

**Southwest Transit
Eden Prairie, Minnesota**

Communications Letter

December 31, 2021



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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

Board of Commissioners and Management
SouthWest Transit
Eden Prairie, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SouthWest Transit (SWT), Eden Prairie, Minnesota, as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered SWT's internal control over financial reporting (internal control) as a basis for designing audit procedures that are 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 SWT's internal control. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control over financial reporting.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of SWT's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated April 14, 2022, on such statements.

This communication, which is an integral part of our audit, is intended solely for the information and use of management, the Board of Commissioners, others within SWT, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV, Ltd.

Minneapolis, Minnesota
April 14, 2022

SouthWest Transit Required Communication

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SWT as of and for the year ended December 31, 2021. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of SWT solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our responsibility with respect to the other information in documents containing the audited basic financial statements and auditor's report does not extend beyond the basic financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited and we do not express an opinion or provide any assurance on it.

SouthWest Transit Required Communication

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of SWT's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the termination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about SWT's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on SWT's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on SWT's compliance with those requirements.

In planning and performing our audit of compliance, we considered SWT's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Management Override of Controls
- Improper Revenue Recognition
- Improper Expenditure Recognition

SouthWest Transit Required Communication

Qualitative Aspects of the Transit's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by SWT is included in the notes to basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements related to:

Depreciation – SWT is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of SWT for post employment benefits.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

SouthWest Transit Required Communication

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to SWT's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with SWT, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting SWT, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as SWT's auditor.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the SWT's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

SouthWest Transit Required Communication

Other Information Included in Annual Reports (Continued)

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

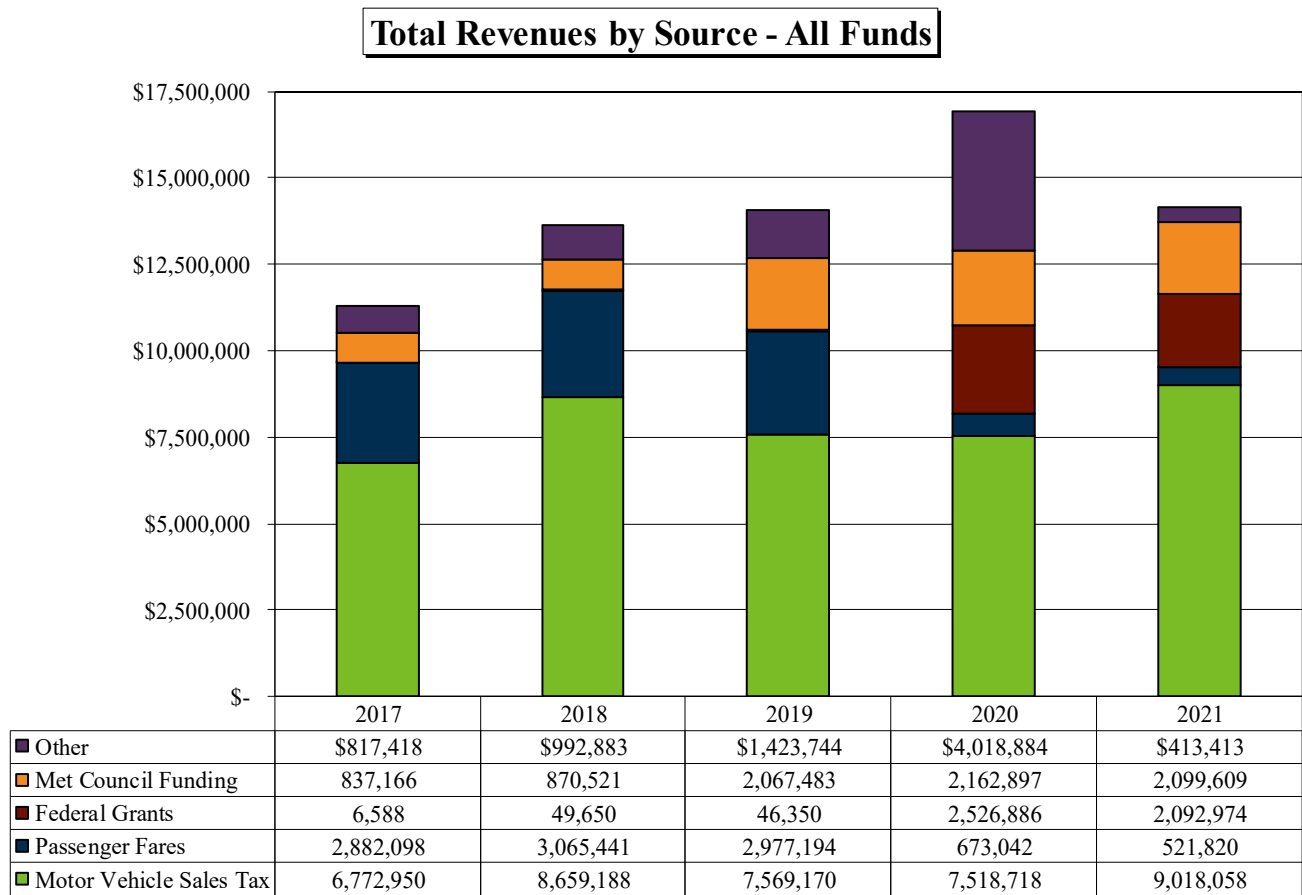
We were not engaged to report on the other information accompanying the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements

SouthWest Transit Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of SWT for the past five years. The graphs are included to facilitate discussion of past operating results and related trends for future years' operations of SWT. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Total Revenues by Source – All Funds



SouthWest Transit Financial Analysis

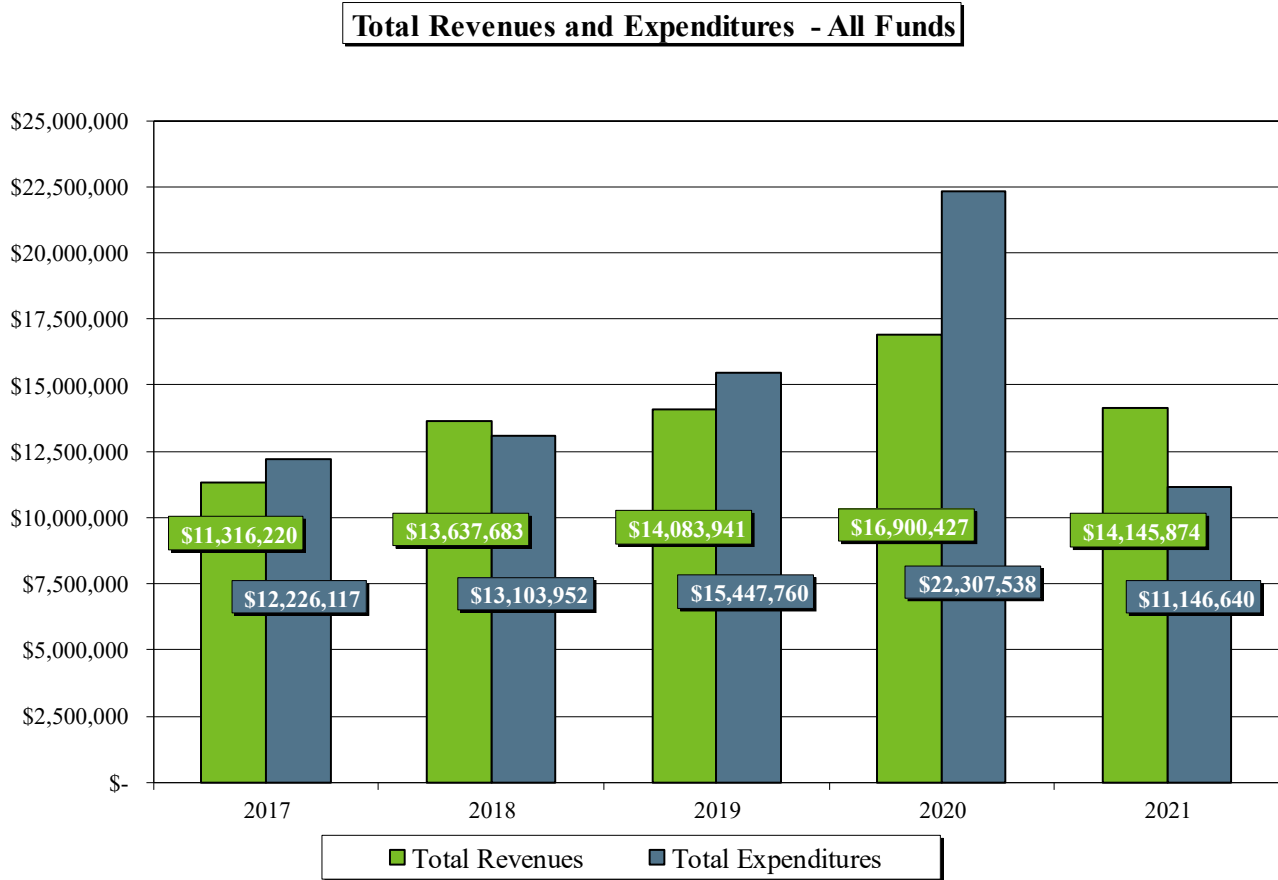
Total Revenues by Source – All Funds (Continued)

Revenue decreased \$2,754,553 in 2021 compared to 2020.

- Met Council revenue decreased \$63,288.
 - SWT received approximately \$349,719 for vans, trolley replacement, and bus rehabilitation grants in 2020, of which similar funding was not received in 2021.
 - The previous decrease was offset by an increase in RAMVST (motor vehicle sales tax) funding
- Motor vehicle sales tax increased \$1,499,340.
 - This revenue is determined by a state allocation of vehicle sales tax in Minnesota and fluctuates each year based on vehicle sales in Minnesota.
- Passenger fares decreased \$151,222 as a result of less riders due to the COVID-19 Pandemic.
- Federal grants revenue decreased \$433,912.
 - This decrease is due to receiving more COVID-19 related funds in 2020 compared to 2021.
- Other revenue decreased \$3,605,471.
 - This decrease was primarily a result of the contract for deed being paid off in 2020.
 - There was also a decrease of \$165,225 due to less investment interest as a result of poor market conditions.

SouthWest Transit Financial Analysis

Total Revenues and Expenditures – All Funds

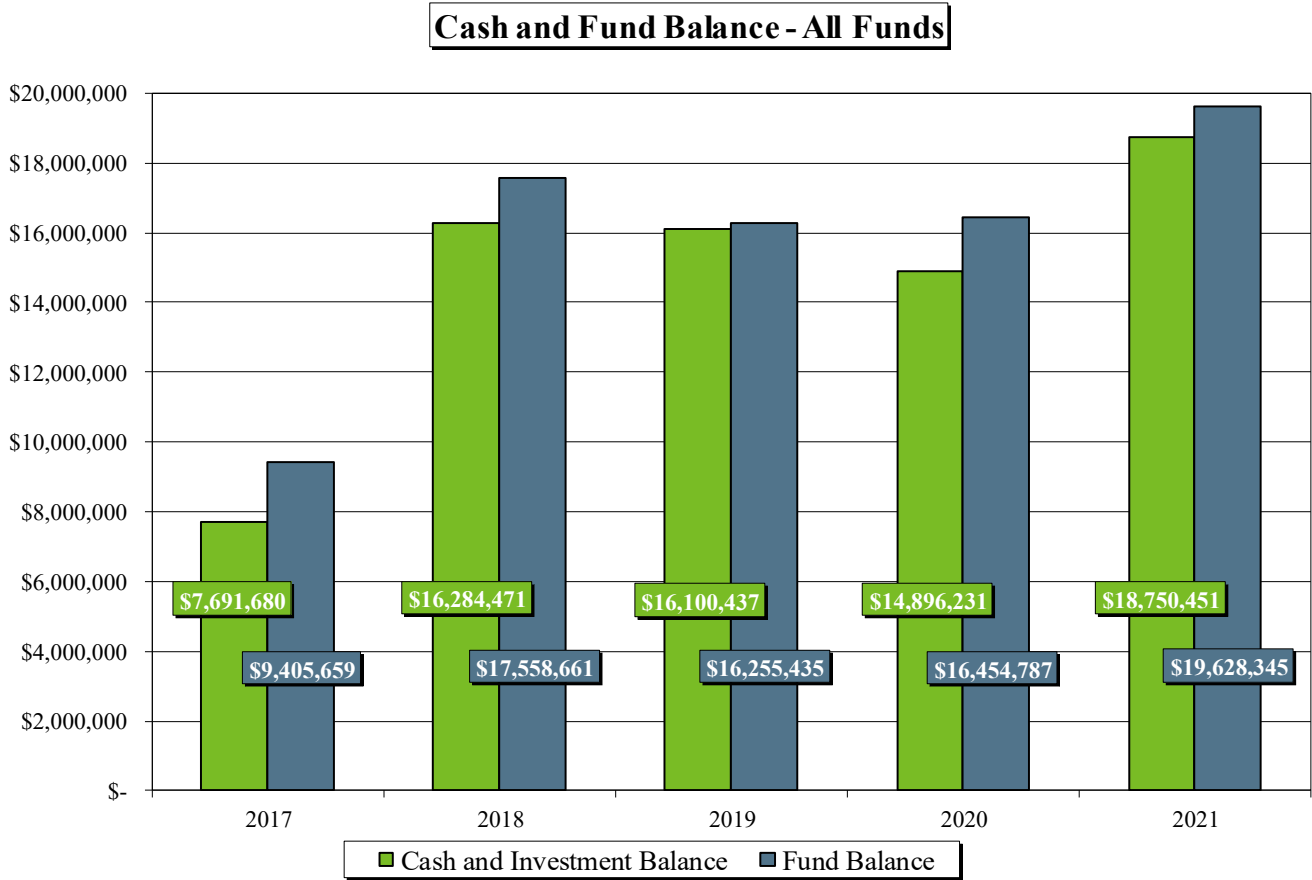


Total revenues exceeded total expenditures in two of the last five years. In 2021, revenues exceeded expenditures by \$2,999,234. Total revenues decreased \$2,754,553, as mentioned on the previous page, while expenditures decreased \$11,160,898. There were some changes in expenditures by program:

- Debt service principal retirement expenditures decreased \$6,838,618, and interest and agency fees decreased \$406,666.
 - Result of paying off all debt in 2020.
- Buildings and grounds capital outlay expenditures decreased \$4,101,320.
 - Primarily the result of construction at the Eden Prairie garage related to the relocation of offices was completed in 2020.
- Operations and vehicle maintenance current expenditures increased \$184,760.
 - More vehicle maintenance was done in 2021.

SouthWest Transit Financial Analysis

Cash and Fund Balance – All Funds

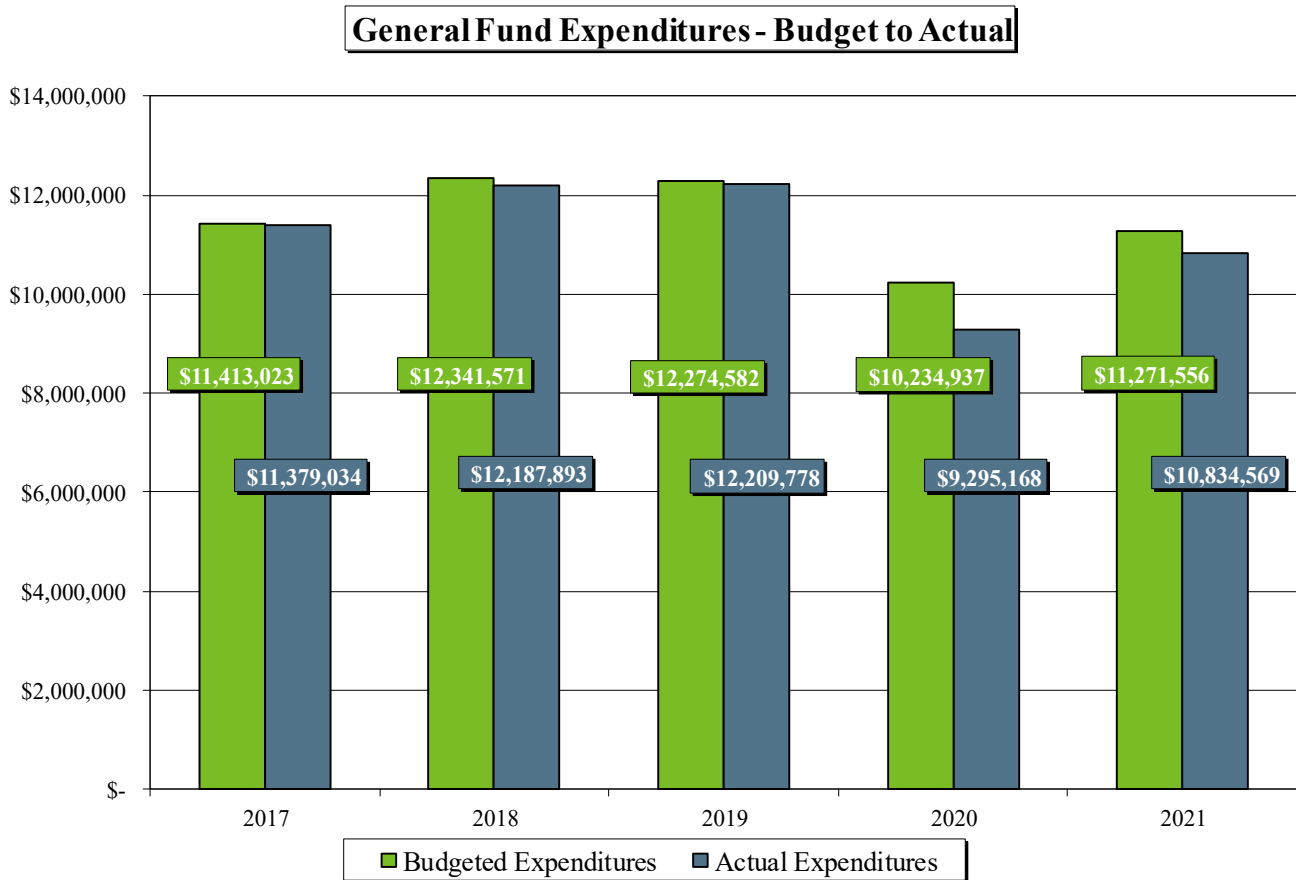


The cash and investment balance was lower than fund balance in all five years presented. Cash and investments which includes cash with fiscal agent in 2021, increased \$3,854,220 while fund balance increased \$3,173,558 from 2020 to 2021.

The General Fund balance increased \$1,371,416 to \$8,894,074 in 2021 due to revenues from operations and grants coming in over expenditures and transfers to other funds. The unassigned fund balance in the General Fund as of December 31, 2021, is \$8,511,349, which represents approximately 91%, or eleven months of expenditures, based on 2021 budgeted operating expenditure levels.

SouthWest Transit Financial Analysis

General Fund Expenditures – Budget to Actual



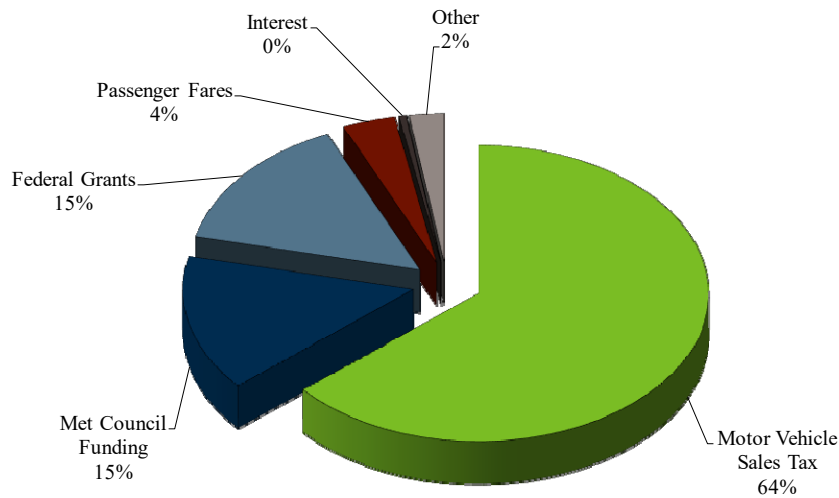
General Fund budgeted expenditures exceeded actual expenditures in all five years presented. Expenditures were under budget by \$436,987 in 2021. The largest variance was in operations and vehicle maintenance capital expenditures, which were \$769,578 under budget due to not purchasing the new prime vehicles that were anticipated. Building and grounds capital expenditures were over budget by \$538,039 as a result of buying out the Deed restriction from Minnesota Department of Transportation as well as several equipment purchases that were not anticipated. Building and grounds current expenditures were under budget \$99,252 as a result of less electric expenses than anticipated. All other categories were under budget and were relatively close to budgeted amounts.

SouthWest Transit Financial Analysis

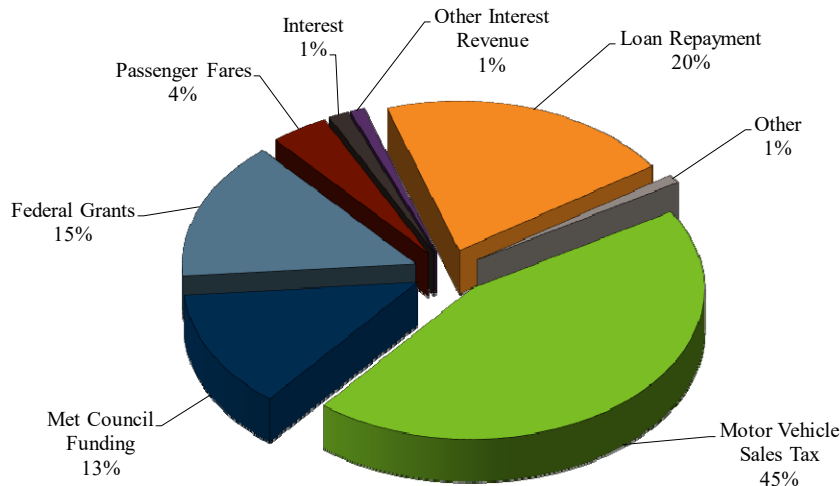
Operating Revenues – All Funds

The following pie charts show the allocation of revenue by source for all funds in 2021 and 2020. As illustrated below, loan repayment had a significant decrease from 20% in 2020 to 0% in 2021 due to the contract for deed being paid off in 2020. Motor vehicle sales tax revenue increased from 45% in 2020 to 64% in 2021 due to receiving more in motor vehicle sales tax. All other revenue sources were consistent with the prior year.

Operating Revenues by Source for 2021 - All Funds



Operating Revenues by Source for 2020 - All Funds



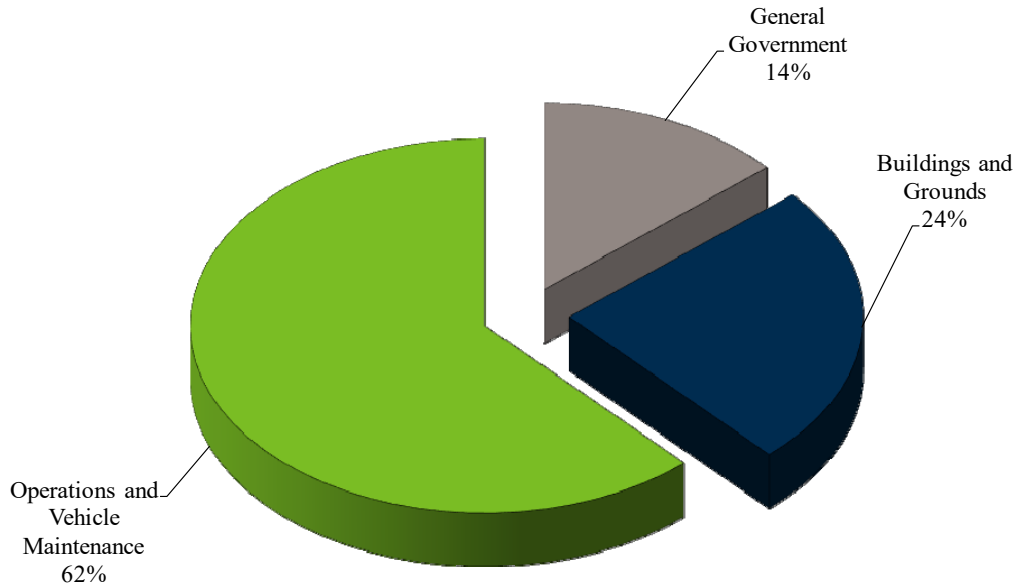
In the General Fund, the regional target for passenger farebox recovery revenue percentage in relation to operating expenditures is 28%. During 2021, SWT's passenger fare revenue as a percentage of operating expenditures was 4.82%, while it was 6.22% in 2020.

SouthWest Transit Financial Analysis

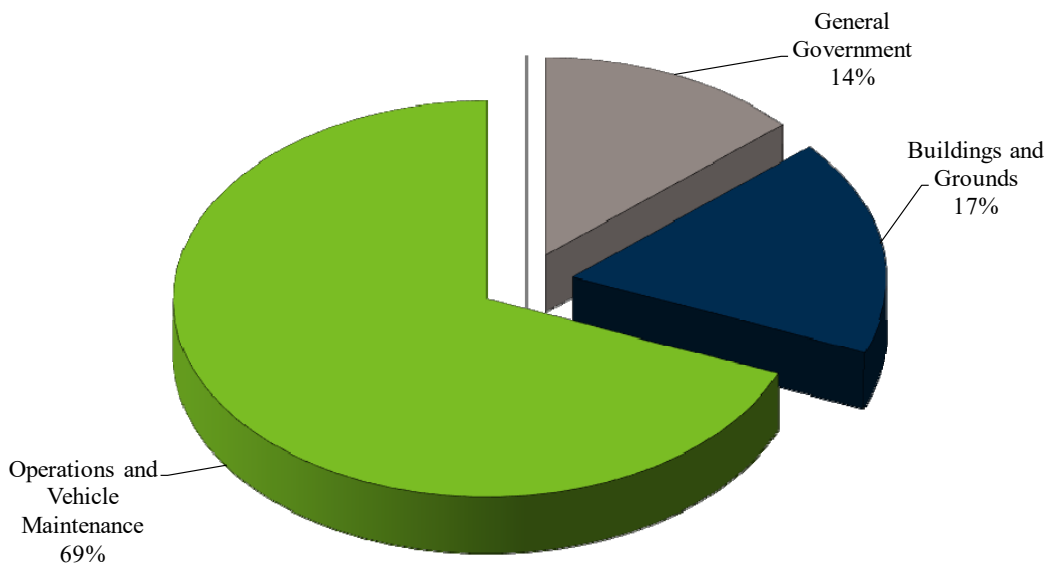
Operating Expenditures – General Fund

The following pie charts show the allocation of expenditures by program for the General Fund in 2021 and 2020. The allocations increased in buildings and grounds in 2021 as a result of a decrease in operations and vehicle maintenance expenditures as a result of the pandemic.

Operating Expenditures by Department for 2021 - General Fund



Operating Expenditures by Department for 2020 - General Fund



SouthWest Transit Emerging Issue

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your organization.

Accounting Standard Update – GASB Statement No. 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

SouthWest Transit Emerging Issue

Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to basic financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to basic financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021.

Information provided above was obtained from www.gasb.org.