

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COUNTIES TRANSIT IMPROVEMENT BOARD
METROPOLITAN TRANSPORTATION AREA,
MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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 150 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 700 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**

Year Ended December 31, 2014



**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, 2014

<u>Affiliate</u>	<u>Member</u>	<u>Alternate</u>
Anoka County	Matt Look Scott Schulte	Carol LeDoux
Dakota County	Paul Krause ² Nancy Schouweiler	Thomas A. Egan
Hennepin County	Peter McLaughlin ¹ Mike Opat	Gail Dorfman
Ramsey County	Jim McDonough ³ Rafael Ortega	Victoria Reinhardt
Washington County	Fran Miron Gary Kriesel	Autumn Lehrke
Metropolitan Council	Susan Haigh	Adam Duininck

¹Chair

²Vice Chair

³Secretary/Treasurer

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Counties Transit Improvement Board
Metropolitan Transportation Area, Minnesota

Report on the Financial Statements

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 year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the CTIB's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CTIB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CTIB's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Counties Transit Improvement Board as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

This section presents management's analysis of the Counties Transit Improvement Board's (CTIB) financial condition and activities for the year ended December 31, 2014. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- At December 31, 2014, the assets of the CTIB exceeded its liabilities by \$121,965,501 (net position).
- The CTIB's total net position, as reported in the Statement of Activities, increased by \$70,852,510 during the year ended December 31, 2014. This increase was due to smaller than anticipated capital and operating grants, as well as higher than budgeted sales tax proceeds.
- The General Fund's fund balance increased by \$66,645,226, or 43.5 percent, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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 each of 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, a vice chair, and a secretary elected each year.

FINANCIAL ANALYSIS

Net Position

The CTIB's total net position was a positive \$121,965,501 on December 31, 2014. (See Table A-1.)

	<u>2014</u>	<u>2013</u>	<u>Percent (%) Change</u>
Assets			
Current assets	\$ 222,303,075	\$ 153,729,849	44.6
Liabilities			
Current liabilities	\$ 2,840,574	\$ 925,358	207.0
Noncurrent liabilities	97,497,000	101,691,500	(4.1)
Total Liabilities	\$ 100,337,574	\$ 102,616,858	(2.2)
Net Position			
Restricted for			
Grants to member agencies	\$ 121,630,751	\$ 50,829,606	139.3
Contributions	-	20,000	(100.0)
Unrestricted	334,750	263,385	27.1
Total Net Position	\$ 121,965,501	\$ 51,112,991	138.6

The CTIB's net position as of December 31, 2014, as well as sales and excise taxes to be received in future years, are all ultimately designated for transitway capital and operating grants, and the administrative costs associated with the grant-making process as required by the state statutes that authorize the taxes that provide the CTIB's revenues (Minn. Stat. § 297A.992).

Changes in Net Position

The CTIB's net position increased \$70,852,510 during the year ended December 31, 2014. See Table A-2 for the details of this change.

Table A-2
Change in Net Position
Governmental Activities

	2014	2013	Percent (%) Change
Revenues			
Sales and excise taxes	\$ 113,472,383	\$ 110,170,514	3.0
Intergovernmental	112,500	167,500	(32.8)
Investment earnings	17,941	11,032	62.6
Miscellaneous	-	2,251,900	(100.0)
Rail~Volution contributions	240,490	-	100.0
	<u>\$ 113,843,314</u>	<u>\$ 112,600,946</u>	1.1
Total Revenues			
Expenses			
Administration	\$ 1,077,311	\$ 778,089	38.5
Grants to member agencies	37,831,333	33,934,027	11.5
Interest	4,082,160	4,230,061	(3.5)
	<u>\$ 42,990,804</u>	<u>\$ 38,942,177</u>	10.4
Total Expenses			
Change in Net Position	\$ 70,852,510	\$ 73,658,769	(3.8)
Net Position - January 1	<u>51,112,991</u>	<u>(22,545,778)</u>	326.7
Net Position - December 31	<u>\$ 121,965,501</u>	<u>\$ 51,112,991</u>	138.6

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 year ending December 31, 2014, the CTIB collected \$113,472,383 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 transitways. 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 transitways, but provides grants to members, the Metropolitan Council, or other political subdivisions. Most of the \$37,831,333 of grant money expended in 2014 flowed to the Metropolitan Council for either operating or capital purposes. The CTIB does not have any employees and, as such, contracts out all administrative services.

Budgetary Highlights

- Actual revenues were \$8,509,314 more than budgeted.
- Actual expenditures were \$5,138,951 less than the budgeted amount due primarily to smaller than anticipated transportation grants to member agencies.
- Approximately \$57 million of the \$70.8 million increase in net position was planned for under CTIB's adopted Program of Projects Investment Strategy. Those funds will be used in future years to finance transitway investment as forecasted in that plan.

DEBT ADMINISTRATION

No new debt was issued by the CTIB during the fiscal year ended December 31, 2014.

In December 2010, the CTIB Board issued a \$102,810,000 Senior Sales Tax Revenue Note (Hennepin County), Series 2010A, (the "2010 Note") for the purpose of funding approved capital grants expected to exceed the amount of sales taxes to be received in 2011. Hennepin County, in turn, issued its \$102,810,000 General Obligation Senior Sales Tax Revenue Bonds, Series 2010E, the proceeds of which were used to purchase the CTIB Board's Note. The proceeds of the bonds, together with the premium paid by the purchaser of the bonds (\$7,190,000), were transferred to the CTIB in a total amount of \$110,000,000 to fund capital grants approved for 2011. The CTIB began making annual principal payments on its 2010 Note in December 2012. Additional information on the CTIB's long-term debt can be found in the notes to the financial statements, Note 2.B., of this report.

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 cash flow 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, St. Paul, Minnesota 55102.

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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 POSITION
DECEMBER 31, 2014**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash held by Hennepin County	\$ 170,187	\$ -	\$ 170,187
Cash held by trustee	210,684,526	-	210,684,526
Accrued interest receivable	1,831	-	1,831
Due from other governments	11,345,025	-	11,345,025
Prepaid expense	1,506	-	1,506
Advance to other governments	100,000	-	100,000
	\$ 222,303,075	\$ -	\$ 222,303,075
 <u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Accounts payable	\$ 82,154	\$ -	\$ 82,154
Due to other governments	2,400,000	-	2,400,000
Accrued interest payable	-	358,420	358,420
Noncurrent liabilities			
Due within one year	-	4,349,500	4,349,500
Due in more than one year	-	93,147,500	93,147,500
	\$ 2,482,154	\$ 97,855,420	\$ 100,337,574
 Fund Balance			
Restricted for grants to member agencies	\$ 219,486,171	\$ (219,486,171)	
Committed for transportation	101,593	(101,593)	
Committed for Rail~Volution scholarships	58,425	(58,425)	
Unassigned	174,732	(174,732)	
	\$ 219,820,921	\$ (219,820,921)	
 Net Position			
Restricted for grants to member agencies		\$ 121,630,751	\$ 121,630,751
Unrestricted		334,750	334,750
		\$ 121,965,501	\$ 121,965,501
 Total Liabilities and Fund Balance/Net Position	\$ 222,303,075	\$ -	\$ 222,303,075

The notes to the financial statements are an integral part of this statement.

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

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Reconciliation of the General Fund Balance to Net Position

Fund balance - General Fund	\$ 219,820,921
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(97,497,000)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental fund.	<u>(358,420)</u>
Net Position of Governmental Activities	<u><u>\$ 121,965,501</u></u>

**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 YEAR ENDED DECEMBER 31, 2014**

	General Fund	Adjustments	Governmental Activities
Revenues			
Sales and excise taxes	\$ 113,472,383	\$ -	\$ 113,472,383
Intergovernmental	112,500	-	112,500
Investment earnings	17,941	-	17,941
Rail-Volution contributions	240,490	-	240,490
	\$ 113,843,314	\$ -	\$ 113,843,314
Expenditures/Expenses			
Current			
Transportation			
Administration	\$ 1,077,311	\$ -	\$ 1,077,311
Intergovernmental			
Transportation			
Grants to member agencies	37,831,333	-	37,831,333
Debt service			
Principal	3,835,000	(3,835,000)	-
Interest	4,454,444	(372,284)	4,082,160
	\$ 47,198,088	\$ (4,207,284)	\$ 42,990,804
Change in Fund Balance/Net Position	\$ 66,645,226	\$ 4,207,284	\$ 70,852,510
Fund Balance/Net Position - January 1	153,175,695	(102,062,704)	51,112,991
Fund Balance/Net Position - December 31	\$ 219,820,921	\$ (97,855,420)	\$ 121,965,501

**Reconciliation of the General Fund Statement of Revenues,
Expenditures, and Changes in Fund Balance to the Statement
of Activities**

Change in Fund Balance **\$ 66,645,226**

Amounts reported for governmental activities in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Loan principal repayments	\$ 3,835,000	
Change in accrued interest payable	12,784	
Amortization of premium on loan	359,500	
	4,207,284	

Change in Net Position of Governmental Activities **\$ 70,852,510**

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

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). The more significant accounting policies established in GAAP and used by the CTIB are discussed below.

A. Financial Reporting Entity

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 each of 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, a vice chair, and a secretary 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.

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of the CTIB.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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 Minn. Stat. ch. 118A.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Investments (Continued)

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, 2014, 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

In 2009, an advance was made to the fiscal agent, Hennepin County, for cash flow purposes.

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the CTIB has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the CTIB has no items that qualify for reporting in this category.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Premiums and discounts on long-term debt are deferred and amortized over the life of the debt using the straight-line method. Long-term debt payable is reported net of the applicable premium or discount.

In the fund financial statements, the General Fund recognizes premiums and discounts, as well as debt issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received and discounts taken on debt issuances are reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Classification of Net Position

Net position in government-wide statements is classified in the following categories:

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted.

7. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the CTIB is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Classification of Fund Balances (Continued)

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or by laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the CTIB. Those committed amounts cannot be used for any other purpose unless the CTIB removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. The action must be approved no later than the close of the reporting period and remains binding unless removed in the same manner.

Assigned - amounts for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

The CTIB applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. 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. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

As of December 31, 2014, the CTIB's General Fund had \$170,187 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 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, 2014, the CTIB's deposits were not exposed to custodial credit risk.

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the CTIB:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as 'high risk' by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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 in the possession of an outside

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

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, 2014, the CTIB's investments were not exposed to custodial credit risk.

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, 2014, the CTIB held \$210,684,526 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, 2014, 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, 2014, 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, 2014.

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

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2014, for the CTIB's governmental activities were as follows:

Accounts payable	\$	82,154
Due to other governments		2,400,000
Accrued interest payable		358,420
		358,420
Total	\$	2,840,574

Due to other governments is composed of a capital grant due to the Metropolitan Council.

2. Long-Term Debt

Hennepin County loaned the CTIB funds for the purpose of funding grant awards for various transit projects. Information on the loan follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2014
Loans payable Hennepin County	12/01/2030	\$3,545,000 - \$7,895,000	4.00 - 5.00	\$ 102,810,000	\$ 91,745,000

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2015	\$ 3,990,000	\$ 4,301,044
2016	4,150,000	4,141,444
2017	4,355,000	3,933,944
2018	4,570,000	3,716,194
2019	4,800,000	3,487,694
2020 - 2024	27,685,000	13,760,219
2025 - 2029	34,300,000	7,146,825
2030	7,895,000	394,750
Total	\$ 91,745,000	\$ 40,882,114

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

2. Detailed Notes

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ 95,580,000	\$ -	\$ 3,835,000	\$ 91,745,000	\$ 3,990,000
Premium on loan	6,111,500	-	359,500	5,752,000	359,500
Total	<u>\$ 101,691,500</u>	<u>\$ -</u>	<u>\$ 4,194,500</u>	<u>\$ 97,497,000</u>	<u>\$ 4,349,500</u>

4. Summary of Significant Contingencies and Other Items

A. 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.

B. Commitments

Due to the timing of projects and operations at the member counties, at year-end, not all awarded grants for 2014 and previous years have been fully disbursed. At December 31, 2014, \$9,434,077 of these grants were unpaid.

C. Subsequent Event

On September 16, 2015, the Board approved a Capital Grant Agreement with the Metropolitan Council, including capital grants of \$6 million and \$14 million. The \$14 million grant is to be re-paid in five annual installments of \$2.8 million, subject to non-appropriation.

REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales and excise taxes	\$ 105,000,000	\$ 105,000,000	\$ 113,472,383	\$ 8,472,383
Intergovernmental				
Local				
Member contributions	105,000	105,000	105,000	-
Other miscellaneous grants	-	-	7,500	7,500
Investment earnings	19,000	19,000	17,941	(1,059)
Miscellaneous				
Rail~Volution contributions	210,000	210,000	240,490	30,490
Total Revenues	\$ 105,334,000	\$ 105,334,000	\$ 113,843,314	\$ 8,509,314
Expenditures				
Current				
Transportation				
Administration				
General	\$ 450,000	\$ 635,000	\$ 650,202	\$ (15,202)
Lobbying	105,000	110,000	110,001	(1)
Communications	105,000	70,000	3,600	66,400
Financial services	179,750	179,750	100,513	79,237
Insurance	11,200	11,600	10,930	670
Contingencies	34,300	-	-	-
Rail~Volution conference	210,000	210,000	202,065	7,935
Total transportation	\$ 1,095,250	\$ 1,216,350	\$ 1,077,311	\$ 139,039
Intergovernmental				
Transportation				
Grants to member agencies	42,831,245	42,831,245	37,831,333	4,999,912
Debt service				
Principal	3,835,000	3,835,000	3,835,000	-
Interest	4,454,444	4,454,444	4,454,444	-
Total Expenditures	\$ 52,215,939	\$ 52,337,039	\$ 47,198,088	\$ 5,138,951
Net Change in Fund Balance	\$ 53,118,061	\$ 52,996,961	\$ 66,645,226	\$ 13,648,265
Fund Balance - January 1	153,175,695	153,175,695	153,175,695	-
Fund Balance - December 31	\$ 206,293,756	\$ 206,172,656	\$ 219,820,921	\$ 13,648,265

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014**

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end, unless specifically carried over to the next budget year by Board action.

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 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.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Counties Transit Improvement Board
Metropolitan Transportation Area, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the General Fund of the Counties Transit Improvement Board (CTIB) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the CTIB's basic financial statements and have issued our report thereon dated November 10, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the CTIB's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because the CTIB did not enter into any applicable contracts.

In connection with our audit, nothing came to our attention that caused us to believe that the CTIB failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the CTIB's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Counties Transit Improvement Board and the State Auditor 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

November 10, 2015