

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**COUNTIES TRANSIT IMPROVEMENT BOARD**  
**METROPOLITAN TRANSPORTATION AREA,**  
**MINNESOTA**

FOR THE 21-MONTH PERIOD ENDED  
DECEMBER 31, 2009

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA,  
MINNESOTA**

**For the 21-Month Period Ended  
December 31, 2009**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2009

<u>Affiliate</u>	<u>Member</u>	<u>Alternate</u>
Anoka County	Dan Erhart Dennis Berg	Jim Kordiak
Dakota County	Paul Krause <sup>2</sup> Nancy Schouweiler	Thomas A. Egan
Hennepin County	Peter McLaughlin <sup>1</sup> Mike Opat	Mark Stenglein
Ramsey County	Jan Parker Jim McDonough <sup>3</sup>	Toni Carter
Washington County	Myra Peterson Dennis Hegberg	Gary Kriesel
Metropolitan Council	Peter Bell	Peggy Leppik

<sup>1</sup>Chair

<sup>2</sup>Vice Chair

<sup>3</sup>Secretary/Treasurer

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Joint Powers Board  
Counties Transit Improvement Board

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Counties Transit Improvement Board (CTIB) as of and for the 21-month period ended December 31, 2009, which collectively comprise the CTIB's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CTIB's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 General Fund of the Counties Transit Improvement Board as of December 31, 2009, and the respective changes in financial position thereof for the 21-month period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 10, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTION AREA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009  
(Unaudited)**

This section presents management's analysis of the Counties Transit Improvement Board's (CTIB) financial condition and activities for the 21-month period ended December 31, 2009. This information should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

**Government-Wide**

- At December 31, 2009, the assets of the CTIB exceeded its liabilities by \$52,694,825. Of the total net assets, \$13,881,702 was restricted for grants to member agencies. The remainder consisted of unrestricted net assets of \$38,813,123.
- The CTIB's total net assets, as reported in the Statement of Activities, increased by \$52,694,825 during the 21-month period ended December 31, 2009. This increase was due almost entirely from sales and excise taxes collected by the State of Minnesota.

**OVERVIEW OF THE ANNUAL FINANCIAL REPORT**

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the CTIB's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the CTIB's operating budget, and other management tools were used for this analysis.

The financial statements combine fund level financial statements and government-wide financial statements. The CTIB reports one governmental fund, which is reported using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the current reporting period, the fund level financial statements and the government-wide financial statements are represented by the same column, as there are no differences caused by the measurement focus and basis of accounting.

## SUMMARY OF ORGANIZATION AND BUSINESS

The CTIB was established April 1, 2008, under a Joint Powers Agreement in accordance with Minn. Stat. § 297A.992. The CTIB is governed by an 11-member Board composed of two County Commissioner representatives appointed by the County Boards of Anoka, Dakota, Hennepin, Ramsey, and Washington Counties, and the Chair of the Metropolitan Council. Each county also appoints an alternate member. Its purpose is to facilitate investment in transitways, to collaboratively plan and develop policies for transit investments, to advocate for state and federal funding and transportation policies supportive of transitways, and to provide for public education and information. The Board is organized with a chair and a vice chair elected each year.

## FINANCIAL ANALYSIS

### Net Assets

The CTIB's net assets were \$52,694,825 on December 31, 2009. (See Table A-1.)

**Table A-1**  
**Net Assets**

Assets	
Current assets	<u>\$ 63,764,046</u>
Liabilities	
Current liabilities	<u>\$ 11,069,221</u>
Net Assets	
Restricted for grants to member agencies	\$ 13,881,702
Unrestricted	<u>38,813,123</u>
Total Net Assets	<u><u>\$ 52,694,825</u></u>

## Changes in Net Assets

The CTIB's revenues totaled \$124,723,680 for the 21-month period ending December 31, 2009. (See Table A-2.)

**Table A-2**  
**Changes in Net Assets**

Revenues	
Sales and excise taxes	\$ 124,350,742
Other	<u>372,938</u>
Total Revenues	\$ 124,723,680
Expenses	
Transportation	<u>72,028,855</u>
Change in Net Assets	\$ 52,694,825
Net Assets - April 1, 2008	<u>-</u>
Net Assets - December 31, 2009	<u><u>\$ 52,694,825</u></u>

## Revenues

The primary source of funding for the CTIB is a one-quarter of one percent sales and use tax. This tax was imposed on July 1, 2008, by each of the member counties as a requirement for joining the CTIB. The tax is on the same goods and services as the State of Minnesota general sales tax. It does not include the sale of motor vehicles. In addition to the sales and use tax, there is a \$20 per vehicle tax on the sale of motor vehicles by entities that are in the business of selling motor vehicles. It does not apply to a sale between two private individuals. These taxes are administered and collected by the Minnesota Department of Revenue. The funds, net of collection fees, are transferred directly into the CTIB's trust account by the Department of Revenue. The taxes do not flow to the member counties. For the 21-month period ending December 31, 2009, the CTIB collected \$124,350,742 in net taxes.

## **Expenses**

The CTIB's primary purpose is to advance transit projects within the five-county region. The CTIB is limited to funding construction and operations of transit ways. The CTIB is also authorized to spend up to three-fourths of one percent of its tax revenues for administrative expenses. The CTIB does not operate or construct transit ways, but provides grants to members, the Metropolitan Council, or other transit organizations. Most of the \$71,192,045 grant money expended to date has flown through the Metropolitan Council. The CTIB does not have any employees and, as such, contracts out all administrative services.

## **ECONOMIC AND OTHER FACTORS**

The CTIB's tax receipts are dependent on the economic activity of the Twin Cities' region. The CTIB Board recognizes the potential variability of the tax receipts and manages its grant spending based upon the most recent sales tax receipts and a cashflow reserve to ensure it can fund its obligations.

## **FINANCIAL CONTACT**

This financial report is designed to provide an overview for those interested in the CTIB's finances. Questions concerning any of the information provided in this report or additional financial information should be directed to Mary Richardson, CTIB Administrator, 477 Selby Avenue North, St. Paul, Minnesota 55102

## **BASIC FINANCIAL STATEMENTS**

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**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

<u>Assets</u>	
Cash held with Hennepin County	\$ 95,302
Cash held in trust	56,622,810
Accrued interest receivable	507
Due from other governments	6,944,060
Prepaid expense	1,367
Advance to other governments	<u>100,000</u>
<b>Total Assets</b>	<b><u><u>\$ 63,764,046</u></u></b>
<u>Liabilities and Fund Balance/Net Assets</u>	
<b>Liabilities</b>	
Accounts payable	\$ 39,939
Due to other governments	<u>11,029,282</u>
<b>Total Liabilities</b>	<b><u>\$ 11,069,221</u></b>
<b>Fund Balance/Net Assets</b>	
Reserved/restricted for	
Grants to member agencies	\$ 13,881,702
Unreserved/unrestricted	<u>38,813,123</u>
<b>Total Fund Balance/Net Assets</b>	<b><u>\$ 52,694,825</u></b>
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b><u><u>\$ 63,764,046</u></u></b>

The Counties Transit Improvement Board has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Governmental Activities Statement of Net Assets.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE 21-MONTH PERIOD ENDED DECEMBER 31, 2009**

<b>Revenues</b>	
Sales and excise taxes	\$ 124,350,742
Intergovernmental	270,758
Investment earnings	<u>102,180</u>
<b>Total Revenues</b>	<b><u>\$ 124,723,680</u></b>
<b>Expenditures/Expenses</b>	
<b>Current</b>	
Transportation	
Administration	\$ 836,810
<b>Intergovernmental</b>	
Transportation	
Grants to member agencies	<u>71,192,045</u>
<b>Total Expenditures/Expenses</b>	<b><u>\$ 72,028,855</u></b>
<b>Change in Fund Balance/Net Assets</b>	<b>\$ 52,694,825</b>
<b>Fund Balance/Net Assets - April 1, 2008</b>	<u>-</u>
<b>Fund Balance/Net Assets - December 31, 2009</b>	<b><u><u>\$ 52,694,825</u></u></b>

The Counties Transit Improvement Board has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund is the same as the Statement of Activities - Governmental Activities.



**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE 21-MONTH PERIOD ENDED DECEMBER 31, 2009

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1. Summary of Significant Accounting Policies

The Counties Transit Improvement Board's (CTIB) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Counties Transit Improvement Board are discussed below.

A. Financial Reporting Entity

The Counties Transit Improvement Board was established April 1, 2008, under a Joint Powers Agreement in accordance with Minn. Stat. § 297A.992. The CTIB is governed by an 11-member Board composed of two County Commissioner representatives appointed by the County Boards of Anoka, Dakota, Hennepin, Ramsey, and Washington Counties, and the Chair of the Metropolitan Council. Each County also appoints an alternate member.

The CTIB's purpose is to facilitate investment in transitways, to collaboratively plan and develop policies for transit investments, to advocate for state and federal funding and transportation policies supportive of transitways, and to provide for public education and information. The Board is organized with a chair and a vice chair elected each year.

The CTIB is a separate entity independent of the entities that formed it. In accordance with GAAP, the CTIB's financial statements are not included in any member's financial statements. No single member retains control over the operations or is financially accountable for the CTIB.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements and government-wide financial statements. These statements include the overall financial activities of the CTIB. In the current reporting period, the fund level financial statements and the government-wide financial statements are represented by the same column as there are no differences caused by the measurement focus and basis of accounting.

The government-wide financial statements are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The CTIB's net assets are reported as restricted and unrestricted.

The CTIB reports one governmental fund, the General Fund, which is the primary operating fund and accounts for all the financial resources of the organization.

C. Measurement Focus and Basis of Accounting

The governmental activities 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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. The CTIB considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the CTIB's policy to use restricted resources first and then unrestricted resources as needed.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

The CTIB's sales and excise taxes are deposited in a trust account at Wells Fargo Bank. Under the custodial agreement, all investments are to be made in money market mutual funds that are permitted under Minnesota Stat. ch. 118A.

All other cash is pooled and invested with Hennepin County, which obtains collateral to cover deposits in excess of insurance coverage. Pooled investments are reported at their fair value at December 31, 2009, based on market prices.

2. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements.

3. Advance to Other Governments

An intergovernmental advance reported as "Advance to other governments," is offset by due to other governments. In 2009, an advance was made to the fiscal agent, Hennepin County, for cash flow purposes.

4. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change. The unreserved, undesignated account indicates the portion of equity that is available for appropriation in future periods.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Budgetary Data

The CTIB adopts estimated sales tax revenue and administrative expenditure budgets for the General Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action. The budget can be amended during the year by the CTIB's Board.

On or before July 1 of each year, the Board adopts a preliminary annual budget for administrative and lobbying expenditures. The administrative expenditures are based on three-quarters of one percent of sales tax revenue. A final budget must be prepared and adopted no later than August 30. The CTIB does not budget for grants to member agencies.

The appropriated budget is prepared by fund. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

Encumbrance accounting is employed in the General Fund. Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

A budget to actual comparison is not provided for the 21-month period ended December 31, 2009, as the only budgets available are for the calendar year ended December 31, 2009.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

As of December 31, 2009, the CTIB's General Fund had \$95,302 on deposit with Hennepin County. It is Hennepin County's policy to follow Minn. Stat. § 118A.03, which states that to the extent funds deposited are in excess of available federal deposit insurance, the County must require the financial institution to furnish collateral security or a corporate surety bond. All collateral must be placed in safekeeping in a restricted account at the Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTIB's deposits may not be returned to it. The CTIB does not have a deposit policy for custodial credit risk outside of deposit policies developed by and adhered to by Hennepin County. At December 31, 2009, the CTIB's deposits were not exposed to custodial credit risk.

b. Investments

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CTIB does not have an investment policy for custodial credit risk outside of investment policies developed by and adhered to by Hennepin County. At December 31, 2009, the CTIB's investments were not exposed to custodial credit risk.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be caused by the CTIB's investment in a single issuer. At December 31, 2009, the CTIB held \$56,622,810 in the Wells Fargo Advantage Government Money Market Fund.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. At December 31, 2009, none of the CTIB's investments were subject to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At December 31, 2009, none of the CTIB's investments were subject to credit risk.

2. Receivables

Amounts due from other governments consisted mainly of sales and excise taxes that had been collected by the Minnesota Department of Revenue on behalf of the CTIB at December 31, 2009.

**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

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3. Detailed Notes (Continued)

B. Liabilities

Payables

Payables at December 31, 2009, for the CTIB's governmental activities were as follows:

Accounts payable	\$ 39,939
Due to other governments	<u>11,029,282</u>
Total	<u>\$ 11,069,221</u>

Due to other governments are transit operating grants due to the Metropolitan Council.

C. Risk Management

The CTIB is exposed to limited risks of loss related to theft of assets, or errors or omissions. The CTIB reduces the risks of loss by requiring contractual commitment agreements with third parties to name the CTIB as an additional insured on policies of commercial liability insurance maintained by the contracting parties.

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**COUNTIES TRANSIT IMPROVEMENT BOARD  
METROPOLITAN TRANSPORTATION AREA, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE 21-MONTH PERIOD ENDED DECEMBER 31, 2009**

**I. INTERNAL CONTROL OVER FINANCIAL REPORTING**

ITEMS ARISING THIS YEAR

09-1 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we identified the following material audit adjustment that was reviewed and approved by the appropriate Counties Transit Improvement Board (CTIB) staff and is reflected in the financial statements: due to other governments and related expenditures/expenses were increased by \$10,852,979 for unrecorded payables in the General Fund and the government-wide financial statements.

We recommend the CTIB establish internal controls necessary to determine that all adjusting entries are made to ensure the CTIB's financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

*As noted in the recommendation, a large grant to another local government was not recorded as of year-end due to non-payment, however the grant was paid subsequent to year-end and should have been recorded as an accrued liability. We agree with the recommendation and will implement procedures to ensure that all liabilities are properly recorded in accordance with generally accepted accounting principles in the future.*

## 09-2 Preparation of Financial Statements

The CTIB is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the CTIB's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

The CTIB has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements. The CTIB's accounting system permits the modified accrual basis of accounting, and a separate ledger is maintained to allow for the preparation of annual financial statements in accordance with GAAP. The accounting system generates summary information with the level of detail needed for the preparation of the annual financial statements.

As is the case with many small and medium-sized entities, the CTIB has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the CTIB's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the CTIB's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise to prepare the financial statements internally. As a result of this condition, the CTIB lacks internal controls over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the CTIB internally prepare its annual financial statements in accordance with GAAP. If the CTIB still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify individuals to sufficiently review, understand, and approve the CTIB's financial statements, including notes.

### Client's Response:

*As noted in the recommendation, CTIB requested that the State Auditor assist in the preparation of the financial statements and notes, due to limited CTIB staffing. We will consider developing the financial statements and notes internally in subsequent years. If we choose to have the State Auditor assist in preparation of the financial statements and notes in subsequent years, we will designate an individual to review and approve the financial statement and notes.*

## II. OTHER ITEM FOR CONSIDERATION

### GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

### Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

### Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the CTIB for the year ending December 31, 2011.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Joint Powers Board  
Counties Transit Improvement Board

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of the Counties Transit Improvement Board (CTIB) as of and for the 21-month period ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the CTIB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CTIB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CTIB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an other deficiency that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the CTIB's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 09-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the CTIB's internal control over financial reporting, identified as item 09-2 in the Schedule of Findings and Recommendations to be a significant deficiency.

### Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of the CTIB as of and for the 21-month period ended December 31, 2009, which collectively comprise the CTIB's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the CTIB complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the CTIB and it is reported for that purpose.

The CTIB's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the CTIB's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Joint Powers Board, management, and others within the CTIB and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 10, 2010