

**SOUTHWEST TRANSIT  
Eden Prairie, Minnesota**

**MANAGEMENT LETTER**

**For the Year Ended December 31, 2011**

**SOUTHWEST TRANSIT**

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*Expert advice. When you need it.<sup>SM</sup>*

**REPORT ON MATTERS IDENTIFIED AS A RESULT OF  
THE AUDIT OF THE FINANCIAL STATEMENTS**

Board of Commissioners  
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, 2011, in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, we considered SWT's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. Material weaknesses and significant deficiencies identified, if any, are stated within this letter.

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 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.

A significant deficiency is a deficiency, or 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 includes financial analysis and recommendations for improvement of accounting procedures and internal control measures that came to our attention as a result of our audit of the financial statements of SWT for the year ended December 31, 2011. 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 June 6, 2012, on such statements.

This communication is intended solely for the information and use of management and SWT and is not intended to be and should not be used by anyone other than these specified parties.

*Kern, Dewenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
June 6, 2012

**SOUTHWEST TRANSIT**  
**SIGNIFICANT DEFICIENCY**  
**December 31, 2011**

**LACK OF SEGREGATION OF ACCOUNTING DUTIES**

During the year ended December 31, 2011, SWT had a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation of accounting duties can be demonstrated in the following area, which is not intended to be an all-inclusive list:

- The Administrative Services Director performs various review and backup functions and has access to the accounting general ledger systems.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation, but due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties often exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

We recommend management, along with the Board of Commissioners, remain aware of this situation and continually monitor the accounting system including changes that occur. Although this item is considered to be a significant deficiency, we do not feel it is a material weakness.

## **SOUTHWEST TRANSIT**

### **REQUIRED COMMUNICATION December 31, 2011**

We have audited the financial statements of SWT for the year ended December 31, 2011, and have issued our report dated June 6, 2012. Professional standards require that we provide you with the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS, GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**

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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. 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. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

As part of obtaining reasonable assurance about whether SWT's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) *Circular A-133*.

Also, in accordance with OMB *Circular A-133*, we examined, on a test basis, evidence about SWT's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* applicable to its major federal program for the purpose of expressing an opinion on SWT's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on SWT's compliance with those requirements.

#### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously communicated to you.

**SOUTHWEST TRANSIT**  
**REQUIRED COMMUNICATION**  
**December 31, 2011**

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by SWT are described in Note 1 to the financial statements. SWT implemented a new fund balance policy during the year ended December 31, 2011 to accommodate Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimate affecting the financial statement was:

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

We evaluated the key factors and assumptions used to develop the above estimate in determining it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as 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 which were provided to us in the management representation letter.

**SOUTHWEST TRANSIT**  
**REQUIRED COMMUNICATION**  
**December 31, 2011**

**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. We are not aware of any consultations by SWT’s management with other accountants during the course of our audit.

**OTHER 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 INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

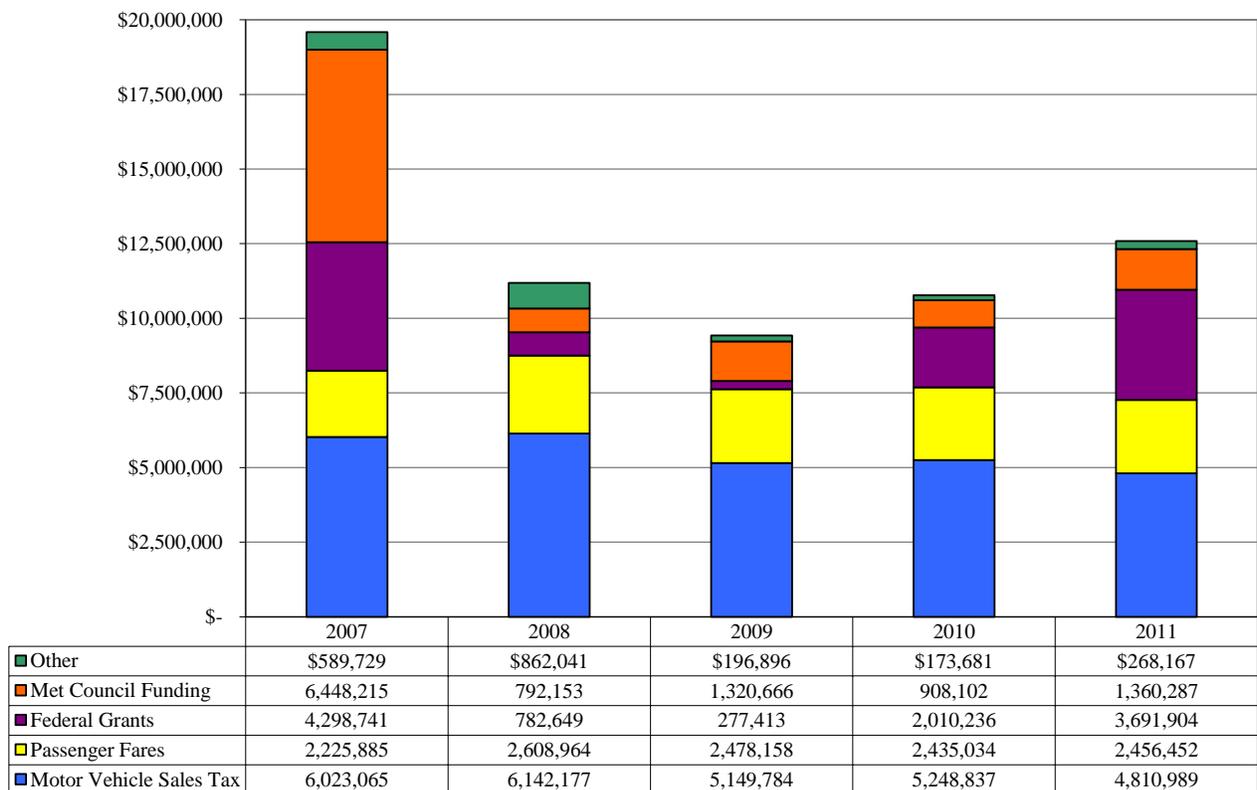
## SOUTHWEST TRANSIT

### FINANCIAL ANALYSIS December 31, 2011

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**



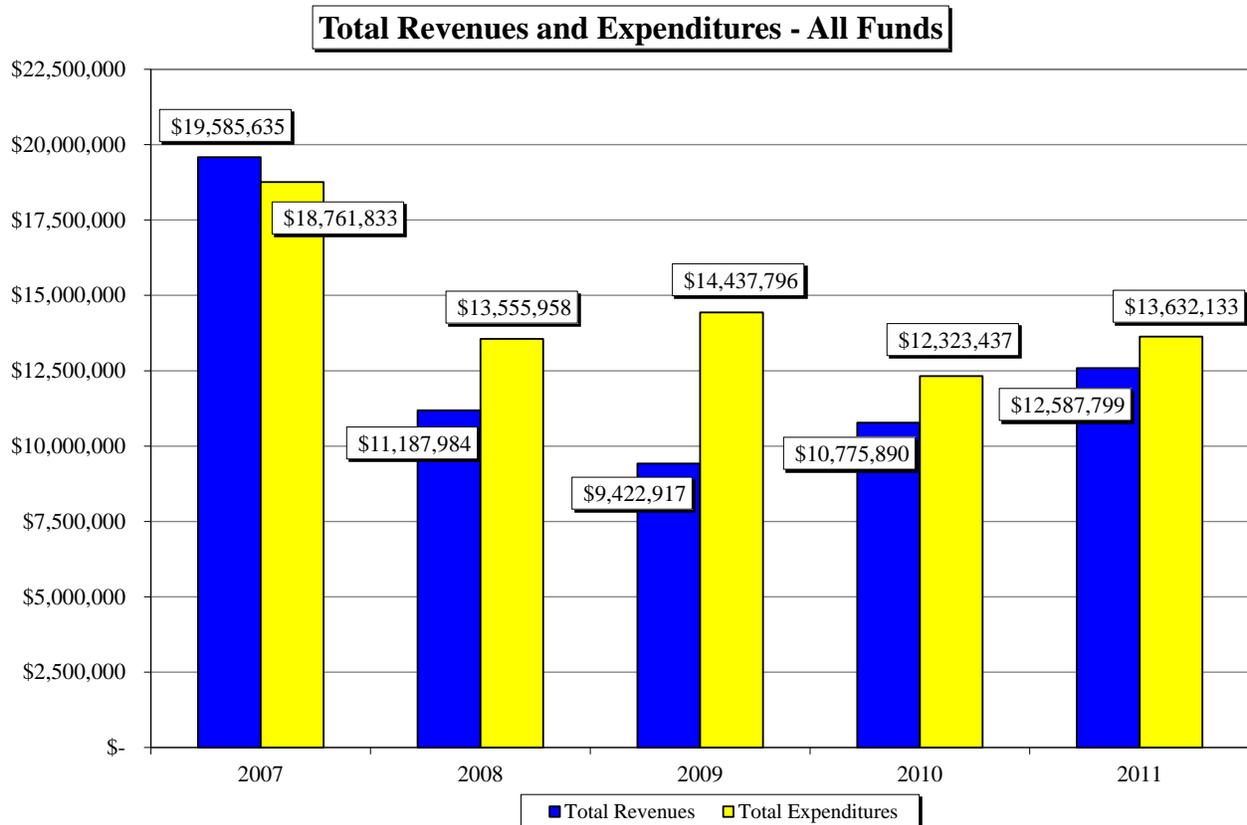
Revenue increased \$ 1,811,909 in 2011 compared to 2010. Passenger fare revenues increased for the first time in three years. Passenger fare revenue increased from \$ 2,435,034 in 2010 to \$ 2,456,452, an increase of \$ 21,418 as a result of the slowly recovering economy. The Metropolitan Council (MC) funding increased \$ 452,185 from 2010 primarily as a result of more capital purchases in 2011 that were reimbursed by MC. These expenditures are mostly attributable to the Chanhassen Transit Station, the Southwest Station soil erosion and Eden Prairie Garage roof projects. Federal grant revenue has fluctuated over the years based on projects and availability. From 2010 to 2011, federal grants increased \$ 1,681,668 as a result of a grant SWT received for the Chanhassen Transit Station.

## SOUTHWEST TRANSIT

### FINANCIAL ANALYSIS

December 31, 2011

Motor Vehicle Sales Tax (MVST) revenue decreased \$ 437,848 as a result of the state cutting supplemental funding for SWT in 2011. The decrease in state supplemental funding of \$ 1,025,000 was offset by an increase of \$ 587,153 in the base allocation. However, effective July 1, 2011, Minnesota legislative action maintained MVST revenue to SWT at 2011 levels, reducing the ability to increase revenue as vehicle sales increase at least through the current biennium. Other revenues increased \$ 94,486 from 2010 to 2011 due primarily to a large rebate on property insurance received during the year. SWT participates in the League of Minnesota Cities Trust (LMCIT) insurance pool and this is a result of the LMCIT pool activity including SWT experience levels. SWT also began renting out the Chaska garage in 2011, which resulted in approximately \$ 55,000 in revenue. These increases were offset by a significant decrease in investment income, which decreased \$ 57,007 as a result of continued declines in interest rates as well as lower cash and investments on hand to invest.

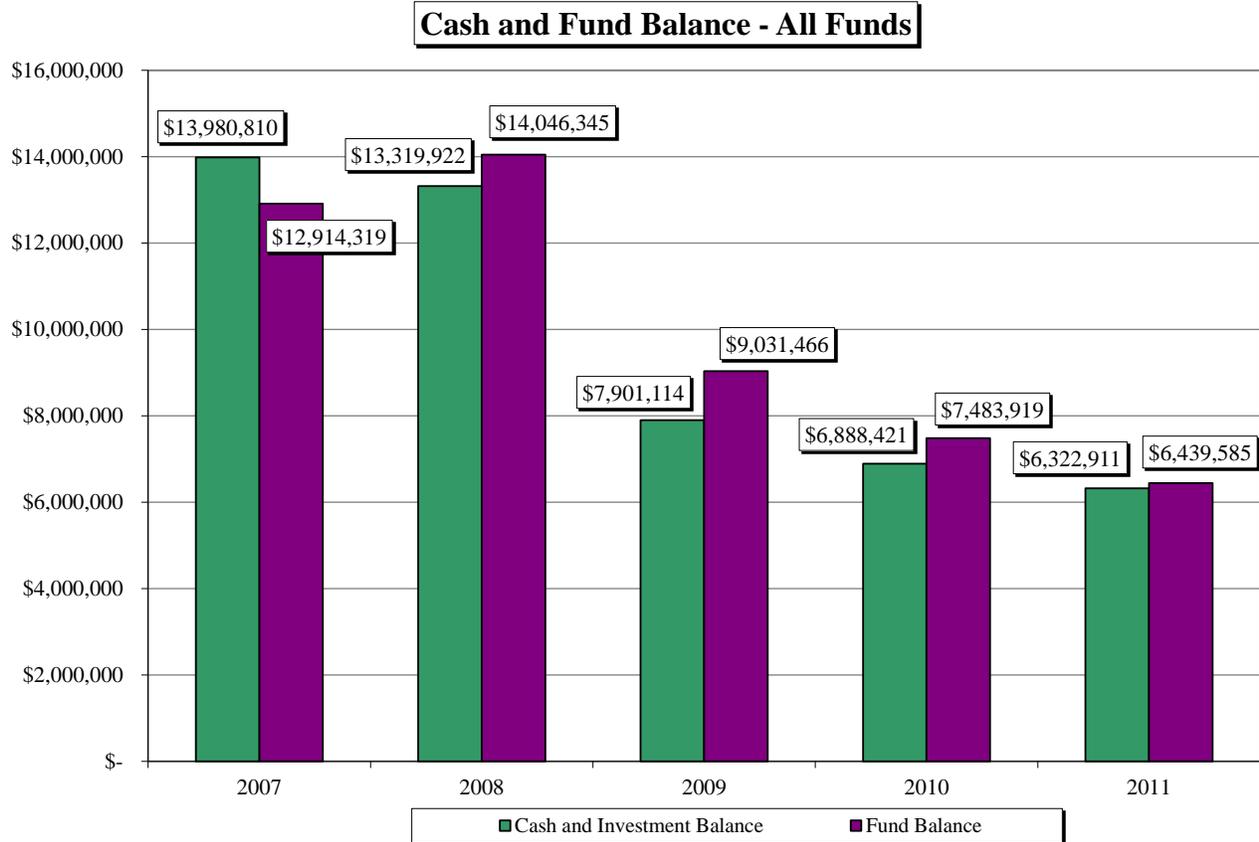


Total expenditures have exceeded total revenues in each of the last four years. For 2011, total expenditures exceeded total revenues by \$ 1,044,334. Revenues increased in 2011 primarily due to an increase in federal grants as noted on the previous page. Expenditures increased \$ 1,308,696 from 2010 due to an increase in capital outlay of \$ 2,760,425 which was offset by a decrease of debt service payments of \$ 1,513,314. The increase in capital outlay is largely attributable to the completion of the Chanhassen Transit Station in 2011. Debt service expenditures decreased primarily due to a \$ 1,250,000 prepayment that was made in 2010 on the SouthWest Village Parking Ramp lease and no prepayments made in 2011. Buildings and grounds current expenditures increased \$ 110,633 primarily as a result of property appraisals, engineering and other technical work that was completed to look into viability of future projects. Operations and vehicle maintenance expenditures also decreased \$ 58,624 as a result of route reductions and eliminations and stabilization of motor fuel and lubricant costs.

## SOUTHWEST TRANSIT

### FINANCIAL ANALYSIS

December 31, 2011



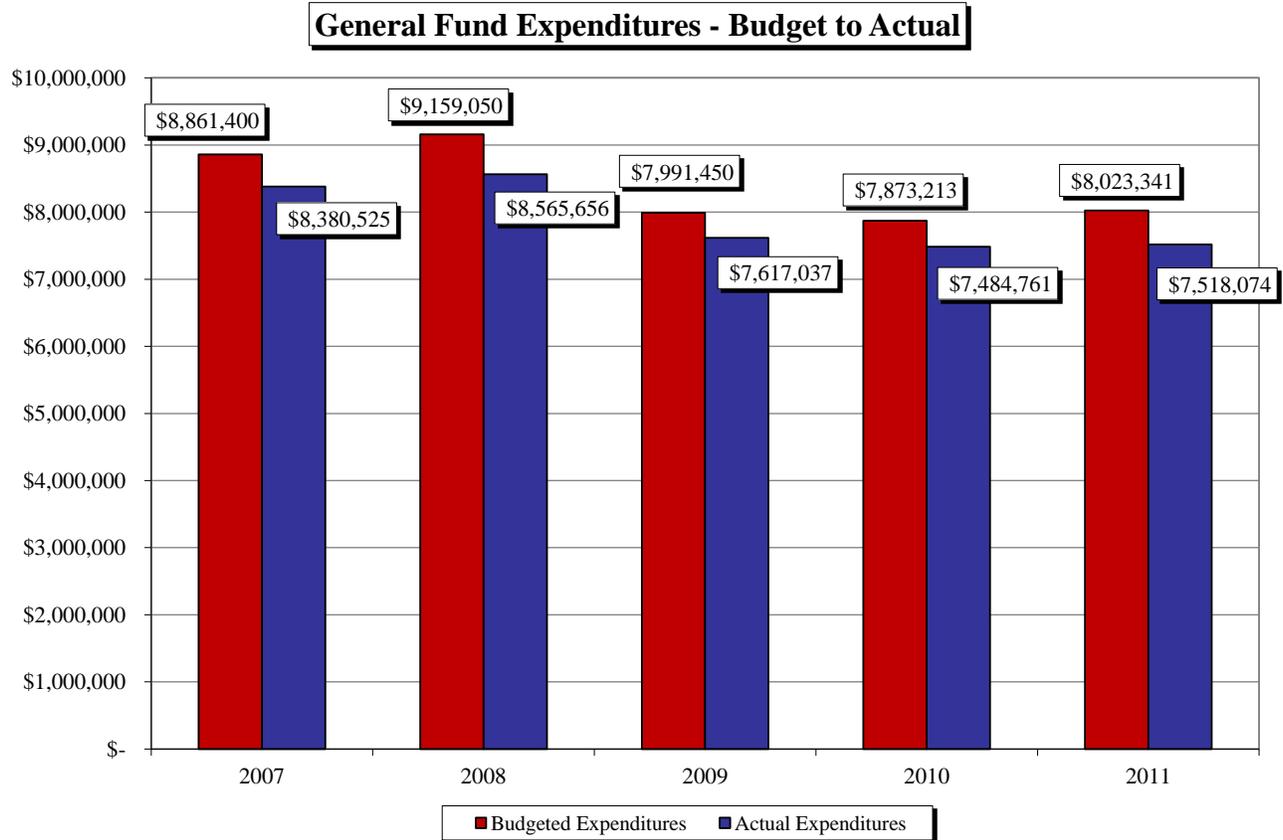
The cash and investment balance was lower than fund balance for the fourth consecutive year in 2011. Cash and investments declined \$ 565,510 and fund balance declined \$ 1,044,334 from 2010 to 2011.

SWT funded a portion of the Chanhassen Transit Station in 2011, causing the significant decrease in both the cash and fund balances from 2010 to 2011.

The General Fund balance decreased \$ 1,428,550 to \$ 2,411,068 in 2011 primarily due to a transfer out of \$ 1,300,000 to fund capital purchases. The unassigned fund balance in the General Fund as of December 31, 2011 is \$ 1,975,935, which represents approximately 26%, or three months of expenditures, based on 2011 expenditure levels.

# SOUTHWEST TRANSIT

## FINANCIAL ANALYSIS December 31, 2011



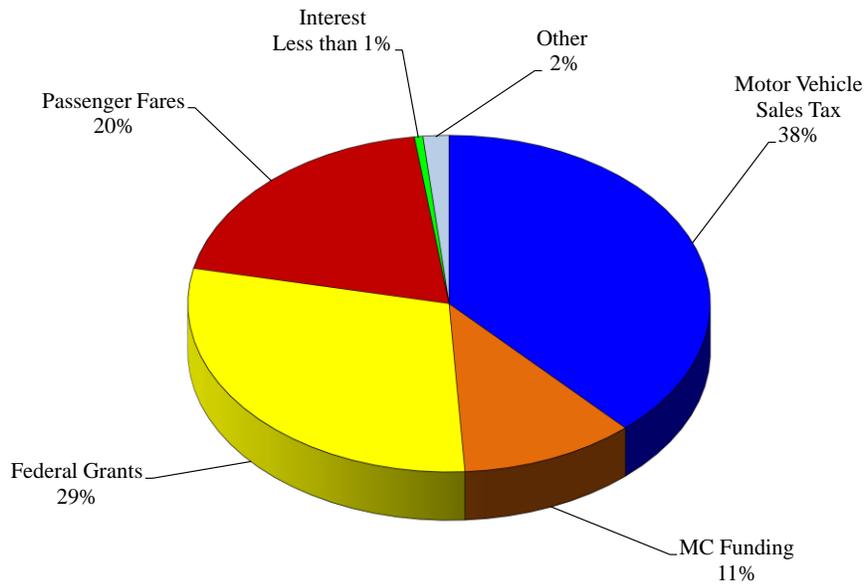
In 2011, General Fund budgeted expenditures exceeded actual expenditures for the fifth year in a row. Expenditures were under budget by \$ 12,491, \$ 51,540 and \$ 441,236 in general government, buildings and grounds and operations and vehicle maintenance, respectively.

# SOUTHWEST TRANSIT

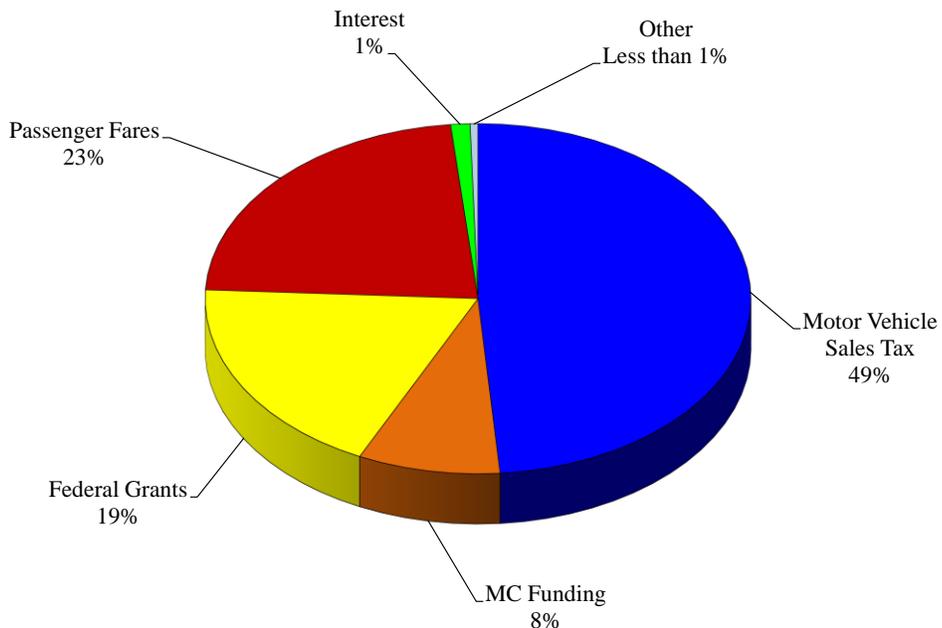
## FINANCIAL ANALYSIS December 31, 2011

The following pie charts show the allocation of revenue by source for all funds in 2011 and 2010. The most noticeable changes were in MVST, federal grants and MC funding. Although passenger fare revenue remained similar to 2010, there was a decrease in the percentage of total revenue as a result of the increase in federal revenue. Other areas of revenue stayed consistent with the prior years.

**Operating Revenues by Source for 2011 - All Funds**



**Operating Revenues by Source for 2010 - All Funds**

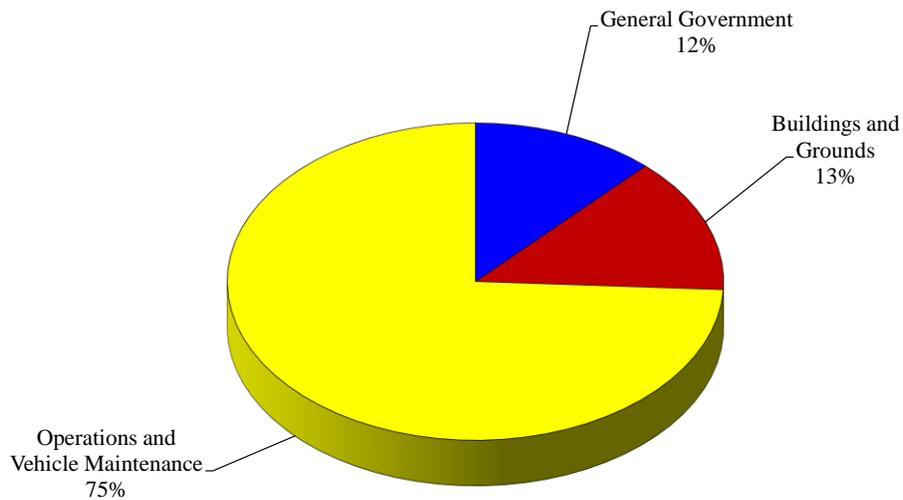


# SOUTHWEST TRANSIT

## FINANCIAL ANALYSIS December 31, 2011

The following pie charts show the allocation of expenditures by program for the General Fund in 2011 and 2010. The allocation has been stable with a slight decrease in operation and vehicle maintenance and a slight increase in building and grounds expenditures in 2011.

**Operating Expenditures by Department for 2011  
General Fund**



**Operating Expenditures by Department for 2010  
General Fund**

