

**SOUTHERN IOWA TROLLEY**

**Independent Auditor's Reports  
Financial Statements and Required Supplementary Information  
Schedule of Findings**

**June 30, 2015**



**Shull, Schrum, McClafin  
& Co., Inc.**  
certified public accountants

SOUTHERN IOWA TROLLEY

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# SOUTHERN IOWA TROLLEY

## OFFICIALS

### Board of Trustees (after December 2014)

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Steve Shelley	Chairperson	Adair County
Linda England	Vice-Chairperson	Adams County
Lois Monday	Secretary-Treasurer	Union County
Larry Keller	Trustee	Clarke County
Gary Boswell	Trustee	Decatur County
Kraig Pennington	Trustee	Ringgold County
Jerry Murphy	Trustee	Taylor County

### Board of Trustees (before January 2015)

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Myron Manley	Chairperson	Clarke County
Linda England	Vice-Chairperson	Adams County
Lois Monday	Secretary-Treasurer	Union County
Steve Shelley	Trustee	Adair County
Gary Boswell	Trustee	Decatur County
Kraig Pennington	Trustee	Ringgold County
Jerry Murphy	Trustee	Taylor County



Shull, Schrum, McClafline  
& Co., Inc.  
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Southern Iowa Trolley

**Report on the Financial Statements**

We have audited the accompanying financial statements of Southern Iowa Trolley as of and for the year ended June 30, 2015, and the related Notes to Financial Statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 auditor's 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 relevant to Southern Iowa Trolley'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 Southern Iowa Trolley'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.

1111 North Jefferson  
Indianola, Iowa 50125  
515-961-2571 • Fax 515-961-4253

133 W. Washington  
Osceola, Iowa 50213  
641-342-2611 • Fax 641-342-2746

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Iowa Trolley as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

## Emphasis of Matter

As discussed in Note 6 to the financial statements, Southern Iowa Trolley adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of Southern Iowa Trolley's Proportionate Share of the Net Pension Liability and the Schedule of Southern Iowa trolley's Contributions information on pages 4 through 7 and pages 20 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries; the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015 on our consideration of Southern Iowa Trolley's internal control over financial reporting and 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 Southern Iowa Trolley's internal control over financial reporting and compliance.

*Shull, Schrum, McClellan & Co., Inc.*

December 2, 2015

# SOUTHERN IOWA TROLLEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Southern Iowa Trolley (the Organization) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Organization's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- The Organization's operating revenues decreased 3.1%, or \$17,338 from fiscal 2014 to fiscal 2015. Farebox and ticket revenue increased and invoiced transportation service revenue decreased.
- The Organization's nonoperating revenues increased 12.1% or \$84,185 from fiscal year 2014 to fiscal year 2015. Federal capital grants increased and federal operating grants and area agency on aging support decreased.
- The Organization's operating expenses were 2.4%, or \$31,244, less in fiscal 2015 than in fiscal 2014.
- The Organization's net position increased 9.5% or \$36,707 from June 30, 2014 to June 30, 2015.

### USING THIS ANNUAL REPORT

Southern Iowa Trolley is a 28E organization and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to the Organization's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Organization's financial activities.

The Statement of Net Position presents information on the Organization's assets and deferred outflows of resources less the Organization's liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Organization is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Organization's operating revenues and expenses, non-operating revenues and expenses and whether the Organization's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Organization's cash and cash equivalents during the year. This information can assist readers of the report in determining how the Organization financed its activities and how it met its cash requirements.

# SOUTHERN IOWA TROLLEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2015

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with the Organization's proportionate share of the net pension liability and related contributions.

### FINANCIAL ANALYSIS OF THE ORGANIZATION

#### *Statement of Net Position*

As noted earlier, net position may serve over time as a useful indicator of the Organization's financial position. The Organization's net position at the end of fiscal 2015 totaled \$421,000. This compares to approximately \$384,000 at the end of fiscal 2014. A summary of the Organization's net position is presented below.

Net Position	2015	2014 (not restated)
Current assets	\$ 166,440	241,498
Capital assets at cost, less accumulated depreciation	764,635	681,686
Total assets	931,075	923,184
 Deferred outflows of resources	 90,526	 -
Current liabilities	58,604	50,043
Noncurrent liabilities	392,193	-
Total liabilities	450,797	50,043
 Deferred inflows of resources	 149,571	 -
Net position:		
Net investment in capital assets	764,635	681,686
Unrestricted	(343,402)	191,455
Total net position	\$ 421,233	873,141

The unrestricted portion of the Organization's net position must be raised to meet the Organization's obligations as they come due. The net investment in capital assets (e.g., vehicles and equipment), portion of net position are resources allocated to capital assets.

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during the fiscal year 2015. The beginning net position was restated \$488,615 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

SOUTHERN IOWA TROLLEY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2015

*Statement of Revenues, Expenses and Changes in Net Position*

Operating revenues are received for transportation services and member government support. Operating expenses are expenses paid to provide the transportation services. Non-operating revenues are for federal and state grants and area agency on aging support. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014 is presented below:

Changes in Net Position	2015	2014 (not restated)
Operating revenues:		
Invoiced transportation services revenue	\$ 360,696	392,419
Farebox and ticket revenue	104,793	87,843
Member support	58,807	57,392
Miscellaneous	10,628	14,608
Total operating revenues	534,924	552,262
Operating expenses:		
Salaries and wages	690,955	664,850
Payroll taxes	58,992	58,885
Pension expense	23,455	57,786
Workers compensation insurance	33,064	41,811
Employee screenings	5,385	2,947
Uniforms	4,848	3,002
Fuel	132,899	159,397
Vehicle maintenance	70,435	47,253
Insurance	66,773	69,183
Depreciation	115,755	126,995
Occupancy	35,524	36,903
Telephone	8,571	8,163
Office supplies	7,551	6,561
Equipment and maintenance	2,339	1,846
Printing and publicity	6,201	2,916
Dues and subscriptions	2,720	2,577
Travel and meetings	5,206	2,870
Professional fees	6,457	12,908
Other	2,111	3,632
Total operating expenses	1,279,241	1,310,485
Operating income (loss)	(744,317)	(758,223)
Non-operating revenues:		
Federal operating grant	306,072	343,444
State operating grant	277,784	276,195
Federal capital grants	155,588	16,348
Area Agency on Aging support	41,580	60,852
Total non-operating revenues	781,024	696,839
Change in net position	36,707	(61,384)
Net position beginning of year, as restated	384,526	934,525
Net position end of year	\$ 421,233	873,141

## SOUTHERN IOWA TROLLEY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) June 30, 2015

The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year with an increase in net position at the end of the fiscal year.

In fiscal 2015, operating revenues decreased by \$17,338, or 3.1%, primarily a result of decreased transportation services revenue. Operating expenses decreased \$31,244, or 2.4%. The decrease was primarily a result of decreases in fuel, pension, depreciation and insurance expenses offset by increased salaries and wages and vehicle maintenance.

#### *Statement of Cash Flows*

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing and capital and related financing activities. Cash used by operating activities includes transportation services revenues and member support, reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase of capital assets offset by capital grants received. Cash provided by noncapital investing activities includes operating grants received.

#### **CAPITAL ASSETS**

At June 30, 2015, the Association had approximately \$765,000 invested in capital assets, net of accumulated depreciation of approximately \$1,239,000. Depreciation expense totaled \$115,755 for fiscal 2015. More detailed information about the Organization's capital assets is presented in Note 3 to the financial statements.

#### **ECONOMIC FACTORS**

Southern Iowa Trolley improved its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Organization officials. Some of the realities which may potentially become challenges for the Organization to meet are:

- Facilities and equipment at the Organization require constant maintenance and upkeep as well as periodic replacement.
- The Organization is heavily dependent on governmental grants and other support in order to provide economical services.

The Organization anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Organization's ability to react to unknown issues.

#### **CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Transit Director, Southern Iowa Trolley, 215 E. Montgomery Street, Creston, Iowa 50801.

SOUTHERN IOWA TROLLEY

Statement of Net Position  
June 30, 2015

ASSETS	
Current assets	
Cash	\$ 44,436
Accounts receivable	45,486
Operating grant receivable	76,518
	166,440
Noncurrent assets	
Capital assets, net of accumulated depreciation	764,635
Total assets	931,075
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows	90,526
LIABILITIES	
Current liabilities	
Accounts payable	28,948
Salaries and benefits payable	14,566
Compensated absences payable	15,090
	58,604
Noncurrent liabilities	
Net Pension liability	392,193
Total liabilities	450,797
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues - pension related deferred inflows	149,571
NET POSITION	
Net investment in capital assets	764,635
Unrestricted (deficit)	(343,402)
Total net position	\$ 421,233

See notes to financial statements.

## SOUTHERN IOWA TROLLEY

### Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2015

Operating revenues	
Invoiced transportation services revenue	\$ 360,696
Farebox and ticket revenue	104,793
Member operating support	58,807
Miscellaneous	10,628
Total operating revenue	534,924
Operating expenses	
Salaries and wages	690,955
Payroll taxes	58,992
Pension expense	23,455
Workers compensation insurance	33,064
Employee screenings	5,385
Uniforms	4,848
Fuel	132,899
Vehicle maintenance	70,435
Insurance	66,773
Depreciation	115,755
Occupancy	35,524
Telephone	8,571
Office supplies	7,551
Equipment maintenance	2,339
Printing and publicity	6,201
Dues and subscriptions	2,720
Travel and meetings	5,206
Professional fees	6,457
Other	2,111
Total operating expenses	1,279,241
Operating income (loss)	(744,317)
Nonoperating revenues	
Federal operating grant	306,072
State operating grant	277,784
Federal capital grants	155,588
Area Agency on Aging support	41,580
Total nonoperating revenues	781,024
Change in net position	36,707
Net position, beginning of year, as restated	384,526
Net position, end of year	\$ 421,233

See notes to financial statements.

# SOUTHERN IOWA TROLLEY

## Statement of Cash Flows Year Ended June 30, 2015

Cash flows from operating activities	
Cash received from transportation services	\$ 458,718
Cash received from member support	58,807
Cash received from other operating revenue	10,628
Cash paid to employees for services	(813,245)
Cash paid to suppliers for goods and services	(380,429)
Net cash used by operating activities	<u>(665,521)</u>
Cash flows from non-capital financing activities	
Federal grants received	314,323
State grants received	277,784
Area Agency on Aging support received	41,580
Net cash provided by noncapital financing activities	<u>633,687</u>
Cash flows from capital and related financing activities	
Federal capital grants received	161,848
Purchases of capital assets	(195,674)
Net cash used by capital and related financing activities	<u>(33,826)</u>
Net decrease in cash	(65,660)
Cash, beginning of year	110,096
Cash, end of year	<u>\$ 44,436</u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (744,317)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	115,755
Increase in accounts and grants receivable	(6,771)
Decrease in prepaid expenses	1,658
Increase in accounts and salaries and benefits payable	6,306
Decrease in compensated absences payable	(775)
Decrease in net pension liability	(154,208)
Increase in deferred outflows of resources	(32,740)
Increase in deferred inflows of resources	149,571
Net cash used by operating activities	<u>\$ (665,521)</u>

See notes to financial statements.

# SOUTHERN IOWA TROLLEY

Notes to Financial Statements  
June 30, 2015

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southern Iowa Trolley (the Organization) was formed in 2012 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Organization is to provide safe and reliable transportation to the general public in the member counties. Primary customer groups are persons with disabilities, the elderly and students.

The Organization is governed by a Board of Trustees composed of one representative from each of the seven member counties of Adair, Adams, Clarke, Decatur, Ringgold, Taylor and Union.

The Organization's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

### A. Reporting Entity

For financial reporting purposes, the Organization has included all funds, organizations, agencies, boards, commissions and authorities. The Organization 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 Organization are such that exclusion would cause the Organization's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Organization 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 Organization. The Organization has no component units which meet the Governmental Accounting Standards Board criteria.

### B. Basis of Presentation

The accounts of the Organization are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Organization distinguishes operating revenues and expenses from non-operating items. Operation revenues and expenses generally result from providing services and producing and delivering goods in connection with the Organization's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash – The Organization considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Organization as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Equipment and vehicles	\$ 2,000

Capital assets of the Organization are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Equipment and vehicles	5 - 10

# SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences – The Organization's employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Organization's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2015.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Organization's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Organization 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 Organization; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district

The Organization had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. CAPITAL ASSETS

A summary of capital assets for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets being depreciated				
Vehicles	\$ 1,976,933	182,691	(229,409)	1,930,215
Equipment	57,334	16,013	-	73,347
	<u>2,034,267</u>	<u>198,704</u>	<u>(229,409)</u>	<u>2,003,562</u>
Less accumulated depreciation for				
Vehicles	1,321,080	107,831	(229,409)	1,199,502
Equipment	31,501	7,924	-	39,425
	<u>1,352,581</u>	<u>115,755</u>	<u>(229,409)</u>	<u>1,238,927</u>
Total capital assets, net	<u>\$ 681,686</u>	<u>82,949</u>	<u>-</u>	<u>764,635</u>

4. PENSION PLAN

Plan Description – IPERS membership is mandatory for employees of the Organization except those covered by another retirement system. Employees of the Organization are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

## SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

### 4. PENSION PLAN (Continued)

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

4. PENSION PLAN (Continued)

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95% of pay and the Organization contributed 8.93% for a total rate of 14.88%.

The Organization's total contributions to IPERS for the year ended June 30, 2015 were \$60,832.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Organization reported a liability of \$392,193 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on the Organization's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Organization's collective proportion was 0.009691 percent which was an increase of 0.000041 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the Organization recognized pension expense of \$23,455. At June 30, 2015, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,262	-
Changes of assumptions	17,308	-
Net difference between projected and actual earnings on pension plan investments	-	149,571
Changes in proportion and differences between Organization contributions and proportionate share of contributions	8,124	-
Contributions subsequent to the measurement date	60,832	-
Total	<u>\$ 90,526</u>	<u>149,571</u>

SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

4. PENSION PLAN (Continued)

\$60,832 reported as deferred outflows of resources related to pensions resulting from the Organization contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year Ended June 30,		
2016	\$	(28,009)
2017		(28,009)
2018		(28,009)
2019		(28,008)
2020		(7,842)
	\$	<u>(119,877)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 - 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

4. PENSION PLAN (Continued)

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Organization will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Organization’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Organization’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Organization’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Organization's proportionate share of the net pension liability	\$ 741,038	\$ 392,193	\$ 97,732

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

SOUTHERN IOWA TROLLEY

Notes to Financial Statements - Continued  
June 30, 2015

5. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Organization assumes liability for any deductibles and claims in excess of coverage limitations.

6. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 873,141
Net pension liability at June 30, 2014	(546,401)
Change deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>57,786</u>
Net position July 1, 2014, as restated	<u>\$ 384,526</u>

SOUTHERN IOWA TROLLEY

Schedule of Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
Last Fiscal Year\*

Required Supplementary Information

	<u>2015</u>
Organization's proportion of the net pension liability	0.009691%
Organization's proportionate share of the net pension liability	\$ 392,193
Organization's covered-employee payroll	\$ 681,209
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.14%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\*The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Organization will present information for those years for which information is available.

See accompanying independent auditor's report.

SOUTHERN IOWA TROLLEY

Schedule of Contributions

Iowa Public Employees' Retirement System  
Last 10 Fiscal Years

Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 60,832	57,786	57,528
Contributions in relation to the statutorily required contribution	<u>(60,832)</u>	<u>(57,786)</u>	<u>(57,528)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
Organization's covered-employee payroll	\$ 681,209	647,100	663,529
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

# SOUTHERN IOWA TROLLEY

## Notes to Other Information – Pension Liability

Year ended June 30, 2015

### *Changes of benefit terms:*

Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session.<sup>1</sup> The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

### *Changes of assumptions:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

## SOUTHERN IOWA TROLLEY

### Notes to Other Information – Pension Liability – Continued

Year ended June 30, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



Shull, Schrum, McClafin  
& Co., Inc.  
certified public accountants

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

To the Board of Trustees of  
Southern Iowa Trolley

We have audited in accordance with U.S. generally accepted auditing standards 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 Southern Iowa Trolley as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, and have issued our report thereon dated December 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southern Iowa Trolley's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Iowa Trolley's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Iowa Trolley'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, we identified a deficiency in internal control we consider to be a material weakness and a significant deficiency.

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 a material misstatement of Southern Iowa Trolley's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in the Southern Iowa Trolley's internal control described in the accompanying Schedule of Findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Southern Iowa Trolley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Organization. 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.

### Southern Iowa Trolley's Responses to the Findings

The Southern Iowa Trolley's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Southern Iowa Trolley'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 Southern Iowa Trolley'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Southern Iowa Trolley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Shull, Schrum, McClellan & Co., Inc.*

December 2, 2015

# SOUTHERN IOWA TROLLEY

## Schedule of Findings

Year ended June 30, 2015

### **Findings Related to the Financial Statements:**

#### INTERNAL CONTROL DEFICIENCY:

Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for Southern Iowa Trolley:

1. Accounting system – record keeping for revenues, expenses and related reporting.
2. Disbursements – preparing and approving all vouchers.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Southern Iowa Trolley should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff or Board members.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have a Board member review receipts and disbursements on a test basis.

Conclusion – Response accepted.

### **Other Findings Related to Required Statutory Reporting:**

1. Questionable Expenses – No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
2. Travel Expense – No expenditures of money for travel expenses of spouses of Southern Iowa Trolley officials or employees were noted.
3. Board Minutes – No transactions were found that we believe should have been approved in Southern Iowa Trolley's minutes but were not. However, the minutes did not always indicate the vote of each member present.

Recommendation – Southern Iowa Trolley should ensure the minutes indicate the vote of each member present as required by Chapter 21 of the Code of Iowa.

Response – This recommendation will be followed at future Board meetings.

Conclusion – Response accepted.

SOUTHERN IOWA TROLLEY

Schedule of Findings - Continued

Year ended June 30, 2015

**Other Findings Related to Required Statutory Reporting (Continued):**

4. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.