

**Southwest Transit
Eden Prairie, Minnesota**

Communications Letter

December 31, 2015



**Southwest Transit
Table of Contents**

Report on Matters Identified as a Result of the Audit of the Financial Statements	1
Required Communication	3
Financial Analysis	6
Emerging Issue	12



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

Board of Commissioners and Management
SouthWest Transit
Eden Prairie, Minnesota

In planning and performing our audit of the financial statements of SouthWest Transit (SWT), Eden Prairie, Minnesota, as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered SWT's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of SWT's financial statements will not be prevented, or detected and corrected on a timely basis. 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 18, 2016, on such statements.

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com



This communication 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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
April 18, 2016

**SouthWest Transit
Required Communication**

We have audited the financial statements of SWT for the year ended December 31, 2015, and have issued our report thereon dated April 18, 2016. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

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

As part of our audit, we considered the internal control of SWT. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of SWT's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of SWT and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to SWT or to acts by management or employees acting on behalf of SWT.

SouthWest Transit Required Communication

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SWT are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2015. We noted no transactions entered into by SWT during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- OPEB liability related to GASB 45 is not recorded

In addition, 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 financial statements taken as a whole.

**SouthWest Transit
Required Communication**

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management that are included in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SWT's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SWT's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

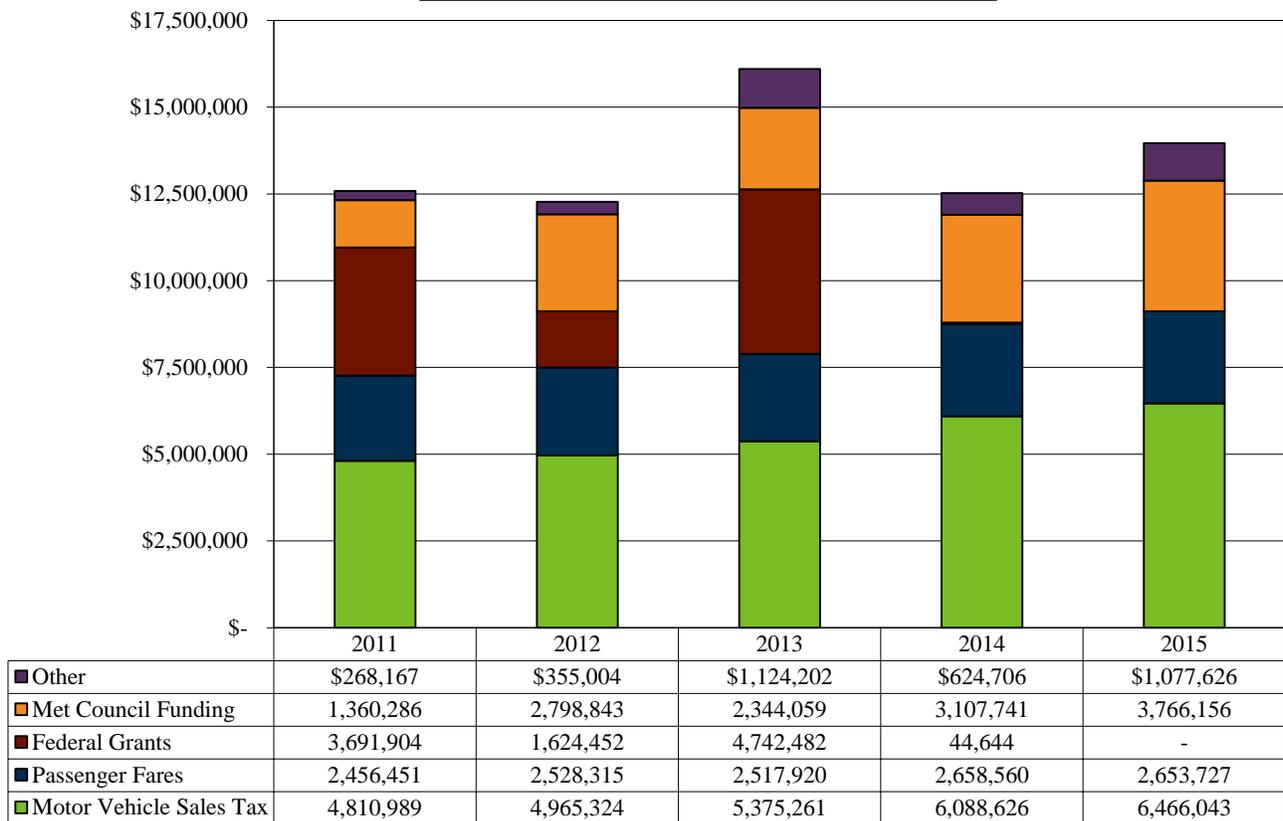
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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 financial statements or to the financial statements themselves.

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. 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.

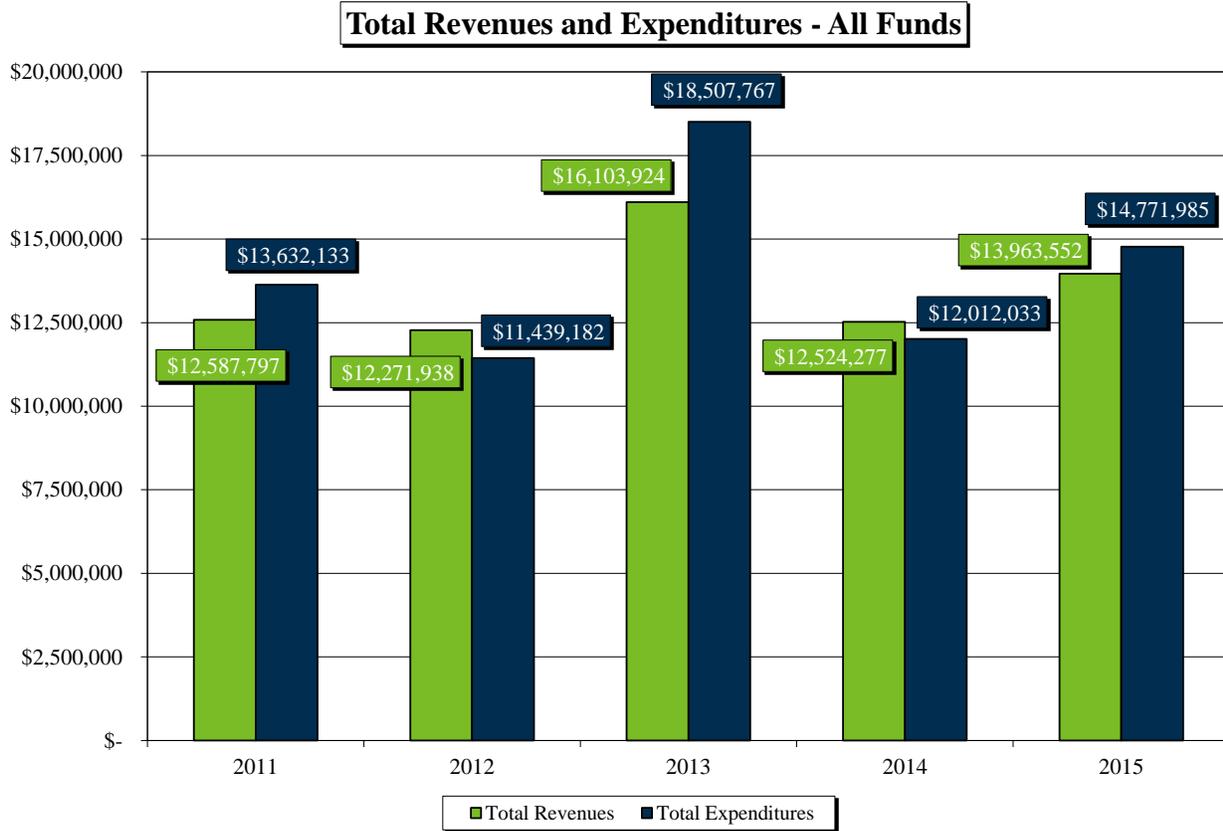
The following graphs are included to facilitate discussion of past operating results and related trends for future years' operations of SWT.

Total Revenues by Source - All Funds



Revenue increased \$1,439,275 in 2015 compared to 2014. Of this increase, \$658,415 was due to an increase in Met Council funding, which includes regionally allocated MVST, suburban transit provider appropriation, midlife bus rehabilitation grants, and transit capital financial assistance grants. The increase was primarily related to funding SWT received in 2015 to purchase two 30 foot buses. Other revenues also increased \$452,920 from 2014 due to new funding in the amount of \$165,699 related to service to the City of Carver. Other revenue also increased as a result of 2015 being the first full year of providing management services for Plymouth MetroLink, an increase in the amount of insurance dividends received, and a new customer rewards program, which resulted in the recognition of revenue related to the value of items received by SWT to be used to reward customers. Motor vehicle sales taxes received in 2015 increased \$377,417. Motor vehicle sales tax revenue is determined by a state allocation of vehicle sales tax in Minnesota and fluctuates each year based on vehicle sales in Minnesota.

SouthWest Transit Financial Analysis

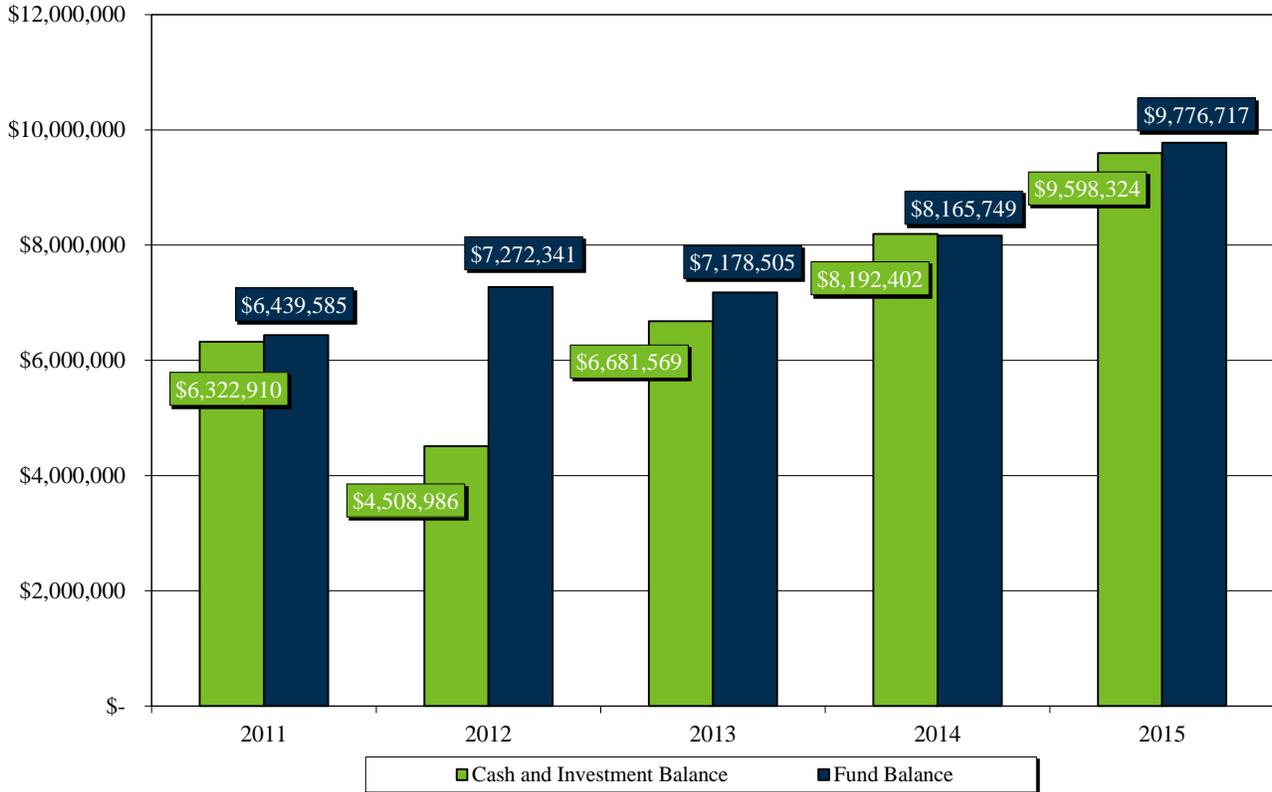


Total expenditures exceeded total revenues in three of the last five years, which was by design to bring fund balance levels in line with Metropolitan Council's policies. In 2015, expenditures exceeded revenues by \$808,433. Total revenues increased \$1,439,275, as mentioned on the previous page, while expenditures increased \$2,759,952. This increase in expenditures is primarily due to capital costs, which increased \$2,557,478, and was mostly related to the construction of the Eden Prairie garage remodel project in 2015. SWT received \$2,332,000 in lease proceeds to finance this project. In addition, debt service costs also increased due to SWT entering a new lease-purchase agreement in 2015 to finance the Eden Prairie garage remodel project. This resulted in an increase in debt service expenditures of \$139,085. In addition, capital lease proceeds totaling \$2,419,401 were recognized in 2015.

These increases in expenditures were also partially affected by an increase in current expenditures of \$63,389. Operations and vehicle maintenance expenditures increased \$438,687 as a result of increases in contracted services and software costs related to the new SW Prime service, an increase in equipment leases related to the double deck bus, an increase in insurance costs due to having five additional buses and two trolleys to insure compared to the prior year and increases in salaries due to the addition of a full-time assistant planner, an additional maintenance staff, and more drivers related to special event routes. The increase in the operations and vehicle maintenance program was offset by a decrease in buildings and grounds expenditures in the amount of \$425,120. In 2014, there were costs related to facility maintenance, such as designing and replacing garage doors on all properties, general and preventative maintenance on the parking garages, costs associated with completing the East Creek Station project, operating costs of the Chaska garage, and preliminary professional service work on the Eden Prairie garage expansion.

SouthWest Transit Financial Analysis

Cash and Fund Balance - All Funds

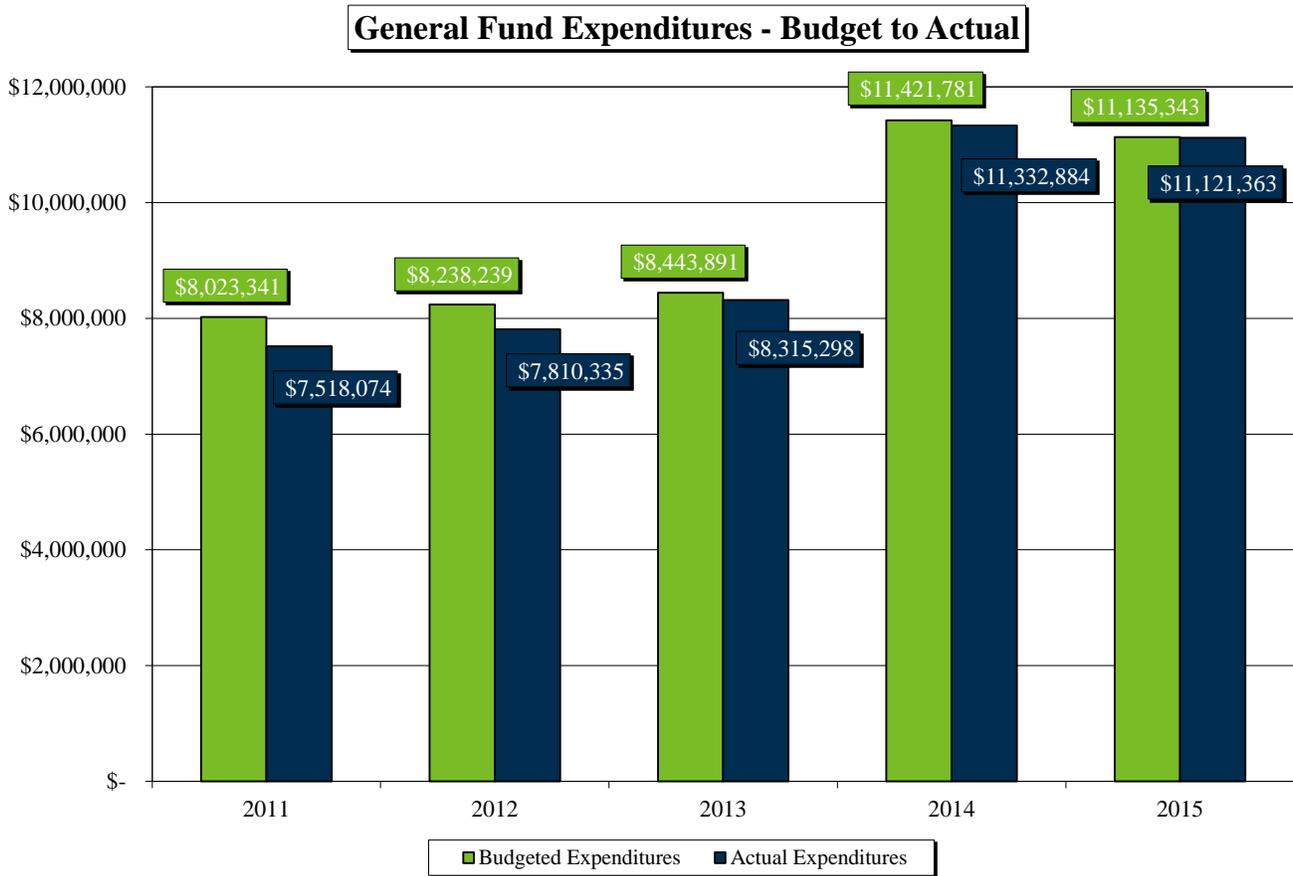


The cash and investment balance was lower than fund balance in four of the five years presented. Cash and investments increased \$1,405,922 while fund balance increased \$1,610,968 from 2014 to 2015.

The cash and investment balance increased due to positive operations of \$1,610,968 and an overall decrease in accounts, contracts, retainage, and salaries payable from the prior year of \$247,287.

The General Fund balance increased \$1,273,641 to \$4,712,168 in 2015 due revenues from operations and grants exceeding expenditures and transfers to other funds. The unassigned fund balance in the General Fund as of December 31, 2015, is \$4,153,836, which represents approximately 37%, or 4 months of expenditures, based on 2015 expenditure levels.

SouthWest Transit Financial Analysis

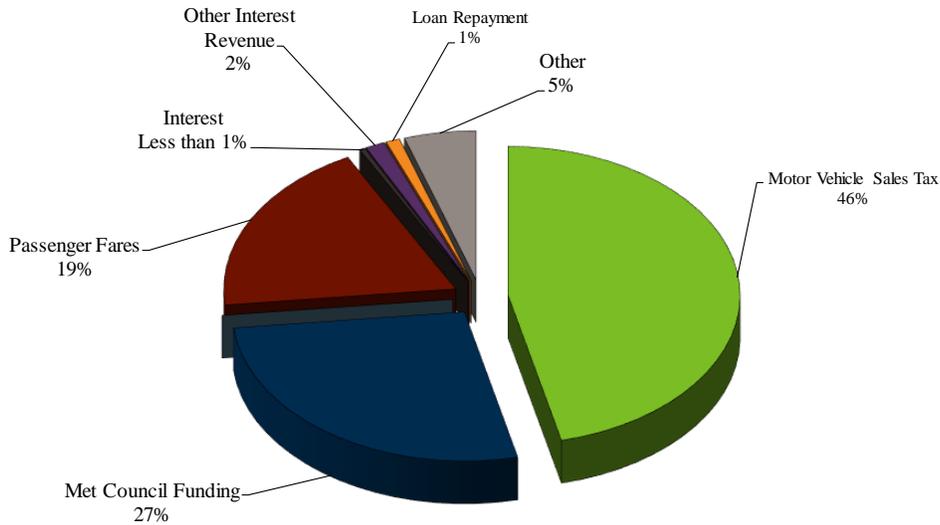


General Fund budgeted expenditures exceeded actual expenditures in all five years presented. Expenditures were under budget by \$13,980 in 2015. The largest variance was in operations and vehicle maintenance capital outlay expenditures, which were \$77,903 over budget. This budget variance is the result of the new turtle top bus lease, which resulted in the full amount of the lease being recorded as an expenditure in 2015. The amount of the expenditure added was \$87,401; there is an offsetting amount under other financing sources in the same amount to account for the issuance of the lease. Expenditures in the other programs were relatively consistent with budgeted amounts.

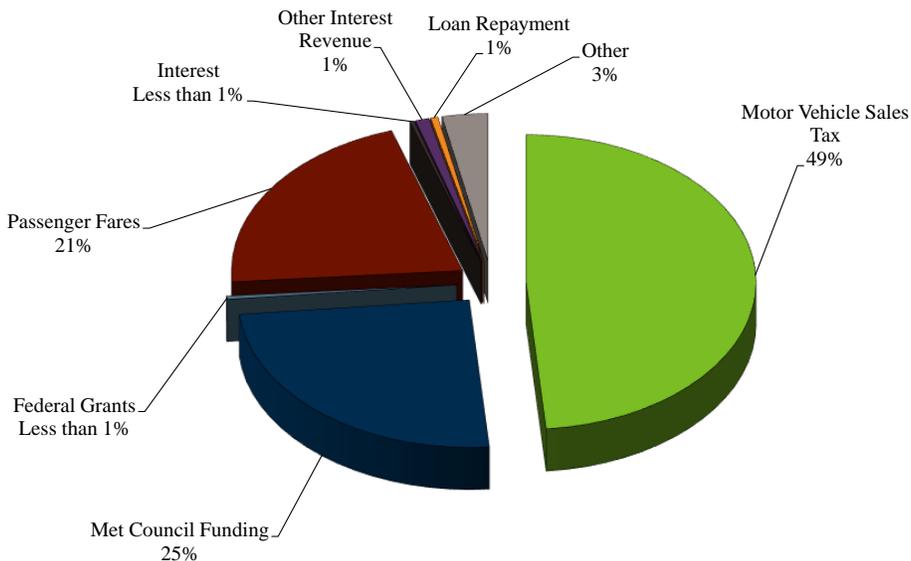
SouthWest Transit Financial Analysis

The following pie charts show the allocation of revenue by source for all funds in 2015 and 2014. The most noticeable changes were in motor vehicle sales tax and other. Other areas of revenue stayed consistent with the prior years.

Operating Revenues by Source for 2015 - All Funds



Operating Revenues by Source for 2014 - All Funds

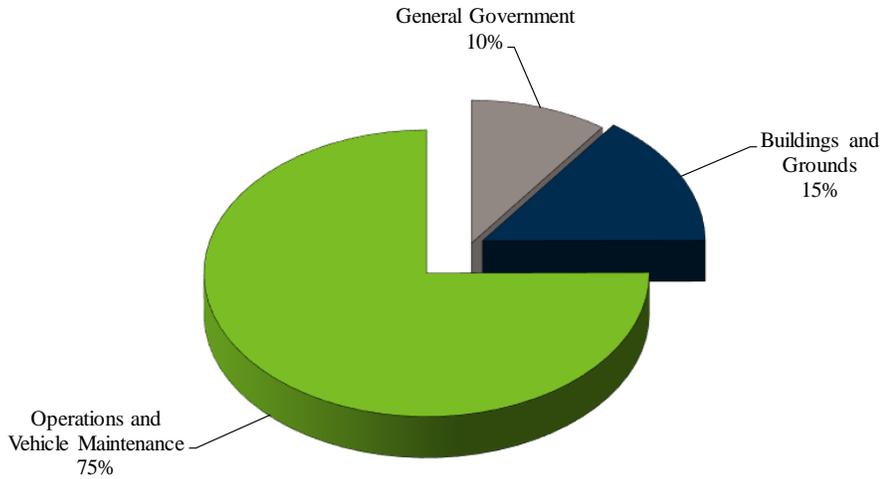


In the General Fund, the regional target for passenger fare revenue in relation to non capital expenditures is 28%. During 2015, SWT's passenger fare revenue as a percentage of non capital expenditures was 27%, while it was 27% in 2014.

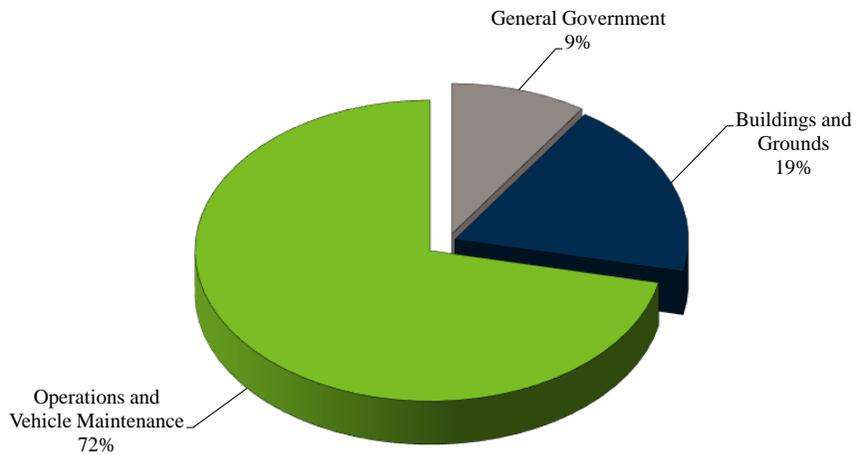
SouthWest Transit Financial Analysis

The following pie charts show the allocation of expenditures by program for the General Fund in 2015 and 2014. The allocation changed slightly in 2015 due to the increase in operations and vehicle maintenance expenditures and decrease in buildings and grounds expenditures as discussed earlier.

**Operating Expenditures by Department for 2015
General Fund**



**Operating Expenditures by Department for 2014
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 updates include:

- **Accounting Standard Update – GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB Statement No. 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

The following are extensive summaries of each of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your organization.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

**SouthWest Transit
Emerging Issue**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement No. 75 carries forward from Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

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