23,361,158</u>	<u>23,705,972</u>
Operating expenses	22,594,908	19,664,441	20,256,416
Depreciation	5,174,627	4,892,120	4,874,627
Total Expenses	<u>27,769,535</u>	<u>24,556,561</u>	<u>25,131,043</u>
Funds received for capital purchases	<u>14,432,854</u>	<u>17,123,156</u>	<u>2,769,447</u>
CHANGE IN NET ASSETS	<u>\$ 11,567,503</u>	<u>\$ 15,927,753</u>	<u>\$ 1,344,376</u>

YEAR-TO-YEAR COMPARISON

In FY2013, ridership for Fixed Route decreased 2.43%, Rideshare customers decreased 5.7% and Paratransit ridership decreased by 2.4%. Passenger fares are down 10.9% from the prior year. Other fares decreased by 15.7% due to a decrease in contracted services and a decrease in the number of Paratransit trips provided to Polk County. Contract revenue is made up of the unlimited access program, OTT passes, and special contracted services. Specifically, contract revenue declined over FY2012 with the discontinuation of a service contract with Des Moines Area Community College.

Fixed Route had an overall decrease of 11.4% in total operating revenues. The decrease was seen in the both passenger revenue and contracted services area. Passenger revenue fell by 1.7% and contracted revenue declined by 22%. Contracted revenue was affected by the discontinuation of the client as referenced above as well as a reduction in the OTT program.

Paratransit operating revenue decreased by 15% overall for FY2013. Service income is the segment driving the decrease, primarily by the reduction in the amount of trips provided to Polk County. Passenger fares rose by 2.7% which offset the reduction.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2013

YEAR-TO-YEAR COMPARISON (cont.)

Rideshare had an 8.8% decrease in ridership and an 18% decrease in operating revenues:

- > 93 vans were in operation at year-end compared to 95 vans in the prior year
- > Average monthly fare per van pool was down 1.8%, \$855 in FY2013 vs \$871 in FY2012

Nonoperating revenues increased by 18.5%.

- > Property tax revenue is up 42% from increased property tax levies and valuations
- > FTA grant income rose 25% over FY2012
- > FY2013 had an increase in miscellaneous income of 72% resulting from environmental rebates related to the construction of Dart Central Station

Operating expenses were 14.9% higher than the prior year. The opening and operating Dart Central Station was a major driver of the increase.

Fixed Route had a 25.6% increase of \$3,856,075 in operating expense:

- > Total miles operated for Fixed Route increased 9.1% from FY2012

Paratransit operating expenses decreased 18.9% from FY2012, \$672,272:

- > Total miles operated increased 1.1%. In correlation, Fuel and lubricants, maintenance and repairs, contracted services, and miscellaneous expenses also increased over the prior year
- > Operating expense savings for the Paratransit division were seen in the wages and fringes categories. Wages were reduced by 24% and employee benefits were down by 25%

Rideshare had a decrease in expenses from the previous year of 24%, \$253,336:

- > A reorganization of the overhead allocation created a significant reduction in operating expenses of 79.3%; \$311,261
- > Fuel and lubricants decreased by 3.5%, largely due to the fluctuations of fuel prices
- > Insurance costs decreased by 36%, \$17,945, due to a decline in accidents
- > In contrast, wages and benefits and van maintenance and repairs increased 29% and 86% respectively to offset the overall decrease

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2013

BUDGETARY HIGHLIGHTS

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

- > Fixed Route
 - Operating revenue was 11.7% under budget
 - Total ridership decreased in FY2013, creating a decrease in passenger fares. Significant route changes were the driver of the short term decline.
 - Nonoperating revenues were 2% over budget
 - Operating expenses were 7% less than the adopted budget

- > Paratransit
 - Operating revenue was 18.5% below budget. The number of trips was less than projected due to agency funding constraints. Performance expectations for the following year have been adjusted with this factor in mind.
 - Operating expenses were 4% under budget. Fuel and lubricants and cab services were areas of significant savings compared to budget from less miles traveled.

- > Rideshare
 - Total operating revenue was 4.6% below budget.
 - Operating expenses were 12.4% below budget due to savings in budgeted fuel and vehicle maintenance and equipment repair parts.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2013 DART has invested approximately \$54 million in capital assets, net of depreciation. This amount is an increase of \$10.1 million from June 30, 2012.

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

	2013	2012	2011
Land	\$ 1,430,823	\$ 1,430,823	\$ 1,430,823
Construction in progress	4,359,832	17,665,473	1,562,204
Building and improvements	25,742,671	6,672,073	6,536,641
Revenue vehicles and equipment	18,952,011	16,117,582	18,054,797
Equipment	3,549,332	2,072,205	2,019,651
TOTALS	\$ 54,034,669	\$ 43,958,156	\$ 29,604,116

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION (cont.)

- > Additions to Capital Assets totaled \$15,337,188. Major purchases were approximately:

– Building, net of transfers	\$19,797,781
– Fixed route buses (11 HD)	5,739,528
– Paratransit buses (4), net of transfers	239,435
– On call buses (1 light duty)	60,830
– Communications equipment, net of transfers	527,627
– Shop, Garage, and other equipment, net of transfers	593,598
– Office furniture and equipment, net of transfers	622,088
– Computer equipment	1,061,884
– Construction in Progress, net of transfers	(13,305,641)

- > Construction in Progress appears negative due to the large transfer from Construction in Progress to Building greater than the additions made in FY2013. This transfer of assets is attributed to the completion of Dart Central Station. Additions to Construction in Progress, excluding transfers, totaled \$2,386,743.

- > Disposals totaling \$3,835,769 were primarily made from buildings, revenue equipment, Paratransit vehicles, and Rideshare vehicles. 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 118 revenue vehicles, On Call has 13 revenue vehicles, Paratransit has a fleet of 28 revenue vehicles and Rideshare has a fleet of revenue 120 vehicles.

DEBT ADMINISTRATION

- > DART has a (12) year lease agreement for 16 buses and 21 radios with Bankers Trust. DART has secured federal capital funds to cover the annual cost of the lease at 80%. The remaining 20% is funded through operating revenue.
- > 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. This lease was paid in full in FY2013.
- > DART issued \$3,500,000 in Limited Tax General Obligation Bonds during FY2011. 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.

Current Liabilities include:

- > DART has \$105,000 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.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION (cont.)

DEBT ADMINISTRATION (cont.)

Current Liabilities include: (cont.)

- > Post-employment benefits totaled \$220,053 at June 30, 2013. GASB 45 requires an actuarial study to determine the reserve for a three year period. A new study was completed for FY12 which will satisfy requirements to FY15. 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 FY2014 in the amount of \$26,766,521.

FY2013 was the first year of the DART Forward 2035 implementation. The goal of this plan is to incrementally improve bus service to more places, more often, and with faster travel times. The FY2014 adopted budget included funding to implement year two of the five year DART Forward 2035 plan.

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 operated 8 months of FY2013. FY2014 will be the first full year of operation for the new building.

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 St, Des Moines, IA 50309.

FINANCIAL STATEMENTS

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF NET POSITION As of June 30, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 5,970,570
Accounts Receivable	
Trade (less allowance for doubtful accounts \$31,127)	489,895
Grant funds	3,992,432
Other	11,669
Property Taxes Receivable	
Succeeding year	12,025,396
Delinquent	86,959
Inventory	785,801
Prepaid expenses	236,727
Total Current Assets	<u>23,599,449</u>

NONCURRENT ASSETS

Unamortized debt issuance costs	67,589
Capital assets:	
Plant in service	88,021,926
Construction work in progress	4,359,832
Less: Accumulated depreciation and amortization	<u>(38,347,089)</u>
Total Noncurrent Assets	<u>54,102,258</u>
Total Assets	<u>77,701,707</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	1,665,002
Construction contracts payable	838,917
Accrued payroll and benefits	921,048
Succeeding year property taxes	12,025,396
Unearned revenue	83,730
Accrued interest payable	5,319
Accrued self insurance claims	105,000
Current obligations of capital leases	137,054
Current portion of general obligation bonds payable	330,000
Total Current Liabilities	<u>16,111,466</u>

NONCURRENT LIABILITIES

Capital leases, less current obligations	70,901
Post retirement benefits payable	220,053
General obligation bonds payable, less current portion	<u>2,186,306</u>
Total Noncurrent Liabilities	<u>2,477,260</u>
Total Liabilities	<u>18,588,726</u>

NET POSITION

NET POSITION

Net investment in capital assets	53,826,714
Unrestricted	<u>5,286,267</u>
TOTAL NET POSITION	<u>\$ 59,112,981</u>

See accompanying notes to the financial statements.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

	<u>Fixed Route</u>	<u>Paratransit</u>	<u>Rideshare</u>	<u>Total</u>
OPERATING REVENUES	\$ 4,387,931	\$ 2,051,354	\$ 953,768	\$ 7,393,053
OPERATING EXPENSES (EXCEPT DEPRECIATION AND AMORTIZATION)	<u>18,903,572</u>	<u>2,891,685</u>	<u>799,651</u>	<u>22,594,908</u>
Operating income (loss) before depreciation and amortization	(14,515,641)	(840,331)	154,117	(15,201,855)
DEPRECIATION AND AMORTIZATION	<u>4,387,977</u>	<u>357,963</u>	<u>428,687</u>	<u>5,174,627</u>
Operating loss including depreciation and amortization	<u>(18,903,618)</u>	<u>(1,198,294)</u>	<u>(274,570)</u>	<u>(20,376,482)</u>
NONOPERATING REVENUE (EXPENSE)				
Government operating assistance				
Member municipalities	680,000	-	-	680,000
Property tax	9,813,458	171,495	-	9,984,953
ADA subsidy	-	374,920	-	374,920
FTA operating assistance	4,309,727	41,505	-	4,351,232
IDOT operating assistance	1,031,198	20,052	-	1,051,250
IDOT special projects	37,275	44,649	-	81,924
FTA grant income	791,151	108,009	-	899,160
Gain on disposition of capital assets	1,216	12,079	81,334	94,629
Interest income	2,688	-	-	2,688
Miscellaneous income	86,445	-	-	86,445
Interest expense	<u>(96,070)</u>	<u>-</u>	<u>-</u>	<u>(96,070)</u>
Total Nonoperating Revenue	<u>16,657,088</u>	<u>772,709</u>	<u>81,334</u>	<u>17,511,131</u>
Net Loss Before Capital Contributions	<u>\$ (2,246,530)</u>	<u>\$ (425,585)</u>	<u>\$ (193,236)</u>	(2,865,351)
CAPITAL CONTRIBUTIONS				14,432,854
Increase in net position				<u>11,567,503</u>
NET POSITION, Beginning of Year				<u>47,545,478</u>
NET POSITION, END OF YEAR				<u>\$ 59,112,981</u>

See accompanying notes to financial statements.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from direct transit fares	\$ 3,519,787
Cash received contracted service sales and miscellaneous income	4,245,067
Cash paid to suppliers for goods and services	(12,562,594)
Cash paid to employees for services	<u>(9,999,819)</u>
Net Cash Flows From Operating Activities	<u>(14,797,559)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating subsidies received from:	
Federal Transit Administration	5,226,111
State of Iowa	1,143,182
ADA Subsidy	374,920
Principal payments on general obligation bonds	(325,000)
Interest paid on general obligation bonds	(68,704)
Property taxes received and municipal assistance	<u>10,631,503</u>
Net Cash Flows From Noncapital Financing Activities	<u>16,982,012</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>2,688</u>
Net Cash Flows From Investing Activities	<u>2,688</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Federal, state and municipal funds received for capital expenditures	12,421,171
Proceeds on disposition of capital assets	100,323
Principal payments on capital lease	(287,670)
Interest paid on capital lease	(16,758)
Acquisition and construction of capital assets	<u>(16,204,095)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(3,987,029)</u>

Net Increase in Cash and Cash Equivalents (1,799,888)

CASH AND CASH EQUIVALENTS - Beginning of Year 7,770,458

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 5,970,570

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Loss from operations	\$ (20,376,482)
Adjustments to reconcile operating loss to net cash used in operating activities	
Nonoperating income	86,445
Noncash items included in operating income:	
Depreciation and amortization expense	5,174,627
Changes in assets and liabilities:	
Accounts receivable - trade	297,172
Accounts receivable - other	(11,669)
Inventory	(550)
Prepaid expenses	43,728
Accounts payable	47,754
Accrued payroll liabilities	116,869
Unearned revenues	(147)
Accrued self insurance claims	(160,000)
Post retirement benefits payable	<u>(15,306)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (14,797,559)</u>

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Des Moines Area Regional Transit Authority (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.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United State of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Authority are described below.

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. GASB 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 GASB 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. Under the accrual basis of accounting, revenues are recognized 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 follows enterprise fund accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

In June 2011, GASB issued Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The Authority made the decision to implement this standard effective July 1, 2013.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET POSITION

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.

Accounts Receivable

The Authority considers receivables from government units (grant funds) to be fully collectible; accordingly, no such allowance for doubtful accounts from governmental units is presents. Allowance of \$31,127 is included for fiscal year 2013 for trade receivables.

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. Taxes are levied on March 1 and are due in two installments on or around September 30 and March 31 of the following fiscal year. All unpaid taxes become delinquent on April 1 of the following year. 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 unearned and will not be recognized as revenue until the year for which it is levied. Current year delinquent property taxes receivable represents taxes collected by the County but not remitted to the Authority at June 30, 2013 and unpaid taxes.

Inventories

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

Prepaid Expenses

This represents amounts paid for services or insurance coverage to be provided in future periods.

Net Position

Net position is presented in the following components:

Net investment in capital assets 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 net position has no externally imposed restrictions on use.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first then unrestricted resources as they are needed.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET POSITION (cont.)

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:

	<u>Years</u>
Building	5 – 40
Revenue equipment	4 – 15
Equipment and software	3 – 10

Accrued Payroll and Benefits

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 accrued payroll and benefits liability has been computed based on rates of pay in effect at June 30, 2013.

Long-Term Obligations

Long-term debt and other obligations are reported as Authority liabilities.

Accrued Self Insurance Claims

Claims for uninsured losses are reported in the financial statements based upon the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. In addition, claims adjustment expenses expected to be incurred in connection with the settlement of unpaid claims are accrued at the time the liability for the underlying claim is recognized.

Succeeding Year Property Taxes and Unearned Revenue

Since the fiscal year 2014 property taxes are not due and collectible until September and are intended to finance the operations of fiscal year 2014, they are not considered available as of June 30, 2013 and are, therefore, shown as unearned revenue and will be recognized as revenue only as they become available in fiscal year 2014.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services. The principal operating revenues are fares charged to passengers for service and contracted service agreements. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. This includes tax levies, state and federal grants and aids, investment income and interest expense.

Federal and State Grants

Federal and state grants are made available to the Authority for certain operating activities and 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.

The Federal grants are subject to grantor agency compliance audits. Management believes losses, if any, resulting from those compliance audits are not material to these statements.

BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, disbursements did not exceed the amount budgeted.

USE OF ESTIMATES

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 2 – CASH AND CASH EQUIVALENTS

The Authority's deposits in banks at June 30, 2013 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, 2012	Additions	Deletions	Transfers	June 30, 2013
Capital assets not being depreciated					
Land	\$ 1,430,823	\$ -	\$ -	\$ -	\$ 1,430,823
Construction in progress	17,665,473	2,386,743	-	(15,692,384)	4,359,832
Total Capital Assets Not Being Depreciated	<u>19,096,296</u>	<u>2,386,743</u>	<u>-</u>	<u>(15,692,384)</u>	<u>5,790,655</u>
Capital assets being depreciated/amortized					
Buildings	13,160,956	4,532,728	145,480	15,265,053	32,813,257
Revenue equipment	34,413,470	5,739,528	2,226,391	404,904	38,331,511
On call revenue equipment	836,794	60,830	-	(404,846)	492,778
Fare collection equipment	1,214,757	-	-	-	1,214,757
Service cars and trucks	433,014	-	-	19,754	452,768
Shop and garage equipment	508,572	249,406	12,938	-	745,040
Furniture and office equipment	70,854	362,621	-	259,467	692,942
Computer equipment and software	2,698,970	1,061,884	17,878	-	3,742,976
Miscellaneous equipment	445,649	280,022	47,805	64,170	742,036
Communication equipment	964,732	424,219	14,810	103,408	1,477,549
Paratransit vehicles	4,103,043	239,207	1,018,839	228	3,323,639
Rideshare vehicles	2,933,232	-	351,628	(19,754)	2,561,850
Total Capital Assets Being Depreciated/Amortized	<u>61,784,043</u>	<u>12,950,445</u>	<u>3,835,769</u>	<u>15,692,384</u>	<u>86,591,103</u>

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 3 – CAPITAL ASSETS (cont.)

	July 1, 2012	Additions	Deletions	Transfers	June 30, 2013
Less: Accumulated depreciation and amortization:					
Buildings	\$ 6,488,883	\$ 664,707	\$ 83,003	\$ -	\$ 7,070,587
Revenue equipment	20,881,661	2,731,464	2,226,391	233,402	21,620,136
On call revenue equipment	424,060	96,524	-	(233,402)	287,182
Fare collection equipment	1,021,629	29,720	-	-	1,051,349
Service cars and trucks	399,332	18,055	-	19,754	437,141
Shop and garage equipment	263,452	86,734	12,938	-	337,248
Furniture and office equipment	63,861	5,461	-	-	69,322
Computer equipment and software	1,952,474	503,858	-	-	2,456,332
Miscellaneous equipment	311,621	99,582	47,805	-	363,398
Communication equipment	497,783	157,566	14,810	-	640,539
Paratransit vehicles	2,676,501	357,963	1,018,840	-	2,015,624
Rideshare vehicles	1,940,926	428,687	351,628	(19,754)	1,998,231
Total Accumulated Depreciation and Amortization	<u>36,922,183</u>	<u>5,180,321</u>	<u>3,755,415</u>	<u>-</u>	<u>38,347,089</u>
Total Capital Assets Being Depreciated/Amortized, Net	<u>24,861,860</u>	<u>7,770,124</u>	<u>80,354</u>	<u>15,692,384</u>	<u>48,244,014</u>
Net Capital Assets	<u>\$ 43,958,156</u>	<u>\$ 10,156,867</u>	<u>\$ 80,354</u>	<u>\$ -</u>	<u>\$ 54,034,669</u>

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, 2013, construction in progress consists of various projects, including automatic vehicle location system in the amount of \$3,009,264 and other minor projects totaling \$1,350,568.

NOTE 4 – CAPITAL LEASES

During fiscal year 2003 and 2004, the Authority financed the acquisition of 16 buses by means of a capital lease, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The revenue equipment acquired includes transportation vehicles with a historical cost of \$4,421,419 and accumulated amortization of \$3,845,713 at June 30, 2013. Amortization expense for these assets totaled \$368,452 for the year ended June 30, 2013.

The liability under this lease at June 30, 2013 is \$207,955. The obligation is due in semiannual installments of \$72,549 through November, 2014. The interest rate of the lease is 4.55%

In fiscal year 2008, the Authority financed the acquisition of software by means of a capital lease, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The final payment under this lease was made during fiscal year 2013 and the liability at year end is \$0.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2013

NOTE 4 – CAPITAL LEASES (cont.)

The assets acquired include software with a historical cost of \$1,348,764 and accumulated amortization of \$1,172,777 as of June 30, 2013. Amortization expense for these assets totaled \$269,753 for the year ended June 30, 2013.

At June 30, 2013, future minimum lease payments are as follows:

2014	\$ 145,099
2015	<u>72,549</u>
Total	217,648
Less: Amount representing interest	9,693
Less: Current obligations under capital lease	<u>137,054</u>
Capital Lease Obligations, Net of Current Obligations	<u><u>\$ 70,901</u></u>

A summary of changes in capital leases are as follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Capital lease	<u>\$ 495,625</u>	<u>\$ -</u>	<u>\$ 287,670</u>	<u>\$ 207,955</u>	<u>\$ 137,054</u>

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 \$320,000 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, 2013:

	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
General obligation bonds	<u>\$ 2,838,636</u>	<u>\$ -</u>	<u>\$ 322,330(1)</u>	<u>\$ 2,516,306(1)</u>	<u>\$ 330,000</u>

(1) Bonds were sold at a discount; unamortized discount at June 30, 2013 totaled \$18,694. Amortization of \$2,670 was recognized during fiscal year 2013.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 5 – GENERAL OBLIGATION BONDS PAYABLE (cont.)

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 330,000	\$ 63,830	\$ 393,830
2015	340,000	58,550	398,550
2016	350,000	51,750	401,750
2017	360,000	43,875	403,875
2018	370,000	34,695	404,695
2019-2020	<u>785,000</u>	<u>36,750</u>	<u>821,750</u>
Totals	<u>\$ 2,535,000</u>	<u>\$ 289,450</u>	<u>\$ 2,824,450</u>

NOTE 6 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.78% (5.95% after July 1, 2013) of their annual salary and the Authority is required to contribute 8.67% (8.93% after July 1, 2013) of annual covered payroll. Contribution requirements are established by State statute. The Authority's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011, were \$910,823, \$801,574 and \$672,999, respectively, equal to the required contributions for each year.

NOTE 7 – DEFINED CONTRIBUTION PLAN (457 PLAN)

The Authority offers a 457 plan (Plan) to all eligible employees who agree to make contributions to the Plan. Participation in the Plan is optional and not a requirement of all employees. Principal Financial administers this defined contribution plan. Amendments to the Plan under \$100,000 can be made at the authority of the General Manager. Any amendments to the Plan that exceed \$100,000 must be approved by the Commission. The Authority provides matching contributions equal to 100% of the first 3% of compensation, which is a maximum of \$2,000 annually. Total expense for the year ended June 30, 2013 was \$38,681.

NOTE 8 – POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION

The Authority sponsors a single-employer health care plan that provides health and dental benefits to qualified active employees, retirees, and their eligible spouses and dependents. Currently, there are 4 retired members within the plan and 7 active employees who may qualify at a future date.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 8 – POST EMPLOYMENT BENEFITS (cont.)

PLAN DESCRIPTION (cont.)

The retiree class is a special, frozen group all aged over 65 who are enrolled through the Authority in a Medicare Supplement policy. The plan is provided to these retirees at subsidized rates until death. In order for the active employee to qualify for benefits, one must have been employed since 1986 within the ATU union and retire through disability prior to Medicare eligibility. Should an employee meet the aforementioned criteria, the Authority will provide one year of health insurance benefits at no cost to the retiree. As stated above, there are 7 employees who meet the first two points of criteria.

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. Retiree expenses are then offset by monthly contributions.

FUNDING POLICY

The Authority establishes and amends contribution requirements.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2013, the Authority contributed \$16,972 and the collective retirees paid \$3,249.

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		9,643
Adjustment to annual required contribution		<u>(13,681)</u>
Annual OPEB Cost (Expense)		1,666
Contributions and payments made		<u>16,972</u>
Decrease in net OPEB obligation		15,306
Net OPEB obligation, July 1, 2012		<u>235,359</u>
Net OPEB obligation, June 30, 2013	\$	<u><u>220,053</u></u>

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 8 – POST EMPLOYMENT BENEFITS (cont.)

ANNUAL OPEB COST AND NET OPEB OBLIGATION (cont.)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 1,666	1018.7%	\$ 220,053
June 30, 2012	2,092	610.1%	235,359
June 30, 2011	124,373	19.4%	246,031

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. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$387,458, and the ratio of the UAAL to the covered payroll was 26.6%. As of June 30, 2013, 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.

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.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2013

NOTE 8 – POST EMPLOYMENT BENEFITS (cont.)

ACTUARIAL METHODS AND ASSUMPTIONS (cont.)

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 9 – 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 from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in coverage compared to the prior year. The Authority assumes liability for any deductibles and claims in excess of coverage limitations.

The Authority is self-insured with respect to dental insurance. The Authority pays all dental insurance claims incurred by its participants. At June 30, 2013, the Authority had established a reserve of \$66,592 for claims which is reported with accrued payroll and benefits. This estimate is based on management's expectation of claims paid per employee per month.

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, 2013, the Authority had established reserves of \$105,000 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.

The following is a summary of claims paid and liabilities recorded for the year ended June 30, 2013:

	<u>Dental</u>	<u>General Liability</u>
Accrued claims at beginning of year	\$ 50,989	\$ 265,000
Claims paid	(63,604)	(79,624)
Amount reserved	79,207	73,874
Reduction in reserve	-	(154,250)
	<u> </u>	<u> </u>
Accrued Claims at End of Year	<u>\$ 66,592</u>	<u>\$ 105,000</u>

NOTE 10 – COMMITMENTS

The Authority has entered into contract commitments for the completion of the architectural, engineering, and construction phases of the transit hub. The hub was completed and placed into service in fiscal year 2013. The unpaid commitment balance at year end is \$838,917 and is recorded as a current liability.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2013

NOTE 11 – SUBSEQUENT EVENTS

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, 2013.

The Authority approved new fares for the Rideshare Division effective July 1, 2013.

REQUIRED SUPPLEMENTAL INFORMATION

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

BUDGETARY COMPARISON SCHEDULE OF REVENUES
EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2013

	Actual	Adjustment to Budget Basis	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES	\$ 39,433,108	\$ -	\$ 39,433,108	\$ 25,599,167	\$ 25,599,167	\$ 13,833,941
EXPENSES	<u>27,865,605</u>	<u>(4,438,027)</u>	<u>23,427,578</u>	<u>25,674,033</u>	<u>25,674,033</u>	<u>(2,246,455)</u>
Excess of revenues over expenses	11,567,503	4,438,027	16,005,530	(74,866)	(74,866)	<u>\$ 16,080,396</u>

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING As of and for the Year Ended June 30, 2013

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, 2013, expenses did not exceed the amount budgeted.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

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, 2011	January 1, 2009	\$ -	\$ 907,246	\$ 907,246	0.0%	\$ 371,695	244.1%
June 30, 2012	July 1, 2011	-	102,574	102,574	0.0%	375,821	27.3%
June 30, 2013	July 1, 2011	-	102,574	102,574	0.0%	387,458	26.5%

See Note 8 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.

The July 1, 2011 actuarial report had a change in assumptions for the treatment of COBRA which resulted in a reduction of the AAL.

OTHER SUPPLEMENTAL INFORMATION

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION — FIXED ROUTE DIVISION For the Year Ended June 30, 2013

OPERATING REVENUES

Passenger fares	\$ 2,489,725
Contracted service	1,750,377
Advertising income	<u>147,829</u>
Total Operating Revenues	<u>4,387,931</u>

OPERATING EXPENSES

Transportation	6,675,839
Vehicle maintenance and fuel	5,856,918
Insurance	465,010
General and administration	645,321
Accounting	568,802
Information technology	1,072,582
Planning	440,773
Personnel	323,987
Customer service	416,336
Marketing and communications	533,256
Building and grounds	1,033,175
Service management	634,742
Training	124,693
On-call service	136,594
Purchasing and inventory	294,712
Overhead allocations	<u>(319,168)</u>
Operating Expenses Except Depreciation	<u>18,903,572</u>

Operating loss before depreciation (14,515,641)

DEPRECIATION AND AMORTIZATION

	<u>4,387,977</u>
Operating loss including depreciation and amortization	<u>(18,903,618)</u>

OTHER INCOME (EXPENSE)

Government operating assistance	
Member municipalities	680,000
Property tax	9,813,458
FTA operating assistance	4,309,727
IDOT operating assistance	1,031,198
IDOT special projects	37,275
FTA grant income	791,151
Gain (loss) on disposition of fixed assets	1,216
Interest income	2,688
Miscellaneous income	86,445
Interest expense	<u>(96,070)</u>
Total Other Income (Expense)	<u>16,657,088</u>

NET LOSS AFTER OTHER INCOME \$ (2,246,530)

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION — PARATRANSIT DIVISION For the Year Ended June 30, 2013

OPERATING REVENUES

Service income	\$	1,963,244
Passanger fares		<u>88,110</u>
Total Operating Revenues		<u>2,051,354</u>

OPERATING EXPENSES

Wages		1,333,960
Employee benefits		194,847
Payroll taxes		276,301
Insurance		41,974
Fuel and lubricants		377,561
Maintenance and repairs		233,376
Contracted services, cabs		180,051
Other		15,497
Overhead allocations		<u>238,118</u>
Total Operating Expenses		<u>2,891,685</u>

Operating loss before depreciation (840,331)

DEPRECIATION

Operating loss including depreciation (1,198,294)

OTHER INCOME (EXPENSE)

Government operating assistance		
Property taxes		171,495
ADA subsidy		374,920
FTA operating assistance		41,505
IDOT operating assistance		20,052
IDOT special projects		44,649
FTA grant income		108,009
Gain (loss) on disposition of fixed assets		<u>12,079</u>
Total Other Income (Expense)		<u>772,709</u>

NET LOSS AFTER OTHER INCOME \$ (425,585)

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION — RIDESHARE DIVISION For the Year Ended June 30, 2013

OPERATING REVENUES

Passenger fares	\$	953,768
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OPERATING EXPENSES

Wages and benefits		114,850
Service contracts		6,052
Administrative miscellaneous		4,278
Promotional events		3,000
Insurance		31,899
Maintenance and repairs		125,868
Fuels and lubricants		410,925
Drug screening		1,929
Miscellaneous		19,800
Overhead allocation		81,050
Total Operating Expenses		<u>799,651</u>

Operating income before depreciation		154,117
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DEPRECIATION

Operating loss including depreciation		<u>(274,570)</u>
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OTHER INCOME (EXPENSE)

Gain on disposition of fixed assets		<u>81,334</u>
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NET LOSS AFTER OTHER INCOME	\$	<u>(193,236)</u>
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DES MOINES AREA REGIONAL TRANSIT AUTHORITY

STATE OF IOWA REQUIRED STATUTORY REPORTING As of and for the Year Ended June 30, 2013

- 2013-A Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”
- 2013-B Questionable Disbursements – 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.
- 2014-C Travel Expense – No disbursements of the Authority money for travel expenses of spouses of Authority officials or employees were noted.
- 2014-D Business Transactions – No business transactions between the Authority and Authority officials or employees were noted.
- 2014-E Bond Coverage – Surety bond coverage of Authority officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- 2014-F Commission Minutes – No transactions were found that we believe should have been approved in the Commission minutes but were not.
- 2014-G Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

REPORT ON FEDERAL AWARDS

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*

Independent Auditors' Report

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

We have audited, 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, the financial statements of Des Moines Area Regional Transit Authority as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Des Moines Area Regional Transit Authority's basic financial statements, and have issued our report thereon dated February 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Des Moines Area Regional Transit Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Accordingly, we do not express an opinion on the effectiveness of Des Moines Area Regional Transit Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. These material weaknesses are items 2013-001 and 2013-002.

To the Commission
Des Moines Area Regional Transit Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Des Moines Area Regional Transit Authority's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Des Moines Area Regional Transit Authority's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Des Moines Area Regional Transit 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 Response to Findings

Des Moines Area Regional Transit Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Des Moines Area Regional Transit Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Voichow Krause, LLP

Madison, Wisconsin
February 3, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited Des Moines Area Regional Transit Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Des Moines Area Regional Transit Authority's major federal programs for the year ended June 30, 2013. Des Moines Area Regional Transit Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Des Moines Area Regional Transit Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Des Moines Area Regional Transit Authority's compliance with those requirements.

To the Commission
Des Moines Area Regional Transit Authority

Opinion on Each Major Federal Program

In our opinion, Des Moines Area Regional Transit Authority complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III of the accompanying schedule of findings and questioned costs as items 2013-003 and 2013-004. Our opinion on the major federal program is not modified with respect to these matters.

Des Moines Area Regional Transit Authority's Response to Findings

Des Moines Area Regional Transit Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Des Moines Area Regional Transit Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Des Moines Area Regional Transit Authority is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Des Moines Area Regional Transit Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-004 to be a material weakness.

Des Moines Area Regional Transit Authority's Response to Findings

Des Moines Area Regional Transit Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Des Moines Area Regional Transit Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Commission
Des Moines Area Regional Transit Authority

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Des Moines Area Regional Transit Authority as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Des Moines Area Regional Transit Authority's basic financial statements. We issued our report thereon dated February 3, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 3, 2014

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Agency/Pass-Through Agency/Program or Cluster Title	Pass-Through Agency	Federal CFDA Number	Local Agency Contract Number	Federal Expenditures
U.S. Department of Transportation				
Federal Transit Cluster				
ARRA - Federal Transit Formula Grants		20.507	IA-96-X002-01	\$ 1,357,209
Federal Transit Formula Grants		20.507	IA-90-X328-01	29,655
Federal Transit Formula Grants		20.507	IA-90-X342-02	124,488
Federal Transit Formula Grants		20.507	IA-90-X352-01	111,585
Federal Transit Formula Grants		20.507	IA-90-X365-01	884,346
Federal Transit Formula Grants		20.507	IA-90-X374-02	773,024
Federal Transit Formula Grants		20.507	IA-90-X388-01	4,536,164
Federal Transit Formula Grants		20.507	IA-95-X011-00	900,000
Federal Transit Formula Grants		20.507	IA-95-X012-00	269,265
Federal Transit Formula Grants	IDOT*	20.507	95-X003-194-12	208,156
Federal Transit Formula Grants	IDOT*	20.507	95-X014-194-12	59,754
Total Federal Transit Formula Grants				<u>9,253,646</u>
Federal Transit Capital Investment Grants		20.500	IA-04-0118-00	4,531,986
Federal Transit Capital Investment Grants		20.500	IA-04-0125-00	2,101,560
Federal Transit Capital Investment Grants		20.500	IA-04-0126-00	1,125,000
Federal Transit Capital Investment Grants		20.500	IA-04-0130-00	131,968
Federal Transit Capital Investment Grants	IDOT*	20.500	04-0113-194-10	140,910
Federal Transit Capital Investment Grants	IDOT*	20.500	04-0117-194-11	17,753
Federal Transit Capital Investment Grants	IDOT*	20.500	04-0129-194-13	167,672
Total Federal Transit Capital Investment Grants				<u>8,216,849</u>
Bus and Bus Facilities Formula Grants		20.526	IA-34-0001-01	40,000
Total Federal Transit Cluster				<u>17,510,495</u>
Formula Grants for Rural Areas	IDOT*	20.509	18-0030-194-13	41,505
Transit Services Program Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities		20.513	IA-16-X003-00	34,303
Enhanced Mobility of Seniors and Individuals with Disabilities	IDOT*	20.513	16-X002-194-13	128,199
Total Enhanced Mobility of Seniors and Individuals with Disabilities Grants				<u>162,502</u>
Job Access and Reverse Commute Program		20.516	IA-37-X024-00	164,605
New Freedom Program		20.521	IA-57-X011-00	115,093
Total Transit Services Programs Cluster				<u>442,200</u>
National Infrastructure Investment		20.933	IA-79-0001-00	<u>1,854,885</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 19,849,085</u>

*Iowa Department of Transportation

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2013

NOTE 1 – REPORTING ENTITY

This report on Federal Awards includes the federal awards of the Des Moines Area Regional Transit Authority. The reporting entity for the Des Moines Area Regional Transit Authority is based upon criteria established by the Governmental Accounting Standards Board.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the Authority's grant programs are maintained on the accrual basis of accounting. Expenditures are recorded when the liability is incurred and revenues are recorded as earned.

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*.

NOTE 3 – DESCRIPTION OF MAJOR PROGRAMS

There were two major programs for the year ended June 30, 2013. The Federal Transit Cluster includes the Federal Transit Capital Investment Grants (CFDA #20.500) and the Federal Transit Formula Grants (CFDA #20.507) awarded by the Federal Transit Administration – U.S. Department of Transportation to the Des Moines Area Regional Transit Authority for the purpose of financing capital projects and supporting public transportation services in urbanized areas. The National Infrastructure Investment (CFDA #20.933) was awarded by the Federal Transit Administration – U.S. Department of Transportation to the Des Moines Area Regional Transit Authority for the purpose of constructing the multi-modal transit hub.

NOTE 4 – RECONCILIATION TO THE FINANCIAL STATEMENTS

The Federal aid is included in the statement of revenues, expenses, and changes in net position as follows:

Capital contributions	\$ 14,432,854
FTA operating assistance	4,351,232
FTA grant income	899,160
ADA subsidy	374,920
Less: State capital contributions	<u>(209,081)</u>
Total	<u>\$ 19,849,085</u>

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued: unmodified

Internal control over financial reporting:

- > Material weakness(es) identified? X yes no
- > Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

FEDERAL AWARDS

Internal control over major programs:

- > Material weakness(es) identified? X yes no
- > Significant deficiencies identified that are not considered to be material weakness(es)? yes X none reported

Type of auditor’s report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 X yes no

Auditee qualified as low-risk auditee?

 yes X no

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

20.500
20.507
20.526
20.933

Federal Transit Cluster including:
Federal Transit Capital Investment Grants
Federal Transit Formula Grants
Bus and Bus Facilities Formula Grants
National Infrastructure Investment

Federal

Dollar threshold used to distinguish between type A and type B programs:

\$595,452

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINDING 2013-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria: According to Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, sufficient internal controls should be in place that provide for the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles.

The definition of a material weakness in internal control includes consideration of the year-end financial reporting process. To avoid the auditor reporting a material weakness in internal control over financial reporting, your system of controls would need to be able to accomplish the following:

- > Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures.
- > Prepare the year-end financial statements, including all required footnote disclosures.

Condition: Material journal entries were discovered during the course of the audit, and we, as your auditors, prepared the financial statements.

Cause: The accounting department has a limited number of staff and employees do not have the specialized skills required to prepare GAAP financial statements.

Effect: Without adequate internal control over financial reporting, it is possible that material errors (audit adjustments) could be reported in the financial statements without being detected. In addition, the financial statements may not contain all of the required disclosures and account balances if prepared by Des Moines Area Regional Transit Authority.

Recommendation: We recommend that Authority develop an action plan to ensure that all material year-end adjustments are recorded by staff prior to audit fieldwork and develop a time-line for preparation of its financial statements.

Management Response: Management is in the process of hiring a Finance Manager which will provide the extra amount of resources necessary to be more fully prepared for audit fieldwork at 2014 fiscal year end. In addition, management will utilize preparation work papers that are being created to ensure more readiness at year end.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (cont.)

FINDING 2013-002: CONTROL ENVIRONMENT

Criteria: According to Statement on Auditing Standards (SAS) Nos. 104-111, collectively known as the risk assessment standards, sufficient internal accounting controls should be in place that mitigate the risk of material misstatement in the financial records due to fraud or error.

Condition: We identified key controls that ideally should be present or strengthened in order to mitigate the risk of material misstatement in relation to Des Moines Area Regional Transit Authority's significant transaction cycles and processes as follows:

- > Controls Over Billing and Receipting
- > Controls Over Financial Reporting
- > Reconciliation of Subsidiary Ledgers to the General Ledger
- > Independent Review of Journal Entries
- > Independent Review of the Schedule of Expenditures over Federal Awards

Cause: Des Moines Area Regional Transit Authority does not have the resources required to adequately segregate all accounting functions at all times. Des Moines Area Regional Transit Authority's internal control system does not require the above controls to be in place.

Effect: Due to the lack of certain controls, there is a risk that material misstatements due to fraud or error may go undetected in the Des Moines Area Regional Transit Authority's financial records.

Recommendation: Management should make efforts to implement additional controls to mitigate the risk of material misstatement.

Management Response: As stated above, management is adding an additional resource to the Finance Department in order to implement better segregation of duties, more timely reconciliation of subsidiary ledgers, as well as provide the resources needed for more frequent review of financial transactions.

Additionally, DART is currently implementing an electronic document management system (EDMS) which has been designed by management and staff to include more internal control over billing and receipting and journal entry review.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2013-003: COMPLIANCE WITH DOCUMENTATION OF APPROVED COST ALLOCATION PLAN FOR PLANNING GRANT

Program CFDA Number: 20.507
Federal Award Number: IA-90-X-388-01
IA-90-X374-02
Federal Grantor: U.S. Department of Transportation

Criteria: According to OMB Circular A-87 Appendix B, Section 8h, when an employee works on more than one cost activity, wages charged to Federal grants must be based on actual costs and must be an after the fact distribution. Budgeted allocations such as the templates utilized by the Authority may be used for interim accounting; however actual costs must be reviewed on at least a quarterly basis and based on monthly activity reports. At this time, the budgeted percentages should be updated if necessary. An entity must adjust budgeted costs charged to the Federal grant to actual if the difference between the two amounts exceeds 10%.

Condition: In order to allocate labor costs to the planning grants, one of the Authority's practices is to create a budget template for the individuals expected to work on planning activities during the fiscal year. This budget allocates a percentage of the employee's wage to planning based on historical activity and upcoming projects. Eligible costs for the short range planning and planning support and administration line items included in grants IA-90-X374-02 and IA-90-X388-01.

Cause: In prior fiscal years, the Authority utilized only actual timesheets as support for charging labor to the planning grants. In fiscal year 2011, the Authority received guidance from an FTA employee stating that FTA does "not prescribe specifics regarding record keeping. However, an entity must keep adequate documentation on file to support any costs associated charged to FTA. The records must be kept in accordance with generally acceptable accounting standards and must be able to be audited." The Authority was not aware that the current practice would not be adequate under this guidance as FTA never questioned the planning costs or recorded a finding in the Authority's Triennial review.

Effect: The amounts charged to the Federal planning grants may not reflect actual distribution of costs.

Questioned Costs: None

Recommendation: We recommend the Authority implement procedures surrounding their planning labor to ensure only actual costs are charged to the Federal planning grants.

Management Response: Management has discontinued the practice of utilizing budgeted time for fiscal year 2014 and is now using actual time sheets to more accurately reflect costs to be reimbursed by planning grants. In fiscal year 2015, DART will no longer use grant funding to subsidize employee wages and will be using the funding entirely for capital projects.

DES MOINES AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (cont.)

FINDING 2013-004: INTERNAL CONTROL OVER COMPLIANCE AND COMPLIANCE WITH CONTRACT REQUIREMENTS AS OUTLINED IN FTA CIRCULAR 4220.1E

Program CFDA Numbers: 20.500, 20.507 & 20.933
Federal Award Numbers: IA-04-0118-00, IA-90-X352-01, IA-90-X365-01 & IA-79-0001-01
Federal Grantor: U.S. Department of Transportation

Criteria: FTA Circular 4220.1E outlines third party contracting requirements for grantees. Requirements of the Circular include: 1) grantees utilize small purchase procedures when obtaining goods or services costing between \$2,500 and \$100,000. Small purchase procedures include obtaining price or rate quotations from "an adequate number of qualified sources" (paragraph 9.b). 2) when obtaining goods or services using state or local intergovernmental agreements, grantees must ensure all federal requirements, required clauses, and certifications are properly followed and included, whether in the master intergovernmental contract or in the grantee's purchase document (paragraph 7.e.(1)). 3) grantees must evaluate statutory and regulatory requirements applicable to all procurements and include the applicable clauses in procurement contracts.

Condition: The auditors selected a sample of 9 out of 64 vendors used during the fiscal year and requested the related contracts, RFPs, and certifications applicable to those projects. Management was unable to provide the following: 1) Price or rate quotations obtained for legal services on the DART Central Station project, 2) evidence that federal requirements, required clauses, and certifications were included with the Authority's purchase order for the purchase of laptops and software obtained with the state of Iowa's contract with the related vendor, and 3) evidence of federal requirements, clauses, and certifications related to DART's purchase of the telephone system at DART Central Station. The total federal money related to these purchases was \$472,000.

Cause: The Authority has recently experienced significant turnover in procurement management. For this reason, management was unaware of the procurement procedures utilized when the above contracts were executed and was unable to locate certain documentation.

Effect: The Authority did not have sufficient internal controls in place to ensure compliance with contract requirements outlined in FTA Circular 4220.1E, therefore, the FTA could potentially withhold funding under the applicable grants.

Questioned Costs: None

Recommendation: Management should include standard federal clauses in all contracts and set up a records retention policy to maintain written records of all contracts and projects related to Federal funding.

Management Response: Management has since hired new procurement staff in early fiscal year 2014. Management and incumbent staff have implemented a uniformed filing system to ensure future procurements and contracts are properly managed and accessible when needed. The Procurement Department will also be a participant in the Electronic Data Management System where contracts and documentation can be stored and managed more effectively.