



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE March 17, 2016

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Auditor of State Mary Mosiman today released an audit report on the Heart of Iowa Regional Transit Agency for the year ended June 30, 2015.

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 \$6,209,157 for the year ended June 30, 2015, a 25.1% increase over the prior year. Revenues included \$1,250,705 from federal sources, \$648,162 from state sources, \$3,581,128 from local sources and miscellaneous revenues totaling \$729,162.

Expenses for the year ended June 30, 2015 totaled \$6,097,116, an 18.7% increase over the prior year. Expenses included \$2,068,344 for local matching services, \$1,669,066 for salaries and benefits and \$943,064 for vehicle maintenance.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1514-2402-B00F.pdf>.

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HEART OF IOWA REGIONAL TRANSIT AGENCY

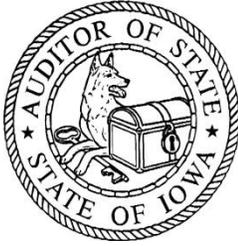
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2015

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Heart of Iowa Regional Transit Agency



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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, 2015, 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Heart of Iowa Regional Transit Agency as of June 30, 2015, and the respective changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 11, the Heart of Iowa Regional Transit Agency adopted new accounting guidance related to 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 and the Budgetary Comparison Information on pages 9 through 12 and 28 through 35 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 U.S. Office of Management and budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the 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. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Heart of Iowa Regional Transit Agency's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2016

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, 2015 and is provided for consideration in conjunction with the Agency's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- The Agency implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, during fiscal year 2015. The beginning net position for governmental activities was restated by \$626,808 to retroactively report the net pension liability as of July 1, 2014 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Pension expense for fiscal year 2014 and the net pension liability, deferred outflows of resources and deferred inflows of resources at June 30, 2014 were not restated because the information needed to restate those amounts was not available.
- The Agency received \$1,898,867 during the fiscal year from a combination of federal and state grants, an increase of 12.9%, or \$217,172, compared to the previous fiscal year. The increase is due primarily to receiving additional federal funding for Warren County in fiscal year 2015.
- Expenses increased 18.7%, or \$960,283, over the prior fiscal year due to an increase in salaries and benefits, vehicle maintenance and local matching services, due primarily to providing expanded services in Warren County.
- The Agency's net position at June 30, 2015 increased 6.6%, or \$139,559, over the restated June 30, 2014 balance.

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 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 displayed 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, | |
| | 2015 | 2014 (Not Restated) |
| Current and other assets | \$ 1,321,712 | 1,176,881 |
| Capital assets | 1,759,822 | 1,833,840 |
| Total assets | 3,081,534 | 3,010,721 |
| Deferred outflows of resources | 328,563 | - |
| Current liabilities | 232,090 | 268,329 |
| Noncurrent liabilities | 668,078 | - |
| Total liabilities | 900,168 | 268,329 |
| Deferred inflows of resources | 254,786 | - |
| Net position: | | |
| Net investment in capital assets | 1,759,822 | 1,833,840 |
| Unrestricted | 495,321 | 908,552 |
| Total net position | \$ 2,255,143 | 2,742,392 |

Prior to restatement, the net position of the Agency decreased 17.8% (from \$2,742,392 to \$2,255,143) during the year. This decrease is primarily due to depreciation on the Agency's bus and van fleet.

| Change in Net Position of Governmental Activities | | |
|---|---------------------|------------------------|
| | Year ended June 30, | |
| | 2015 | 2014 (Not Restated) |
| Program revenues: | | |
| Federal sources | \$ 1,250,705 | 1,075,531 |
| State sources | 648,162 | 606,164 |
| Local sources | 3,581,128 | 2,570,943 |
| Miscellaneous | 729,162 | 711,173 |
| Total revenues | <u>6,209,157</u> | <u>4,963,811</u> |
| Program expenses: | | |
| Financial assistance to local transit subcontractors | 561,626 | 710,598 |
| Local matching services | 2,068,344 | 1,383,701 |
| Administration: | | |
| Salaries and benefits | 1,669,066 | 1,371,485 |
| Professional services | 53,832 | 95,789 |
| Telephone | 37,268 | 19,277 |
| Rent and insurance | 154,206 | 158,024 |
| Office supplies | 19,439 | 20,282 |
| Travel and meetings | 11,939 | 4,775 |
| Equipment | 60,273 | 17,738 |
| Vehicle maintenance | 943,064 | 826,741 |
| Advertising | 12,609 | 5,899 |
| Dues | 5,943 | 5,733 |
| Miscellaneous | 141,261 | 119,401 |
| Depreciation | 358,246 | 397,390 |
| Total expenses | <u>6,097,116</u> | <u>5,136,833</u> |
| Excess (deficiency) of revenues over (under) expenses | 112,041 | (173,022) |
| Other financing sources, net | <u>27,518</u> | <u>3,984</u> |
| Change in net position | 139,559 | (169,038) |
| Net position beginning of year, as restated | <u>2,115,584</u> | <u>2,911,430</u> |
| Net position end of year | <u>\$ 2,255,143</u> | <u>2,742,392</u> |

In fiscal year 2015, the Agency's total revenues increased \$1,245,346, or 25.1%, from fiscal year 2014. The increase was primarily the result of receiving more local match and revenues from federal sources.

BUDGETARY HIGHLIGHTS

As shown in the Budgetary Comparison Schedule, actual revenues exceeded budgeted revenues by \$173,065 and actual expenditures were more than budgeted expenditures by \$138,439. The result was primarily due to earning more state revenue than budgeted. Although the Agency amended the budget on March 26, 2015, actual expenditures exceeded budgeted expenditures.

CAPITAL ASSETS AND DEBT

Capital Assets

At June 30, 2015, the Agency had \$1,759,822 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, 2015, the Agency had no long-term debt outstanding.

NEXT YEAR'S BUDGET

Budgeted revenues and expenditures increased 2.1% and 5.4%, respectively, for fiscal year 2016 over the actual fiscal year 2015 revenues and expenses. As services continue to expand, additional revenue is generated and salaries and benefits increase.

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

Exhibit A

Heart of Iowa Regional Transit Agency
Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2015

| | General Fund | Adjustments | Statement of Net Position |
|--|---------------------|---------------------|------------------------------|
| Assets | | | |
| Cash and investments | \$ 495,955 | - | 495,955 |
| Accounts receivable | 825,657 | - | 825,657 |
| Prepaid expenditures | 100 | - | 100 |
| Capital assets, net of accumulated depreciation of \$2,941,486 | - | 1,759,822 | 1,759,822 |
| Total assets | 1,321,712 | 1,759,822 | 3,081,534 |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows of resources | - | 328,563 | 328,563 |
| Total assets and deferred outflows of resources | <u>\$ 1,321,712</u> | | |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 216,195 | - | 216,195 |
| Compensated absences | - | 15,895 | 15,895 |
| Total current liabilities | 216,195 | 15,895 | 232,090 |
| Non-current liabilities: | | | |
| Net pension liability | - | 668,078 | 668,078 |
| Total liabilities | 216,195 | 683,973 | 900,168 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | 13,456 | (13,456) | - |
| Pension related deferred inflows of resources | - | 254,786 | 254,786 |
| Total deferred inflows of resources | 13,456 | 241,330 | 254,786 |
| Fund balance/Net position | | | |
| Unassigned fund balance | 1,092,061 | (1,092,061) | - |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 1,321,712</u> | | |
| Net position: | | | |
| Net investment in capital assets | | 1,759,822 | 1,759,822 |
| Unrestricted | | 495,321 | 495,321 |
| Total net position | | <u>\$ 2,255,143</u> | <u>2,255,143</u> |

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, 2015

| | General Fund | Adjustments | Statement of Activities |
|---|---------------------|------------------|----------------------------|
| Revenues | | | |
| Program revenues: | | | |
| Federal sources | \$ 1,250,705 | - | 1,250,705 |
| State sources | 648,162 | - | 648,162 |
| Local sources | 3,581,128 | - | 3,581,128 |
| Miscellaneous | 715,706 | 13,456 | 729,162 |
| Total revenues | <u>6,195,701</u> | <u>13,456</u> | <u>6,209,157</u> |
| Expenditures/Expenses | | | |
| Financial assistance to local transit | | | |
| subcontractors | 561,626 | - | 561,626 |
| Local matching services | 2,068,344 | - | 2,068,344 |
| Administration: | | | |
| Salaries and benefits | 1,693,319 | (24,253) | 1,669,066 |
| Professional services | 53,832 | - | 53,832 |
| Telephone | 37,268 | - | 37,268 |
| Rent and insurance | 154,206 | - | 154,206 |
| Office supplies | 19,439 | - | 19,439 |
| Travel and meetings | 11,939 | - | 11,939 |
| Equipment | 344,501 | (284,228) | 60,273 |
| Vehicle maintenance | 943,064 | - | 943,064 |
| Advertising | 12,609 | - | 12,609 |
| Dues | 5,943 | - | 5,943 |
| Miscellaneous | 141,261 | - | 141,261 |
| Debt service | 16,239 | (16,239) | - |
| Depreciation | - | 358,246 | 358,246 |
| Total expenditures/expenses | <u>6,063,590</u> | <u>33,526</u> | <u>6,097,116</u> |
| Excess (deficiency) of revenues over (under) | | | |
| expenditures/expenses | 132,111 | (20,070) | 112,041 |
| Other financing sources: | | | |
| Insurance reimbursement | 27,518 | - | 27,518 |
| Excess (deficiency) of revenues and other | | | |
| financing sources over (under) | | | |
| expenditures/expenses | 159,629 | (159,629) | - |
| Change in net position | - | 139,559 | 139,559 |
| Fund balance /net position beginning of year, as restated | 932,432 | 1,183,152 | 2,115,584 |
| Fund balance /net position end of year | <u>\$ 1,092,061</u> | <u>1,163,082</u> | <u>2,255,143</u> |

See notes to financial statements.

Heart of Iowa Regional Transit Agency

Notes to Financial Statements

June 30, 2015

(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.

| <u>Asset Class</u> | <u>Amount</u> |
|------------------------|---------------|
| Equipment and vehicles | \$5,000 |

Capital assets of the Agency 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 | 5 |
| Vehicles | 5-10 |

F. 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/expenditures) 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.

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, 2015.

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 represents 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 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 the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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, 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 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. 3, as amended by Statement No. 40.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|------------------------------------|---------------------------------|-----------|-----------|------------------------|
| Capital assets being depreciated: | | | | |
| Vehicles | \$ 4,410,953 | 284,228 | - | 4,695,181 |
| Equipment | 6,127 | - | - | 6,127 |
| Total | 4,417,080 | 284,228 | - | 4,701,308 |
| Less accumulated depreciation for: | | | | |
| Vehicles | 2,578,032 | 358,246 | - | 2,936,278 |
| Equipment | 5,208 | - | - | 5,208 |
| Total | 2,583,240 | 358,246 | - | 2,941,486 |
| Capital assets, net | \$ 1,833,840 | (74,018) | - | 1,759,822 |

(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 7401 Register Drive, P.O. 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, anytime 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% 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 - 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. 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 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Agency contributed 8.93% for a total rate of 14.88%.

The Agency's contributions to IPERS for the year ended June 30, 2015 were \$122,153.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Agency's liability for its proportionate share of the collective net pension liability totaled \$668,078. The collective net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the collective 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, 2014, the Agency's proportion was 0.016845%, which was a decrease of 0.004214% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Agency recognized pension expense of \$89,646. At June 30, 2015, 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 | \$ 7,261 | - |
| Changes of assumptions | 29,484 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 254,786 |
| Changes in proportion and differences between Agency contributions and the Agency's proportionate share of contributions | 169,665 | - |
| Agency contributions subsequent to the measurement date | 122,153 | - |
| Total | <u>\$ 328,563</u> | <u>254,786</u> |

\$122,153 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, 2016. 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 |
|----------------------------|--------------------|
| 2016 | \$ (15,470) |
| 2017 | (15,470) |
| 2018 | (15,470) |
| 2019 | (15,470) |
| 2020 | 13,504 |
| Total | <u>\$ (48,376)</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% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 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 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:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| 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) |
| Total | <u>100%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. 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.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-----------------------------|---------------------------|
| Agency's proportionate share of the net pension liability | \$ 1,262,314 | \$ 668,078 | \$ 166,481 |

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

Payable to IPERS - 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, 2015.

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

| | Loan | Compensated Absences | Net Pension Liability | Total |
|---------------------------|-----------|-------------------------|--------------------------|--------|
| Balance beginning of year | \$ 16,239 | 7,641 | 725,243 | 23,880 |
| Increases | - | 8,472 | - | 8,472 |
| Decreases | 16,239 | 218 | 57,165 | 16,457 |
| Balance end of year | \$ - | 15,895 | 668,078 | 15,895 |

During the year ended June 30, 2013, the Agency entered into an interest free loan agreement with the Iowa Department of Transportation for \$32,478 for matching funds for a centralized routing project. The loan agreement required two payments, with the final payment of \$16,239 paid on July 15, 2014.

(6) 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 June 30, 2017. 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, 2015 is as follows:

| Year Ending June 30, | Urbandale Office | Ames Office | Total |
|----------------------------|---------------------|----------------|---------|
| 2016 | \$ 30,156 | 24,150 | 54,306 |
| 2017 | 29,631 | 24,150 | 53,781 |
| 2018 | 29,631 | - | 29,631 |
| Total | \$ 89,418 | 48,300 | 137,718 |

Total rent expense for the year ended June 30, 2015 for all operating leases was \$58,406.

(7) Contributed Support and Matching Services

Contributed support and matching services of \$2,068,344 were donated to the Agency by local transit subcontractors during the year ended June 30, 2015. These amounts are included in revenues from local sources and local matching services expenditures in the accompanying financial statements.

(8) 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.

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

Total fund balance - General Fund \$ 1,092,061

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 \$4,701,308 and the accumulated depreciation is \$2,941,486. 1,759,822

Other long-term assets are not available to pay current year expenditure and, therefore, are recognized as deferred inflows of resources in the governmental funds. 13,456

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 | \$ 328,563 | |
| Deferred inflows of resources | <u>(254,786)</u> | 73,777 |

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 | 15,895 | |
| Net pension liability | <u>668,078</u> | <u>(683,973)</u> |

Net position of governmental activities \$ 2,255,143

(10) 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 \$ 159,629

The governmental fund reports capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

| | | |
|---------------------------------|------------|----------|
| Expenditures for capital assets | \$ 284,228 | |
| Depreciation expense | (358,246) | (74,018) |

Because some revenues will not be collected for several months after the Agency's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds.

13,456

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

16,239

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.

122,153

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 | (8,254) | |
| Pension expense | (89,646) | (97,900) |

Change in net position of governmental activities

\$ 139,559

(11) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 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 Statement 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 are not 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>Governmental Activities</u> |
|--|------------------------------------|
| Net position June 30, 2014, as previously reported | \$ 2,742,392 |
| Net pension liability at June 30, 2014 | (725,243) |
| Deferred outflows of resources related to prior year contributions made after the June 30, 2013 measurement date | <u>98,435</u> |
| Net position July 1, 2014, as restated | <u><u>\$ 2,115,584</u></u> |

Required Supplementary Information

Heart of Iowa Regional Transit Agency

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

Other Information

Year ended June 30, 2015

| | Actual | Less Funds Not Required to be Budgeted | Net |
|--|---------------------|---|------------------|
| Revenues: | | | |
| Federal sources | \$ 1,250,704 | - | 1,250,704 |
| State sources | 648,162 | - | 648,162 |
| Local sources | 3,581,128 | 2,068,344 | 1,512,784 |
| Miscellaneous | 715,707 | - | 715,707 |
| Total revenues | <u>6,195,701</u> | <u>2,068,344</u> | <u>4,127,357</u> |
| Expenditures: | | | |
| Financial assistance to local transit subcontractors | 561,626 | - | 561,626 |
| Local matching services | 2,068,344 | 2,068,344 | - |
| Administration: | | | |
| Salaries and benefits | 1,693,319 | - | 1,693,319 |
| Professional services | 53,832 | - | 53,832 |
| Telephone | 37,268 | - | 37,268 |
| Rent and insurance | 154,206 | - | 154,206 |
| Office supplies | 19,439 | - | 19,439 |
| Travel and meetings | 11,939 | - | 11,939 |
| Equipment | 344,501 | - | 344,501 |
| Vehicle maintenance | 943,064 | - | 943,064 |
| Advertising | 12,609 | - | 12,609 |
| Dues | 5,943 | - | 5,943 |
| Miscellaneous | 141,261 | - | 141,261 |
| Debt service | 16,239 | - | 16,239 |
| Total expenditures | <u>6,063,590</u> | <u>2,068,344</u> | <u>3,995,246</u> |
| Excess of revenues over expenditures | 132,111 | - | 132,111 |
| Other financing sources | 27,518 | - | 27,518 |
| Excess of revenues and other financing sources over expenditures | 159,629 | - | 159,629 |
| Fund balance beginning of year | 932,432 | - | 932,432 |
| Fund balance end of year | <u>\$ 1,092,061</u> | <u>-</u> | <u>1,092,061</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Favorable (Unfavorable) Variance |
|------------------|------------------|--|
| Original | Final | |
| 1,220,600 | 1,220,600 | 30,104 |
| 536,288 | 536,288 | 111,874 |
| 1,449,700 | 1,449,700 | 63,084 |
| 747,004 | 747,704 | (31,997) |
| <u>3,953,592</u> | <u>3,954,292</u> | <u>173,065</u> |
| 561,881 | 557,381 | (4,245) |
| - | - | - |
| 1,682,159 | 1,674,315 | (19,004) |
| 65,286 | 75,986 | 22,154 |
| 39,820 | 23,400 | (13,868) |
| 140,089 | 154,989 | 783 |
| 14,720 | 15,700 | (3,739) |
| 11,200 | 4,600 | (7,339) |
| 236,900 | 288,400 | (56,101) |
| 986,500 | 947,772 | 4,708 |
| 7,100 | 13,800 | 1,191 |
| 6,550 | 6,550 | 607 |
| 61,325 | 77,675 | (63,586) |
| | 16,239 | - |
| <u>3,813,530</u> | <u>3,856,807</u> | <u>(138,439)</u> |
| 140,062 | 97,485 | 34,626 |
| 8,000 | 8,000 | 19,518 |
| 148,062 | 105,485 | 54,144 |
| <u>646,342</u> | <u>646,342</u> | <u>286,090</u> |
| <u>794,404</u> | <u>751,827</u> | <u>340,234</u> |

Heart of Iowa Regional Transit Agency

Notes to Other Information – Budgetary Reporting

June 30, 2015

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 on March 26, 2015 during the year ended June 30, 2015.

Heart of Iowa Regional Transit Agency
Schedule of the Agency's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Required Supplementary Information

| | <u>2015</u> |
|---|-------------|
| Agency's proportion of the net pension liability | 0.016845% |
| Agency's proportionate share of the net pension liability | \$ 668 |
| Agency's covered-employee payroll | \$ 1,115 |
| Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 59.91% |
| 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.
See accompanying independent auditor's report.

Heart of Iowa Regional Transit Agency

Schedule of Agency Contributions

Iowa Public Employees' Retirement System
Last Ten Fiscal Years
(In Thousands)

Required Supplementary Information

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|-------------|-------------|
| Statutorily required contribution | \$ 122 | 98 | 77 |
| Contributions in relation to the statutorily required contribution | <u>(122)</u> | <u>(98)</u> | <u>(77)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> | <u>-</u> |
| Agency's covered-employee payroll | \$ 1,368 | 1,115 | 883 |
| Contributions as a percentage of covered-employee payroll | 8.92% | 8.79% | 8.72% |

See accompanying independent auditor's report.

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

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-------------|-------------|-------------|-------------|
| 19 | 7 | 5 | 5 |
| <u>(19)</u> | <u>(7)</u> | <u>(5)</u> | <u>(5)</u> |
| - | - | - | - |
| 237 | 103 | 78 | 115 |
| 8.02% | 6.80% | 6.41% | 4.35% |

Heart of Iowa Regional Transit Agency

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. 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.

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, deputies and protection occupation members.

Heart of Iowa Regional Transit Agency

Supplementary Information

Schedule 1

Heart of Iowa Regional Transit Agency
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

| Grantor/ Program | CFDA Number | Agency or Pass-through Number | Program Expenditures |
|--|----------------|-------------------------------------|-------------------------|
| Indirect: | | | |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Federal Transit Capital Investment Grants | 20.500 | 85-0034-110-13 | \$ 161,200 |
| | 20.500 | 85-0034-110-13 | <u>65,284</u> |
| | | | 226,484 |
| Formula Grants for Rural Areas (Payments to subrecipients of \$288,742) | 20.509 | 18-0030-110-15 | 964,756 |
| Public Transportation Research, Technical Assistance, and Training | 20.516 | 26-004110-14 | 16,420 |
| Job Access and Reverse Commute Program | 20.516 | 37-X023-110-14 | <u>45,045</u> |
| Total | | | <u>\$ 1,252,705</u> |

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.



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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, 2015, and the related Notes to Financial Statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated February 24, 2016.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified certain deficiencies in internal controls, described in the accompanying Schedule of Findings and Questioned Costs as items II-A-15 through II-C-15, we consider to be significant deficiencies.

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 certain immaterial instances of non-compliance or other matters which are described in Part IV of 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, 2015 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 Responses 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2016

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by with OMB Circular A-133**

Heart of Iowa Regional Transit Agency



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by with OMB Circular A-133

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) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2015. 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 the requirements of laws, regulations, contracts and grant agreements 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2015.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 were not 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2016

Heart of Iowa Regional Transit Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies 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 Office of Management and Budget Circular A-133, Section 510(a).
- (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 \$300,000.
- (i) The Heart of Iowa Regional Transit Agency did not qualify as a low-risk auditee.

Heart of Iowa Regional Transit Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Employee Timesheets – Salaried personnel of the Agency do not prepare timesheets.

Recommendation – Timesheets should be prepared by all personnel in all departments, salaried as well as hourly, and should be submitted to the employee’s supervisor’s office prior to the processing of payroll each pay period. The timesheets should be signed by the employee and should be reviewed and signed by the employee's immediate supervisor or the Agency Executive Director prior to processing payroll. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days.

Response – We are working on changes to make our time keeping more accurate, and have installed a time clock for the Admin Office and are working on way to use the drivers Tablets to track time. We will continue to strive to make timesheets more accurate. Also, we will put into place a method to get Executive Director timesheets signed at monthly board meetings.

Conclusion – Response accepted.

II-B-15 Review of the Bank Reconciliation – A bank reconciliation is prepared. However, it is not reviewed by an independent person. Supporting documentation is not retained for all bank reconciliations.

Recommendation – Policies and procedures should be established for an independent person to review the bank reconciliation and document their review by the signature or initials of the reviewer and the date of the review. Supporting documentation should be retained for all bank reconciliations.

Response – This will be added as a task at each Monthly board meeting have the Board Treasurer review and sign.

Conclusion – Response accepted.

II-C-15 Data Processing – Computer passwords are not required to be changed.

Recommendation – To improve computer system security, all user passwords should be changed periodically so unauthorized persons can not obtain access to the computer.

Response – As of January 1, 2016, we will begin changing staff login passwords every 90 days.

Conclusion – Response accepted.

Heart of Iowa Regional Transit Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

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.

Heart of Iowa Regional Transit Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-15 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-15 Travel Expense – No expenditures for travel expenses of spouses of Agency officials or employees were noted.
- IV-C-15 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-15 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

A summary of minutes, bills and annual salaries were not published. 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 within 20 days following adjournment of the meeting. This section also requires the names and gross salaries of persons regularly employed be published annually.

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

Response – Beginning July 1, 2016, we will start publishing all HIRTA Board meeting minutes in the Des Moines Register.

Conclusion – Response accepted.

Heart of Iowa Regional Transit Agency

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
April D. Harbst, Senior Auditor
Christian E. Cottingham, Staff Auditor
Elizabeth P. Dawson, Auditor Intern



Andrew E. Nielsen, CPA
Deputy Auditor of State