STATE OF MINNESOTA
Office of the State Auditor

Julie Blaha
State Auditor

FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

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 650 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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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

Year Ended December 31, 2017

Audit Practice Division
Office of the State Auditor
State of Minnesota

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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

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Introductory Section

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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

ORGANIZATION
DECEMBER 31, 2017

The Faribault/Martin County Transit Board consists of ten members, five County Commissioners from each of the participating counties.

Name	Position	County
Board		
Tom Mahoney	Chair	Martin
Elliot Belgard	Secretary	Martin
Tom Loveall	Vice Chair	Faribault
William Groskreutz, Jr.	Treasurer	Faribault
Kathy Smith	Member	Martin
Dan Schmidtke	Member	Martin
Steve Flohrs	Member	Martin
John Roper	Member	Faribault
Greg Young	Member	Faribault
Tom Warmka	Member	Faribault
Jeremy Monahan	Transit Director	

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board Members
Faribault/Martin County Transit Board
Fairmont, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Faribault/Martin County Transit Board as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit Board'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 an opinion 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 from 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 Transit Board'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 Transit Board'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Faribault/Martin County Transit Board as of December 31, 2017, and the results of its operations and its cash flows 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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 30, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

As management of the Faribault/Martin County Transit Board, we offer the readers of the Transit Board's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Transit Board is a joint powers enterprise operation among Faribault and Martin Counties, created to provide, improve, and manage public transportation services for the mutual benefit of each of the joint participants. The Transit Board began official operations on January 1, 2016, and is composed of ten County Commissioners, five from each participating county. Financing for the first year of operations was provided by the Minnesota Department of Transportation through operating grants, Martin County through contributions of capital assets and cash, and Faribault County through contributions of capital assets. It is intended and anticipated that funding for future activities and programs administered by the Transit Board shall come primarily from grant monies and revenues generated from passengers and contracts.

FINANCIAL HIGHLIGHTS

In 2017, the assets and deferred outflows of resources of the Transit Board exceeded its liabilities and deferred inflows of resources by $246,831, of which $320,854 is the investment in capital assets (Exhibit 1), leaving deficit unrestricted net position of $74,023.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The Transit Board's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements consist of the following:

- The statement of net position compares the assets and deferred outflows of resources to the liabilities and deferred inflows of resources to give an overall view of the financial health of the Transit Board.

- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of the Transit Board's finances. All of the current year's revenues and expenses are taken into account, regardless of when the cash was received or paid.

- The statement of cash flows provides sources and uses of cash for the Transit Board.

FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of financial position. The Transit Board's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $246,831 at the close of 2017. The largest portion of net position reflects the Transit Board's investment in capital assets. However, it should be noted that these assets are not available for future spending. Comparative data with 2016 is presented.

Net Position

	2017	2016
Assets		
Current assets	$ 383,149	$ 226,910
Capital assets, net of depreciation	320,854	296,546
Total Assets	$ 704,003	$ 523,456
Deferred Outflows of Resources		
Deferred pension outflows	$ 380,187	$ 54,008
Liabilities		
Current liabilities	$ 263,484	$ 100,720
Long-term liabilities	472,708	109,083
Total Liabilities	$ 736,192	$ 209,803
Deferred Inflows of Resources		
Deferred pension inflows	$ 101,167	$ 5,276
Net Position		
Investment in capital assets	$ 320,854	$ 296,546
Unrestricted	(74,023)	65,839
Total Net Position, as reported	$ 246,831	$ 362,385

The Transit Board's activities decreased net position during 2017 by $115,554.

Changes in Net Position

	2017	2016
Operating Revenues		
Charges for services	$ 143,334	$ 123,415
Intergovernmental	915,630	922,424
Miscellaneous	2,133	656
Total Operating Revenues	$ 1,061,097	$ 1,046,495
Operating Expenses		
Personal services	$ 784,789	$ 235,549
Administrative charges	27,823	45,295
Operating charges	339,632	261,592
Contracted services	-	501,876
Insurance	26,745	4,263
Depreciation	56,563	50,122
Total Operating Expenses	$ 1,235,552	$ 1,098,697
Income (Loss) Before Contributions and Special Item	$ (174,455)	$ (52,202)
Capital contributions	58,901	-
Special Item		
Transfer of transit operations from participating counties	-	442,672
Change in Net Position	$ (115,554)	$ 390,470
Net Position - January 1	362,385	(28,085)
Net Position - December 31	$ (246,831)	$ 362,385

CAPITAL ASSETS

The Transit Board's depreciable capital assets (net of accumulated depreciation) at December 31, 2017, totaled $320,854. The investment in capital assets consists of buses, equipment, and building improvements. Additional information on capital assets can be found in Note 2.A.2. to the financial statements.

	2017	2016
Capital assets depreciated		
Vehicles	$ 411,699	$ 345,971
Equipment	8,415	-
Building improvements	5,600	-
Total capital assets depreciated	$ 425,714	$ 345,971
Less: accumulated depreciation for		
Vehicles	$ 104,481	$ 49,425
Equipment	146	-
Building improvements	233	-
Total accumulated depreciation	$ 104,860	$ 49,425
Capital assets, net	$ 320,854	$ 296,546

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Transit Board's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Jeremy Monahan, Transit Director, 201 Lake Avenue, Fairmont, Minnesota 56301.

BASIC FINANCIAL STATEMENTS

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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2017

Assets		
Current assets		
Cash and cash equivalents	$	239,721
Accounts receivable		5,331
Due from other governments		138,097
Total current assets	**$**	**383,149**
Capital assets		
Depreciable - net	**$**	**320,854**
Total Assets	**$**	**704,003**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**380,187**
Liabilities		
Current liabilities		
Accounts payable	$	21,993
Salaries payable		8,926
Due to other governments		25,423
Unearned revenue		207,142
Total current liabilities	**$**	**263,484**
Noncurrent liabilities		
Compensated absences payable	$	6,904
Advance from other governments		70,000
Net pension liability		395,804
Total noncurrent liabilities	**$**	**472,708**
Total Liabilities	**$**	**736,192**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**101,167**
Net Position		
Investment in capital assets	$	320,854
Unrestricted		(74,023)
Total Net Position	**$**	**246,831**

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

FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating Revenues		
Charges for services	**$**	**143,334**
Intergovernmental		
Federal	$	330,384
State		585,246
Total intergovernmental	**$**	**915,630**
Miscellaneous	**$**	**2,133**
Total Operating Revenues	**$**	**1,061,097**
Operating Expenses		
Personal services	$	784,789
Administrative charges		27,823
Operating charges		339,632
Insurance		26,745
Depreciation		56,563
Total Operating Expenses	**$**	**1,235,552**
Income (loss) before contributions	**$**	**(174,455)**
Capital contributions		58,901
Change in Net Position	**$**	**(115,554)**
Net Position - January 1		**362,385**
Net Position - December 31	**$**	**246,831**

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

FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers	$	146,609
Intergovernmental receipts		972,447
Payments to suppliers		(406,014)
Payments to employees		(701,551)
Net cash provided by (used in) operating activities	**$**	**11,491**
Cash Flows from Noncapital Financing Activities		
Contribution from Martin County	$	121,307
Advance received from Faribault County		30,000
Net cash provided by (used in) noncapital financing activities	**$**	**151,307**
Cash Flows from Capital and Related Financing Activities		
Capital contributions	$	58,901
Proceeds from loans from participating counties		73,671
Repayment of loans from participating counties		(73,671)
Proceeds from the sale of capital assets		6,770
Purchases of capital assets		(87,641)
Net cash provided by (used in) capital and related financing activities	**$**	**(21,970)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**140,828**
Cash and Cash Equivalents at January 1		**98,893**
Cash and Cash Equivalents at December 31	**$**	**239,721**

FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of operating income (loss) before special item to net cash provided by (used in) operating activities		
Operating income (loss) before special item	**$**	**(174,455)**
Adjustments to reconcile operating income (loss) before special item to net cash provided by (used in) operating activities		
Depreciation expense	$	56,563
(Increase) decrease in accounts receivable		(1,302)
(Increase) decrease in due from other governments		(135,416)
Increase (decrease) in accounts payable		(9,038)
Increase (decrease) in due to other governments		(16,599)
Increase (decrease) in salaries payable		(5,324)
Increase (decrease) in compensated absences payable		2,777
Increase (decrease) in unearned revenue		193,725
(Increase) decrease in deferred pension outflows		(326,179)
Increase (decrease) in deferred pension inflows		95,891
Increase (decrease) in net pension liability		330,848
Total adjustments	**$**	**185,946**
Net Cash Provided by (Used in) Operating Activities	**$**	**11,491**

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

1. Summary of Significant Accounting Policies

The Transit Board's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. The Governmental Accounting Standard 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 Transit Board are discussed below.

A. Financial Reporting Entity

The Faribault/Martin County Transit Board was formed pursuant to Minn. Stat. § 471.59, by Faribault and Martin Counties, to provide a coordinated service delivery and funding source for public transportation. The formation of the Transit Board began January 1, 2015, with operations beginning as of January 1, 2016. The joint powers agreement remains in force until either county notifies the other of its intentions to withdraw, at least 90 days before the termination takes effect. Control is vested in the Transit Board. The Board consists of ten County Commissioners, five from each participating county.

The Faribault/Martin County Transit Board is an independent joint venture and is not included in any of the member counties' reporting entities. The Transit Board does not have any component units.

B. Basic Financial Statements

The Transit Board's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds are used to account for: (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Transit Board's net position is reported in two parts: (1) investment in capital assets and (2) unrestricted net position.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The Transit Board's financial statements are reported using the economic resources measurement focus and the full 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.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

When both restricted and unrestricted resources are available for use, the Transit Board uses restricted resources first and then unrestricted resources as needed.

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

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are defined to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Deposits and Investments

The Transit Board's deposits consist of one checking account. The Transit Board had no investments at December 31, 2017, and no interest earnings for 2017.

3. Receivables and Payables

The financial statements for the Transit Board contain no allowance for uncollectible accounts. Uncollectible receivables are recognized as bad debts at the time information becomes available that indicates the particular receivable is uncollectible. These amounts are not considered to be material in relation to the financial position or operations of the fund. The Transit Board had no accounts receivable scheduled to be collected beyond one year.

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets, which include land and land improvements, buildings and building improvements, computer hardware, machinery, furniture, equipment, vehicles, and leasehold improvements, are reported in the financial statements. Capital assets are defined by the Transit Board as assets with an initial, individual cost of more than $2,500 and an estimated useful life of five years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value (entry price) on the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

Classification	Range
Land improvements	20 to 30 years
Buildings and improvements	20 to 40 years
Computer hardware, machinery, furniture, and equipment	5 years
Vehicles	7 years
Leasehold improvements	Length of lease

5. Unearned Revenue

Unearned revenue is reported in connection with resources that have been received but not yet earned.

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected

1. Summary of Significant Accounting Policies

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

6. Compensated Absences (Continued)

to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred. The statement of net position may report both current and noncurrent portions of compensated absences. Any current portion consists of an amount based on a trend analysis of current usage of vacation. Any noncurrent portion consists of the remaining amount of vacation.

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports 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 so will not be recognized as an outflow of resources (expense) until then. The Transit Board reports deferred outflows of resources on the full accrual basis of accounting associated with pension benefits.

In addition to liabilities, the statement of net position reports 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. The Transit Board reports deferred inflows of resources on the full accrual basis of accounting associated with pension benefits.

1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

Net position is classified in the following categories:

- Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

- 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 or investment in capital assets.

10. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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 on All Funds

   A. Assets and Deferred Outflows of Resources

      1. Deposits

         The Transit Board's deposits were $239,721 as of December 31, 2017. During the year ended December 31, 2017, the Transit Board had no investments.

         The Transit Board is authorized by Minn. Stat. § 118A.02 to designate a depository for public funds. The Transit Board is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

         Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held 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 is the risk that in the event of a financial institution failure, the Transit Board's deposits may not be returned to it. The Transit Board does not have a deposit policy for custodial credit risk. As of December 31, 2017, the Transit Board's deposits were not exposed to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Vehicles	$ 345,971	$ 73,626	$ 7,898	$ 411,699
Equipment	-	8,415	-	8,415
Building improvements	-	5,600	-	5,600
Total capital assets depreciated	$ 345,971	$ 87,641	$ 7,898	$ 425,714
Less: accumulated depreciation for				
Vehicles	$ 49,425	$ 56,184	$ 1,128	$ 104,481
Equipment	-	146	-	146
Building improvements	-	233	-	233
Total accumulated depreciation	$ 49,425	$ 56,563	$ 1,128	$ 104,860
Capital Assets, Net	$ 296,546	$ 31,078	$ 6,770	$ 320,854

B. Liabilities and Deferred Inflows of Resources

1. Unearned Revenue

The Transit Board reports unearned revenue of $15,860 for sold but unredeemed bus fare tokens. In addition, the Transit Board reports unearned revenue of $191,282 for a 2017 state operating grant overpayment that is expected to be returned to the Minnesota Department of Transportation.

2. Advance From Other Governments

In 2015, Faribault County advanced the Faribault/Martin County Transit Board $40,000 for cash flow purposes. An additional $30,000 was advanced in 2017. The advance is expected to be repaid with future fare revenues generated by the Transit Board. Currently, there is no schedule for repayment.

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 4,127	$ 6,729	$ 3,952	$ 6,904	$ -

3. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the Fairbault/Martin County Transit Board are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Transit Board employees belong to either the Basic Plan or the Minneapolis Retirement Fund.

3. Defined Benefit Pension Plan (Continued)

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Defined Benefit Pension Plan (Continued)

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated members were required to contribute 6.50 percent of their annual covered salary in 2017.

In 2017, the Transit Board was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan Coordinated Plan members	7.50%

The employee and employer contribution rates did not change from the previous year.

The Transit Board's contribution for the General Employees Retirement Plan for the year ended December 31, 2017, were $40,322. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2017, the Transit Board reported a liability of $395,804 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Transit Board's proportion of the net pension liability was based on the Transit Board's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Transit Board's proportion was 0.0062 percent. It was 0.0008 percent measured as of June 30, 2016. The Transit Board recognized pension expense of $140,882 for its proportionate share of the General Employees Retirement Plan's pension expense.

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The Transit Board also recognized $144 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

The Transit Board's proportionate share of the net pension liability	$	395,804
State of Minnesota's proportionate share of the net pension liability associated with the Transit Board		4,995
Total	$	400,799

The Transit Board reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual economic experience	$	13,044	$	3,285
Changes in actuarial assumptions		8,479		39,679
Difference between projected and actual investment earnings		-		58,203
Changes in proportion		338,235		-
Contributions paid to PERA subsequent to the measurement date		20,429		-
Total	$	380,187	$	101,167

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The $20,429 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 98,905
2019	90,207
2020	86,280
2021	(16,801)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015.

3. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

3. Defined Benefit Pension Plan (Continued)

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

H. Pension Liability Sensitivity

The following presents the Transit Board's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Transit Board's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 613,921
Current	7.50	395,804
1% Increase	8.50	217,235

3. Defined Benefit Pension Plan (Continued)

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. Risk Management

The Transit Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the Transit Board carries commercial insurance. To manage these risks, the Transit Board has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The Transit Board is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the Transit Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past two fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2017 and 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Transit Board in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Transit Board pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Transit Board in a method and amount to be determined by MCIT.

5. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Minnesota. Any disallowed claims, including amounts already collected, may constitute a liability to the Transit Board. The amount, if any, of the expenses that may be disallowed by the grantor cannot be determined at this time, although the Transit Board expects such amounts, if any, to be immaterial.

The Transit Board, in connection with the normal conduct of its affairs, is involved in various claims, judgements, and litigation. The Transit Board's attorneys estimate that the potential claims resulting from such litigation that would not be covered by insurance will not have a material adverse effect on the financial condition of the Transit Board.

REQUIRED SUPPLEMENTARY INFORMATION

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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT A-1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Faribault/Martin County Transit Board (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.0062%	$ 395,804	$ 4,995	$ 400,799	$ 400,952	98.72%	75.90%
2016	0.0008	64,956	837	65,793	160,106	40.57	68.91
2015	0.0008	41,460	N/A	41,460	9,047	458.27	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT A-2

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 40,322	$ 40,322	$ -	$ 537,963	7.50%
2016	12,090	12,090	-	161,199	7.50
2015	2,516	2,516	-	33,549	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The Transit Board's year-end is December 31.

The notes to the required supplementary information are an integral part of this schedule.

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2016 (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Management and Compliance Section

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board Members
Faribault/Martin County Transit Board
Fairmont, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Faribault/Martin County Transit Board as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit Board's basic financial statements, and have issued our report thereon dated January 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the Faribault/Martin County Transit Board's basic financial statements, we considered the Transit Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 the Transit Board'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 2016-002 to be a material weakness.

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. We consider the deficiencies in the Transit Board's internal control, identified as items 2016-001, 2016-003, and 2016-004 in the Schedule of Findings and Recommendations, to be significant deficiencies.

Other Matters

Also included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the Faribault/Martin County Transit Board, and it is reported for that purpose.

The Faribault/Martin County Transit Board's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Transit Board's responses and, accordingly, we express no opinion on them.

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

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 30, 2019

JULIE BLAHA
STATE AUDITOR

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**INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE**

Board Members
Faribault/Martin County Transit Board
Fairmont, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the Faribault/Martin County Transit Board as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit Board's basic financial statements and have issued our report thereon dated January 30, 2019.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness and for tax increment financing because the Faribault/Martin County Transit Board cannot issue debt and administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Faribault/Martin County Transit Board failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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 Transit Board's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of Board members and management of the Faribault/Martin County Transit Board and the State Auditor, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 30, 2019

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FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2016-001

Accounting Policies and Procedures Manual

Criteria: Management is responsible for developing and monitoring its internal controls over the accounting cycles and the systems used for financial reporting.

Condition: The Faribault/Martin County Transit Board's accounting policies and procedures manual does not include formal policies or procedures over cash and investments or net position, and the current policies do not address the basis for determining the current portion of compensated absences.

Context: Written policies and procedures over significant financial operations help in providing consistency over time and guidance to new officials and staff.

Effect: As a result of this condition, the Transit Board's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls.

Cause: The Transit Board has developed many policies and procedures relating to other transaction cycles. There were some accounting cycles, relating to financial statement presentation, that were overlooked when preparing the policy and procedure manual.

Recommendation: We recommend the Transit Board formalize the documentation of its policies and procedures related to cash and investments, net position, and determination of current compensated absences. These policies should be included in the Transit Board's accounting procedures manual and approved by the governing Board.

Client's Response:

The Transit Board Executive Committee will continue working towards amending our accounting policies and procedures manual to include policies over cash and investments, net position, and determination of current compensated absences. Much of the documentation is in Draft form and needs finalizing before we present these amendments to the Full Transit Board for consideration of approval in 2019.

Finding Number 2016-002

Audit Adjustments

Criteria: 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. Auditing standards define 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.

Condition: Material audit adjustments were identified that resulted in significant changes to the Transit Board's financial statements.

Context: The inability to make appropriate accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit, however, independent external auditors cannot be considered part of the Transit Board's internal control.

Effect: The following audit adjustments were reviewed and approved by management and are reflected in the financial statements:

- increased due from other governments and intergovernmental revenues by $134,321 to record state and federal grants due to the Transit Board related to 2016 and 2017; and

- decreased intergovernmental revenues and operating charges by $73,626 for funds received from the participating counties to temporarily finance the purchase of a new bus until federal grant funds were received.

Cause: Procedures are not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend Transit Board staff review the financial statement closing procedures and trial balances and journal entries in detail to ensure that all significant adjustments have been made appropriately that are considered necessary to fairly present the Transit Board's financial statements in accordance with generally accepted accounting principles.

Client's Response:

The Transit Board will work to establish more complete reviews and documentation of our procedures over financial statement presentation. We will verify trial balances and journal entries are properly prepared to ensure the financial statements are fairly presented in accordance with generally accepted accounting principles with the assistance, as needed, from a local CPA firm that assists us with Quarterly Reporting and Year-End filings.

Finding Number 2016-003

Service Organization Control Report

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. When management chooses to use a service organization, such as QuickBooks, entity management is also responsible to review controls at the service organization to ensure information that will be included in the entity's financial records is accurate and complete.

Condition: The Transit Board contracts with QuickBooks for financial software. QuickBooks uses cloud storage for online users such as the Transit Board, including financial and certain personnel data. QuickBooks has not provided a service organization control report covering controls in place over the data of its users. These controls may include support services, physical security, environmental security, logical security, and change management.

Context: Disbursements are being processed based on information entered into QuickBooks; however, there is no verification that information was not altered.

Effect: The Transit Board has no assurance that QuickBooks, the service organization, has adequate controls in place. There is an increased risk of the Transit Board's data in QuickBooks being removed or altered including, but not limited to, disbursement amounts or vendor names.

Cause: The Transit Board management contacted QuickBooks, but has not been successful in obtaining a service organization control report.

Recommendation: We recommend the Transit Board continue to work with QuickBooks to obtain a service organization control report. A Type 2 engagement, in which the service auditor reports on the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period, is recommended over a Type 1 engagement, as a Type 1 engagement is only as of a specific date.

Client's Response:

The Transit Director will continue to work with QuickBooks (and their parent company Intuit, if necessary) to obtain the proper service organization control (SOC) report. Efforts for this were halted part-way through 2018 due to lack of progress, but with advice from OSA staff, new avenues towards obtaining the proper SOC report will be explored in early 2019.

Finding Number 2016-004

Control Deficiencies

Criteria: Management is responsible for establishing, implementing, and maintaining internal controls in many areas of the entity.

Condition: The Transit Board has identified controls in place, but not documented how those controls are completed. There is also a lack of controls in some areas.

Context: The following controls were identified with issues:

- Bank reconciliations do not have indication of review.
- PERA contributions are not being reviewed.
- In one instance, timecard hours were summarized incorrectly and an employee was not paid for the number of hours worked. The issue was not identified by management.

Effect: Lack of controls creates an increased risk for errors, theft, and misappropriation to occur and not be detected.

Cause: The Transit Board indicated this was an oversight.

Recommendation: We recommend the Transit Board document the controls in place and implement controls that are lacking in the areas identified.

Client's Response:

The Transit Board Executive Committee will improve documentation of the review procedures over cash and payroll procedures. Much of the documentation has been completed in DRAFT form from the 2016 findings, only finalizing is needed. Once completed, the accounting policy and procedures manual and personnel policy will be updated accordingly and the amended policies and procedures will be presented to the full Transit Board for consideration for approval in 2019. All bank reconciliations, which were reviewed by the Office Manager and the Transit Director were only initialed by the Office Manager upon completion. Moving forward, after the Transit Director receives the completed reconciliation report, they will also initial and date the report after review. PERA contributions are reviewed by the Office Manager upon completion of payroll. OSA was not about to see these reports during the 2016 audit. This practice will continue with spot reviews, and initials/dates, will be done by the Transit Director no less frequently than quarterly. Upon finding the inaccurate summary of hours on a timecard, more spot checks were completed with no other inaccuracies found. This is from the Blue Earth satellite garage location where timecards are filled in by hand. An electronic timeclock will be installed in Blue Earth like the timeclock in Fairmont for consistency in hour tabulating and ease for payroll completion. This timeclock will be purchased in early 2019.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-005

Disaster Recovery Plan

Criteria: A disaster recovery plan gives assurance that the Transit Board is prepared for a disaster or major computer breakdown. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other Transit Board employees;
- a plan as to how the Transit Board will continue operations until normal operations are re-established; this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;

- a list of materials the Transit Board needs to continue operations and how they will be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to offsite backup storage facilities;
- a list of vendor contracts;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: The Faribault/Martin County Transit Board does not have a formal disaster recovery plan. The Transit Board needs to be able to continue to provide services to residents after a disaster and during a major computer breakdown.

Context: A disaster recovery plan would give greater assurance that the Transit Board is prepared for a disaster or major computer breakdown.

Effect: In the event a disaster occurred, the Transit Board could experience a delay in providing services or reporting financial information to the public.

Cause: The Transit Board indicated it relies on the Disaster Recovery Plan of Martin County as it receives basic information technology services from the County.

Recommendation: We recommend the Transit Board develop, implement, and test a formal disaster recovery plan. The governing Board should approve the formal plan, and all Transit Board employees should be familiar with the plan.

<u>Client's Response</u>:

The Transit Board relies heavily on the Martin County Information Systems disaster recovery plan due to the amount of files stored within their server. In 2018 much of the effort for a disaster recovery plan was focused on procedures being developed for a natural disaster or other emergency within the member counties and expanding on how the transit system could be utilized. While these efforts were worthwhile, and formalization of the IT disaster recovery beyond stating Martin County's plan will be followed will be completed. The plan will have a target for consideration of fall 2019 by the Transit Board. The disaster recovery plan will include drills to test the procedures, which plan to be completed in late 2019.