OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

Contact: Marlys K. Gaston
515/281-5834

FOR RELEASE June 25, 2019

Auditor of State Rob Sand today released an audit report on the Heart of Iowa Regional Transit Agency for the year ended June 30, 2018.

The Heart of Iowa Regional Transit Agency is an intergovernmental agency established to provide and to promote public transportation in Boone, Dallas, Jasper, Madison, Marion, Story and Warren Counties.

The Agency had revenues of $4,469,492 for the year ended June 30, 2018, a 10.7% decrease from the prior year. Revenues included $1,412,845 from federal sources, $711,549 from state sources, $774,004 from local sources and miscellaneous revenues totaling $1,571,094.

Expenses for the year ended June 30, 2018 totaled $5,583,318, a 12.4% increase over the prior year. Expenses included $2,482,307 for salaries and benefits, $1,011,998 for vehicle maintenance and $457,283 for financial assistance to local transit sub-contractors.

A copy of the audit report is available for review on the Auditor of State's web site at https://auditor.iowa.gov/reports/audit-reports.

# # #

HEART OF IOWA REGIONAL TRANSIT AGENCY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

Heart of Iowa Regional Transit Agency

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

June 11, 2019

Officials of the Heart of Iowa Regional Transit Agency
Montgomery, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for the Heart of Iowa Regional Transit Agency for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Heart of Iowa Regional Transit Agency throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

Rob Sand
Auditor of State

Table of Contents

Heart of Iowa Regional Transit Agency

Officials

Name	Title	Representing
	Board of Directors	
Dean Yordi	Chairperson	Warren County
Kim Chapman	Vice Chairperson	Dallas County
Phil Clifton	Secretary/Treasurer	Madison County
Doug Cupples	Member	Jasper County
Lauris Olson	Member	Story County
Bill Zinnel	Member	Boone County
Steve McCombs	Member	Marion County
	Agency	
Julia Castillo	Executive Director	
	Iowa Department of Transportation	
Stuart Anderson	Director of the Office of Public Transit	

Heart of Iowa Regional Transit Agency

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Independent Auditor's Report

To the Board Members of the Heart of Iowa Regional Transit Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Heart of Iowa Regional Transit Agency as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the Agency's financial statements 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 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 opinions 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 the Agency'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 Agency'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Opinions

Basis for Adverse Opinion on the Governmental Activities

As discussed in Note 5, to the financial statements, management has not recorded a total OBEB liability and a deferred outflow of resources or deferred inflows of resources related to other postemployment benefits (OPEB) in the governmental activities and, accordingly, has not recorded an OPEB expense for the current change in that liability, deferred outflows of resources or deferred inflows of resources. U.S. generally accepted accounting principles require OPEB costs attributable to employee service already rendered be accrued as liabilities, deferred outflows of resources, deferred inflows of resources and expenses, which would increase the liabilities, deferred outflows of resources and/or deferred inflow of resources, reduce the net position and change the expenses of the governmental activities. The amount by which this departure affects deferred outflows of resources, liabilities, deferred inflows amount of resources, net position and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on the Governmental Activities" paragraph above, the Statement of Net Position and the Statement of Activities of the governmental activities do not present fairly the financial position of the governmental activities of the Heart of Iowa Regional Transit Agency as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinion

In our opinion, the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the major fund present fairly, in all material respects, the financial position of the Heart of Iowa Regional Transit Agency as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with U.S generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Agency's Proportionate Share of the Net Pension Liability and the Schedule of Agency Contributions on pages 9 through 12 and 28 through 34 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 which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Heart of Iowa Regional Transit Agency's financial statements. The supplementary information included in Schedule 1, the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the 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 U.S. generally accepted auditing standards. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Governmental Activities" paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 11, 2019 on our consideration of the Heart of Iowa Regional Transit Agency'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 solely 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 effectiveness of the Agency's 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 Heart of Iowa Regional Transit Agency's internal control over financial reporting and compliance.

Marlys Gaston

Marlys K. Gaston, CPA
Deputy Auditor of State

June 11, 2019

Heart of Iowa Regional Transit Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Heart of Iowa Regional Transit Agency (Agency) provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2018 and is provided for consideration in conjunction with the Agency's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- The Agency received approximately $2,124,400 during the fiscal year from a combination of federal and state grants, an increase of 24.02%, or approximately $411,000, compared to the previous fiscal year. The increase is due primarily to receiving more federal funding for vehicle purchases in fiscal year 2018.
- Expenses increased 12.4%, or approximately $618,000, over the prior fiscal year due to an increase in rent and insurance, vehicle maintenance and salaries and benefits.
- The Agency's net position at June 30, 2018 decreased 46.2%, or approximately $1,109,600, from June 30, 2017 to June 30, 2018.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

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

The Entity-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the Agency as a whole and present an overall view of the Agency's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the entity-wide financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, the Agency's proportionate share of the net pension liability and related contributions.

Supplementary Information includes the Schedule of Expenditures of Federal Awards, which provides details of various federal programs benefiting the Agency.

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Entity–wide Financial Statements

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Activities presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The Agency's governmental activities are presented in the Statement of Net Position and the Statement of Activities. Governmental activities include state transit assistance, federal transit assistance and other.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the net position of governmental activities.

Net Position of Governmental Activities

	June 30, 2018	June 30, 2017
Current and other assets	$ 837,290	1,838,383
Capital assets	1,498,512	1,446,775
Total assets	2,335,802	3,285,158
Deferred outflows of resources	516,751	536,843
Current liabilities	255,080	137,969
Noncurrent liabilities	1,219,307	1,266,274
Total liabilities	1,474,387	1,404,243
Deferred inflows of resources	84,864	14,820
Net position:		
Net investment in capital assets	1,498,512	1,446,775
Unrestricted	(205,210)	956,163
Total net position	$ 1,293,302	2,402,938

The net position of the Agency decreased 46.2% (from $2,402,938 to $1,293,302) during the year. This decrease is primarily due to less miscellaneous revenues with the changes to Medicaid as well as an increase in vehicle maintenance costs and payroll due to taking over the transportation services in a county where a contractor was used in previous years.

Change in Net Position of Governmental Activities		
	Year ended June 30,	
	2018	2017
Program revenues:		
Federal sources	$ 1,412,845	949,954
State sources	711,549	762,979
Local sources	774,004	889,163
Miscellaneous	1,571,094	2,401,958
Total revenues	4,469,492	5,004,054
Program expenses:		
Financial assistance to local transit subcontractors	457,283	937,836
Local matching services	382,698	325,785
Administration:		
Salaries and benefits	2,482,307	1,871,234
Professional services	249,438	187,084
Telephone	43,022	46,357
Rent and insurance	395,740	276,417
Office supplies	60,541	22,543
Travel and meetings	55,496	15,502
Equipment	-	42,414
Vehicle maintenance	1,011,998	802,259
Advertising	30,531	16,296
Dues	8,877	6,268
Miscellaneous	25,061	55,530
Depreciation	380,326	360,208
Total expenses	5,583,318	4,965,733
Excess of revenues over expenses	(1,113,826)	38,321
Other financing sources, net	4,190	40,088
Change in net position	(1,109,636)	78,409
Net position beginning of year	2,402,938	2,324,529
Net position end of year	$ 1,293,302	2,402,938

In fiscal year 2018, the Agency's total revenues decreased $534,562, or 10.7%, from fiscal year 2017. The decrease was primarily the result of receiving less miscellaneous revenues with the changes to Medicaid.

In fiscal year 2018, the Agency's total expenses increased $617,585, or 12.4%, from fiscal year 2017. The increase was primarily the result of an increase in vehicle maintenance costs and payroll due to taking over the transportation services in a county where a contractor was used in previous years.

BUDGETARY HIGHLIGHTS

As shown in the Budgetary Comparison Schedule, actual revenues exceeded budgeted revenues by $60,630 and actual expenditures were more than budgeted expenditures by $1,243,981. The result was primarily due to having more salaries than anticipated as well as purchasing more buses than planned along with not budgeting for financial assistance to local transit subcontractors. The Agency's actual expenditures exceeded budgeted expenditures at June 30, 2018.

CAPITAL ASSETS AND DEBT

Capital Assets

At June 30, 2018, the Agency had $1,498,512 invested in vehicles and equipment, net of accumulated depreciation. More detailed information about the Agency's capital assets is presented in Note 3 to the financial statements.

Long-Term Debt

At June 30, 2018, the Agency had no long-term debt outstanding.

NEXT YEAR'S BUDGET

Budgeted revenues and expenditures decreased 25.55% and 24.38%, respectively, for fiscal year 2019 from the budgeted fiscal year 2018 revenues and expenses.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our local governments, local transit subcontractors and the citizens of Iowa with a general overview of the Agency's finances to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Heart of Iowa Regional Transit Agency at 2824 104th Street, Urbandale, Iowa 50322.

Financial Statements

Heart of Iowa Regional Transit Agency

Governmental Fund Balance Sheet/Statement of Net Position

June 30, 2018

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and investments	$ 385,956	-	385,956
Accounts receivable	451,334	-	451,334
Capital assets, net of accumulated depreciation of $3,545,953	-	1,498,512	1,498,512
Total assets	837,290	1,498,512	2,335,802
Deferred Outflows of Resources			
Pension related deferred outflows of resources	-	516,751	516,751
Total assets and deferred outflows of resources	$ 837,290		
Liabilities			
Current liabilities:			
Accounts payable	$ 225,733	-	225,733
Compensated absences	-	29,347	29,347
Total current liabilities	225,733	29,347	255,080
Non-current liabilities:			
Net pension liability	-	1,219,307	1,219,307
Total liabilities	225,733	1,248,654	1,474,387
Deferred Inflows of Resources			
Unavailable revenue	8,141	(8,141)	-
Pension related deferred inflows of resources	-	84,864	84,864
Total deferred inflows of resources	8,141	76,723	84,864
Fund Balance/Net position			
Unassigned fund balance	603,416	(603,416)	-
Total liabilities, deferred inflows of resources and fund balance	$ 837,290		
Net position:			
Net investment in capital assets		1,498,512	1,498,512
Unrestricted		(205,210)	(205,210)
Total net position		$ 1,293,302	1,293,302

See notes to financial statements.

Heart of Iowa Regional Transit Agency

Statement of Governmental Fund Revenues,
Expenditures and Changes in Fund Balance/Statement of Activities

Year ended June 30, 2018

	General Fund	Adjustments	Statement of Activities
Revenues			
Program revenues:			
Federal sources	$ 1,412,845	-	1,412,845
State sources	711,549	-	711,549
Local sources	774,004	-	774,004
Miscellaneous	1,567,621	3,473	1,571,094
Total revenues	4,466,019	3,473	4,469,492
Expenditures/Expenses			
Financial assistance to local transit subcontractors	457,283	-	457,283
Local matching services	382,698	-	382,698
Administration:			
Salaries and benefits	2,409,791	72,516	2,482,307
Professional services	249,438	-	249,438
Telephone	43,022	-	43,022
Rent and insurance	395,740	-	395,740
Office supplies	60,541	-	60,541
Travel and meetings	55,496	-	55,496
Equipment	409,791	(409,791)	-
Vehicle maintenance	1,058,701	(46,703)	1,011,998
Advertising	30,531	-	30,531
Dues	8,877	-	8,877
Miscellaneous	25,061	-	25,061
Depreciation	-	380,326	380,326
Total expenditures/expenses	5,586,970	(3,652)	5,583,318
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,120,951)	7,125	(1,113,826)
Other financing sources:			
Insurance reimbursement	28,621	(24,431)	4,190
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(1,092,330)	1,092,330	-
Change in net position	-	(1,109,636)	(1,109,636)
Fund balance/net position beginning of year	1,695,746	707,192	2,402,938
Fund balance/net position end of year	$ 603,416	689,886	1,293,302

See notes to financial statements.

Heart of Iowa Regional Transit Agency

(1) Summary of Significant Accounting Policies

The Heart of Iowa Regional Transit Agency (HIRTA) is an intergovernmental agency established in accordance with the provisions of Chapter 28E of the Code of Iowa. The area of jurisdiction is Region 11, which includes Boone, Dallas, Jasper, Madison, Marion, Story and Warren Counties. The Agency's powers and duties are those authorized by Chapter 28E of the Code of Iowa.

The purpose of the Agency is to permit the local governments in the Central Iowa area to make efficient use of their transit operation powers by enabling them to provide joint services and facilities. It also provides planning advisory services and assistance in preparing special planning documents and applications for its members. In performing its duties, the Agency may contract with and expend funds from federal, state and local agencies, public or semi-public agencies or private individuals or corporations as long as the expenditures are for authorized purposes.

The financial statements of the Heart of Iowa Regional Transit Agency have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The more significant of the Heart of Iowa Regional Transit Agency's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Heart of Iowa Regional Transit Agency has included all funds. The Agency 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 Agency are such that exclusion would cause the Agency'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 Agency 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 Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Entity-wide and Fund Financial Statements

The financial statements on pages 14 and 15 combine both an entity-wide perspective and a governmental fund perspective.

The General Fund comprises the Heart of Iowa Regional Transit Agency's governmental fund. This fund is the general operating fund of the Agency and the difference between assets, liabilities and deferred inflows of resources of the fund is referred to as "fund balance."

The entity-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Agency. Governmental activities are those which normally are supported by intergovernmental revenues.

The Statement of Net Position presents the Agency's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

C. Measurement Focus and Basis of Accounting

The entity-wide 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

When an expenditure is incurred in the governmental fund which can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from the less-restrictive unassigned fund balance.

D. Budget

The Executive Director of the Agency prepares an annual budget for the Agency's general operations. This budget is approved and monitored by the Board.

E. Capital Assets

Capital assets, which include equipment and vehicles, are reported in the Statement of Net Position column in Exhibit A. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Equipment and vehicles	$ 5,000

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

Asset Class	Estimated Useful Lives (In Years)
Equipment	5
Vehicles	5-10

F. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Agency after the measurement date but before the end of the Agency's reporting period.

G. Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded in the Statement of Net Position column in Exhibit A. This liability has been computed based on rates of pay in effect at June 30, 2018.

H. 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.

I. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which 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 governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of passenger fees not collected within sixty days after year end. Deferred inflows of resources in the Statement of Net Position consist of unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets.

J. Fund Balance

In the governmental fund financial statements, fund balances are classified as unassigned as there are no constraints placed on the use of resources.

(2) Cash and Investments

The Agency's deposits in banks at June 30, 2018 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 the depositories to ensure there will be no loss of public funds.

The Agency 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 Board of Directors; 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 Agency had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets being depreciated:				
Vehicles	$ 4,998,049	456,494	(438,719)	5,015,824
Equipment	28,641	-	-	28,641
Total	5,026,690	456,494	(438,719)	5,044,465
Less accumulated depreciation for:				
Vehicles	3,572,831	378,074	(414,288)	3,536,617
Equipment	7,084	2,252	-	9,336
Total	3,579,915	380,326	(414,288)	3,545,953
Capital assets, net	$ 1,446,775	76,168	(24,431)	1,498,512

(4) Pension Plan

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

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 except members with service before June 30, 2012 will use the highest three-year average salary as of that date 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% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month 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.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" 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 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Agency contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Agency's contributions to IPERS for the year ended June 30, 2018 totaled $161,775.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the Agency reported a liability of $1,219,307 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the Agency's proportion was 0.018304%, which was a decrease of 0.001427% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Agency recognized pension expense of $167,718. At June 30, 2018, the Agency 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	$	11,194	10,564
Changes of assumptions		211,859	-
Net difference between projected and actual earnings on IPERS' investments		-	12,735
Changes in proportion and differences between Agency contributions and the Agency's proportionate share of contributions		131,923	61,565
Agency contributions subsequent to the measurement date		161,775	-
Total	$	516,751	84,864

$161,775 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,		Amount
2019	$	89,285
2020		125,098
2021		52,552
2022		(6,947)
2023		10,124
Total	$	270,112

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 24, 2017.

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 IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

<u>Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate</u> – The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Agency's proportionate share of the net pension liability	$ 2,008,929	1,219,307	555,873

<u>IPERS Fiduciary Net Position</u> – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at <u>www.ipers.org</u>.

<u>Payable to IPERS</u> – All legally required Agency contributions and legally required employee contributions which had been withheld from employee wages were remitted by the Agency to IPERS by June 30, 2018.

(5) Other Postemployment Benefits (OPEB)

The individual Agency employees are also provided other postemployment benefits. U.S. generally accepted accounting principles require deferred outflows of resources, liabilities, deferred inflows of resources and related expenses to be recorded when incurred for other postemployment benefits in the governmental activities financial statements. The Heart of Iowa Regional Transit Agency governmental activities financial statements do not report these amounts.

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Compensated Absences	Net Pension Liability	Total
Balance beginning of year	$ 24,515	1,241,759	1,266,274
Increases	4,832	-	4,832
Decreases	-	22,452	22,452
Balance end of year	$ 29,347	1,219,307	1,248,654
Due within one year	$ 29,324	-	29,347

(7) Operating Leases

The Agency has entered into agreements to lease office facilities. These leases are classified as operating leases and, accordingly all rents are charged to expenses as incurred. The leases expire on July 31, 2019, June 30, 2020, July 31, 2020, March 31, 2021 and March 31, 2022. Certain leases are renewable for additional periods. The leases also require the payment of normal maintenance and insurance on the properties.

A schedule of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018 is as follows:

Year ending June 30,	Urbandale Office	Ames Office	Indianola Office	Boone Office	Total
2019	$ 47,833	28,800	11,100	26,400	114,133
2020	43,983	28,800	11,100	26,400	110,283
2021	3,636	-	11,100	20,900	35,636
2022	-	-	8,325	-	8,325
Total	$ 95,452	57,600	41,625	73,700	268,377

Total rent expense for the year ended June 30, 2018 for all operating leases was $180,271.

(8) Contributed Support and Matching Services

Contributed support and matching services of $382,698 were donated to the Agency by local transit subcontractors during the year ended June 30, 2018. These amounts are included in revenues from local sources and local matching services expenditures in the accompanying financial statements.

(9) Risk Management

The Agency 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. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Explanation of the Differences between the Governmental Fund Balance Sheet and the Statement of Net Position

Total fund balance - General Fund		$ 603,416
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund. The cost of assets is $5,044,465 and the accumulated depreciation is $3,545,953.		1,498,512
Other long-term assets are not available to pay current expenditure and, therefore, are recognized as deferred inflows of resources in the governmental funds.		8,141
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental fund, as follows:		
Deferred outflows of resources	$ 516,751	
Deferred inflows of resources	(84,864)	431,887
Certain liabilities applicable to the Agency's governmental activities are not due and payable in the current year and, therefore, are not reported as governmental fund liabilities, as follows:		
Compensated absences	(29,347)	
Net pension liability	(1,219,307)	(1,248,654)
Net position of governmental activities		$ 1,293,302

(11) Explanation of the Differences between the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities

Change in fund balance - General Fund		$ (1,092,330)
The governmental fund reports capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	$ 456,494	
Depreciation expense	(380,326)	76,168
In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas, the governmental funds report the proceeds from the disposition as an increase in financial resources.		(24,431)
Because some revenues will not be collected for several months after the Agency's year end, they are not considered available revenues and are not recognized as deferred inflows of resources in the governmental funds.		3,473
The current year Agency share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the Statement of Net Position.		161,775
Certain expenditures reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund, as follows:		
Compensated absences	(4,832)	
Pension expense	(229,459)	(234,291)
Change in net position of governmental activities		$ (1,109,636)

Required Supplementary Information

Heart of Iowa Regional Transit Agency

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund

Required Supplementary Information

Year ended June 30, 2018

	Actual	Less Funds Not Required to be Budgeted	Net
Revenues:			
Federal sources	$ 1,412,845	-	1,412,845
State sources	711,549	-	711,549
Local sources	774,004	382,698	391,306
Miscellaneous	1,567,621	-	1,567,621
Total revenues	4,466,019	382,698	4,083,321
Expenditures:			
Financial assistance to local transit subcontractors	457,283	-	457,283
Local matching services	382,698	382,698	-
Administration:			
Salaries and benefits	2,409,791	-	2,409,791
Professional services	249,438	-	249,438
Telephone	43,022	-	43,022
Rent and insurance	395,740	-	395,740
Office supplies	60,541	-	60,541
Travel and meetings	55,496	-	55,496
Equipment	409,791	-	409,791
Vehicle maintenance	1,058,701	-	1,058,701
Advertising	30,531	-	30,531
Dues	8,877	-	8,877
Miscellaneous	25,061	-	25,061
Total expenditures	5,586,970	382,698	5,204,272
Excess (deficiency) of revenues over (under) expenditures	(1,120,951)	-	(1,120,951)
Other financing sources	28,621	-	28,621
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(1,092,330)	-	(1,092,330)
Fund balance beginning of year	1,695,746	-	1,695,746
Fund balance end of year	$ 603,416	-	603,416

See accompanying independent auditor's report.

Budgeted Amounts		Favorable (Unfavorable)
Original	Final	Variance
881,469	881,469	531,376
704,208	704,208	7,341
359,418	359,418	31,888
2,063,596	2,077,596	(509,975)
4,008,691	4,022,691	60,630
-	-	(457,283)
-	-	-
2,095,088	2,066,588	(343,203)
283,500	283,500	34,062
56,000	56,000	12,978
321,250	345,194	(50,546)
14,200	14,200	(46,341)
34,300	34,300	(21,196)
140,809	140,309	(269,482)
974,693	965,400	(93,301)
18,400	18,400	(12,131)
8,800	8,800	(77)
27,600	27,600	2,539
3,974,640	3,960,291	(1,243,981)
34,051	62,400	(1,183,351)
4,000	4,000	24,621
38,051	66,400	(1,158,730)
869,788	869,788	825,958
907,839	936,188	(332,772)

Heart of Iowa Regional Transit Agency

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2018

The Executive Director of the Heart of Iowa Regional Transit Agency prepares an annual budget for the Agency's general operations. This budget is approved and monitored by the Board. Budgetary control is based on total expenditures.

There was one budget amendment during the year ended June 30, 2018 which decreased budgeted expenditures by $14,349. The budget amendment is reflected in the final budgeted amounts.

Heart of Iowa Regional Transit Agency

Schedule of the Agency's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Four Years*
(In Thousands)

Required Supplementary Information

	2018	2017	2016	2015
Agency's proportion of the net pension liability	0.018304%	0.019731%	0.019680%	0.016845%
Agency's proportionate share of the net pension liability	$ 1,219	1,242	972	668
Agency's covered payroll	$ 1,389	1,423	1,368	1,115
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	87.76%	87.28%	71.05%	59.91%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Heart of Iowa Regional Transit Agency

Schedule of Agency Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years*
(In Thousands)

Required Supplementary Information

		2018	2017	2016	2015
Statutorily required contribution	$	161	124	127	122
Contributions in relation to the statutorily required contribution		(161)	(124)	(127)	(122)
Contribution deficiency (excess)	$	-	-	-	-
Agency's covered payroll	$	1,801	1,389	1,423	1,368
Contributions as a percentage of covered payroll		8.94%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
98	77	19	7	5	5
(98)	(77)	(19)	(7)	(5)	(5)
-	-	-	-	-	-
1,115	883	237	103	78	77
8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) 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.

Supplementary Information

Heart of Iowa Regional Transit Agency

Heart of Iowa Regional Transit Agency

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Grantor/ Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Formula Grants for Rural Areas ($155,472 paid to subrecepients)	20.509	2016-018-01-110-FY18/19685	827,180
	20.509	TFR18	16,653
			843,833
New Freedom Program	20.521	57-X008-110-17/18881	54,923
	20.521	57-X008-110-17/18880	24,625
			79,548
Bus and Bus Facilities Formula Program	20.526	2016-019-110-16/18540	178,866
	20.526	2017-002-110-17/18929	206,998
			385,864
U.S. Department of Health and Human Services:			
Aging Resources of Central Iowa:			
Aging Cluster:			
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	Title III/ES: Assisted Transportation/Transportation	103,600
Total			$ 1,412,845

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Heart of Iowa Regional Transit Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The Heart of Iowa Regional Transit Agency has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

Heart of Iowa Regional Transit Agency

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Members of the Heart of Iowa Regional Transit Agency:

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 the governmental activities and the major fund of the Heart of Iowa Regional Transit Agency as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated June 11, 2019. Our report expressed an unmodified opinion on the financial statements of the major fund. Our report expressed an adverse opinion on the financial statements of the governmental activities due to not recording a total OPEB liability and a deferred outflow of resources related to other postemployment benefits (OPEB).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Heart of Iowa Regional Transit Agency'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 the Heart of Iowa Regional Transit Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Heart of Iowa Regional Transit Agency'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 have not been 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 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 the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-A-18 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-B-18 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Heart of Iowa Regional Transit Agency'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 that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matter which is described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. 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.

The Heart of Iowa Regional Transit Agency's Response to the Findings

The Heart of Iowa Regional Transit Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Heart of Iowa Regional Transit Agency'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 Agency'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 Agency'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 Heart of Iowa Regional Transit Agency 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.

Marlys Gaston

Marlys K. Gaston, CPA
Deputy Auditor of State

June 11, 2019

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board Members of the Heart of Iowa Regional Transit Agency:

Report on Compliance for Each Major Federal Program

We have audited the Heart of Iowa Regional Transit Agency's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2018. The Heart of Iowa Regional Transit Agency's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Heart of Iowa Regional Transit Agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Heart of Iowa Regional Transit Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Heart of Iowa Regional Transit Agency's compliance.

Opinion on the Major Federal Program

In our opinion, the Heart of Iowa Regional Transit Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The management of the Heart of Iowa Regional Transit Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Heart of Iowa Regional Transit Agency's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Heart of Iowa Regional Transit Agency's internal control over compliance.

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

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marlys Gaston

Marlys K. Gaston, CPA
Deputy Auditor of State

June 11, 2019

Heart of Iowa Regional Transit Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part I: Summary of the Independent Auditor's Results:

(a) An adverse opinion was issued on the governmental activities' financial statements and an unmodified opinion was issued major fund's financial statements.

(b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.

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

(d) No material weaknesses in internal control over the major program were noted.

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

(f) The audit did not disclose audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.516.

(g) The major program was CFDA Number 20.509 – Formula Grants for Rural Areas.

(h) The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

(i) The Heart of Iowa Regional Transit Agency did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the financial statements.

Condition – Material amounts of payables were not properly recorded in the financial statements. Adjustments were subsequently made to properly include these amounts in the financial statements.

Cause – Policies do not require and procedures have not been established to require independent review of year end cut-off transactions to ensure the financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the financial statements were necessary.

Recommendation – HIRTA should establish procedures to ensure all payables are identified and properly reported in the financial statements.

Response – HIRTA will include a procedure in our Accounting Manual to detect and ensure corrections are made in a timely manner.

Conclusion – Response accepted.

II-B-18 Budgets

Criteria – An effective internal control system provides for budgets to be prepared for the fiscal year. This budget should be reviewed by the Board monthly. If an expenditure line item is expected to go over budget, an amendment should be made.

Conditions – The following line items went over budget: financial assistance to local transit subcontractors, salaries and benefits, rent and insurance, office supplies, travel and meetings, equipment, vehicle maintenance, advertising and dues.

Cause – Policies and procedures have not been established and procedures have not been implemented for the Board to review the budget and make an amendment if needed.

Effect – The lack of review of the budget could affect HIRTA's ability to prevent or detect certain line items going over budget on a timely basis in the normal course of operations.

Recommendation – Policies and procedures should be established for the Board to review the budget and make an amendment if needed.

Response – HIRTA will establish a procedure to have Executive Director identify line-items over budget, and present amendments to Board semi-annually for approval.

Conclusion – Response accepted.

INSTANCES OF NON COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-18 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-B-18 Travel Expense – No expenditures for travel expenses of spouses of Agency officials or employees were noted.

IV-C-18 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 and the Agency's investment policy were noted.

IV-D-18 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Summaries of the minutes were not published timely for three of sixteen minutes. Chapter 28E.6(3)(a) of the Code of Iowa requires the Agency to publish a summary of the proceedings of each regular, adjourned or special meeting of the Board, including the schedule of bills allowed. This information is to be published in one newspaper of general circulation within the geographic area served by the Agency. The Agency is required to furnish the summary of the proceedings for publication to the newspaper within 20 days following adjournment of the meeting.

Recommendation – The Agency should publish a summary of minutes in accordance with Chapter 28E.6(3)(a) of the Code of Iowa.

Response – We have discussed this internally and have a procedure in place to get minutes ready to publish within the 20 days. This was something we learned from last years audit, so the 3 that were not timely may have fallen into the timeframe before our fiscal year 2017 audit was completed.

Conclusion – Response accepted.

Heart of Iowa Regional Transit Agency

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Brian R. Brustkern, CPA, Manager
Premnarayan Gobin, Staff Auditor
Jon G. Hanson, Assistant Auditor
Matthew K. Nnanna, Assistant Auditor
Ethan M. Snedigar, Assistant Auditor