State of Minnesota

Office of the State Auditor

Julie Blaha
State Auditor

Faribault-Martin County Transit Board
Fairmont, Minnesota

Year Ended December 31, 2021

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 100 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 Minnesota's local 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.osa.state.mn.us

Faribault-Martin County Transit Board
Fairmont, Minnesota

Year Ended December 31, 2021

Office of the State Auditor

Audit Practice Division
Office of the State Auditor
State of Minnesota

FARIBAULT-MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

TABLE OF CONTENTS

INTRODUCTORY SECTION

FARIBAULT-MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

ORGANIZATION
DECEMBER 31, 2021

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

Name	Position	County
Board		
Elliot Belgard	Chair	Martin
Greg Young	Vice Chair	Faribault
Richard Koons	Secretary	Martin
William Groskreutz, Jr.	Treasurer	Faribault
Kathy Smith	Member	Martin
James Forshee	Member	Martin
Steve Flohrs	Member	Martin
John Roper	Member	Faribault
Bruce Anderson	Member	Faribault
Tom Loveall	Member	Faribault
Jeremy Monahan	Transit Director	

FINANCIAL SECTION

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

INDEPENDENT AUDITOR'S REPORT

Board Members
Faribault-Martin County Transit Board
Fairmont, Minnesota

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of the Faribault-Martin County Transit Board as of and for the year ended December 31, 2021, 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.

In our opinion, the accompanying 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, 2021, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Transit Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

Main: (651) 296-2551 • Fax: (651) 296-4755 • TTY: (800) 627-3529 • State.Auditor@osa.state.mn.us • www.osa.state.mn.us
An equal opportunity employer

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transit Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;

- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transit Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a 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

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

January 12, 2023

MANAGEMENT’S DISCUSSION AND ANALYSIS

FARIBAULT-MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021
(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, 2021. 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. The Transit Board provides public transportation services through the Prairie Lakes Transit system. Financing for operations is provided by state and federal grants in addition to revenues generated from passengers.

FINANCIAL HIGHLIGHTS

In 2021, the assets and deferred outflows of resources of the Transit Board exceeded its liabilities and deferred inflows of resources by $476,980, of which $829,736 is the investment in capital assets (Exhibit 1), leaving unrestricted net position of ($352,756).

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 $476,980 at the close of 2021. 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 2020 is presented.

Net Position

	2021	2020
Assets		
Current assets	$ 309,845	$ 726,154
Capital assets, net of depreciation	829,736	705,093
Total Assets	$ 1,139,581	$ 1,431,247
Deferred Outflows of Resources		
Deferred pension outflows	$ 279,512	$ 97,253
Deferred other postemployment benefits outflows	361	422
Total Deferred Outflows of Resources	$ 279,873	$ 97,675
Liabilities		
Current liabilities	$ 155,755	$ 70,269
Long-term liabilities	443,279	614,160
Total Liabilities	$ 599,034	$ 684,429
Deferred Inflows of Resources		
Deferred other postemployment benefits inflows	$ 90	$ 110
Deferred pension inflows	343,350	30,936
Total Deferred Inflows of Resources	$ 343,440	$ 31,046
Net Position		
Investment in capital assets	$ 829,736	$ 705,093
Unrestricted	(352,756)	108,354
Total Net Position	$ 476,980	$ 813,447

The Transit Board's activities decreased net position during 2021 by $336,467, largely due to the decreased federal share of grant funds for operations.

Changes in Net Position

	2021	2020
Operating Revenues		
Fares	$ 60,830	$ 40,480
Advertising	9,074	-
Intergovernmental	711,409	1,475,375
Miscellaneous	9,795	5,605
Total Operating Revenues	$ 791,108	$ 1,521,460
Operating Expenses		
Personal services	$ 797,810	$ 897,885
Administrative charges	69,921	42,306
Operating charges	294,629	256,164
Insurance	34,823	26,263
Depreciation	120,371	111,415
Total Operating Expenses	$ 1,317,554	$ 1,334,033
Operating Income (Loss)	$ (526,446)	$ 187,427
Nonoperating Revenues (Expenses)		
Investment earnings	$ 265	$ 150
Gifts and contributions	500	-
Gain (loss) on disposal of capital assets	1,350	-
Total Nonoperating Revenue (Expenses)	$ 2,115	$ 150
Income (Loss) Before Contributions	$ (524,331)	$ 187,577
Capital contributions	187,864	191,499
Change in Net Position	$ (336,467)	$ 379,076
Net Position – January 1	813,447	434,371
Net Position – December 31	$ 476,980	$ 813,447

CAPITAL ASSETS

The Transit Board's depreciable capital assets (net of accumulated depreciation) at December 31, 2021, totaled $829,736. The investment in capital assets consists of buses, equipment, and building and improvements. Additional information on capital assets can be found in Note 2.A.3 to the financial statements.

	2021	2020
Capital assets not depreciated		
Building in progress	$ -	$ 37,578
Capital assets depreciated		
Vehicles	$ 639,477	$ 639,477
Equipment	8,415	8,415
Building and improvements	648,253	365,661
Total capital assets depreciated	$ 1,296,145	$ 1,013,553
Less: accumulated depreciation for		
Vehicles	$ 421,035	$ 319,789
Equipment	3,514	2,672
Building and improvements	41,860	23,577
Total accumulated depreciation	$ 466,409	$ 346,038
Total capital assets depreciated, net	$ 829,736	$ 667,515
Capital Assets, Net	$ 829,736	$ 705,093

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, 1023 North Dewey Street, PO Box 966, Fairmont, Minnesota 56301.

BASIC FINANCIAL STATEMENTS

FARIBAULT-MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2021

Assets		
Current assets		
Cash and cash equivalents	$	306,933
Accounts receivable		2,912
Total current assets	**$**	**309,845**
Capital assets		
Depreciable – net		**829,736**
Total Assets	**$**	**1,139,581**
Deferred Outflows of Resources		
Deferred other postemployment benefits outflows	$	361
Deferred pension outflows		279,512
Total Deferred Outflows of Resources	**$**	**279,873**
Liabilities		
Current liabilities		
Accounts payable	$	10,883
Salaries payable		31,027
Contracts payable		3,195
Due to other governments		34,977
Unearned revenue		75,673
Total current liabilities	**$**	**155,755**
Noncurrent liabilities		
Compensated absences payable	$	11,711
Advance from other governments		59,999
Other postemployment benefits liability		4,310
Net pension liability		367,259
Total noncurrent liabilities	**$**	**443,279**
Total Liabilities	**$**	**599,034**
Deferred Inflows of Resources		
Deferred other postemployment benefits inflows	$	90
Deferred pension inflows		343,350
Total Deferred Inflows of Resources	**$**	**343,440**

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

FARIBAULT-MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2021

Net Position		
Investment in capital assets	$	829,736
Unrestricted		(352,756)
Total Net Position	**$**	**476,980**

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, 2021

Operating Revenues		
Intergovernmental		
State	$	711,409
Fares		60,830
Advertising		9,074
Miscellaneous		9,795
Total Operating Revenues	**$**	**791,108**
Operating Expenses		
Personal services	$	797,810
Administrative charges		69,921
Operating charges		294,629
Insurance		34,823
Depreciation		120,371
Total Operating Expenses	**$**	**1,317,554**
Operating Income (Loss)	**$**	**(526,446)**
Nonoperating Revenues (Expenses)		
Investment earnings	$	265
Gifts and contributions		500
Gain (loss) on disposal of capital assets		1,350
Total Nonoperating Revenues (Expenses)	**$**	**2,115**
Income (loss) before capital contributions	**$**	**(524,331)**
Capital contributions		187,864
Change in Net Position	**$**	**(336,467)**
Net Position – January 1		**813,447**
Net Position – December 31	**$**	**476,980**

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, 2021
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers	$	77,866
Intergovernmental receipts		1,062,881
Payments to suppliers		(376,168)
Payments to employees		(799,145)
Net cash provided by (used in) operating activities	**$**	**(34,566)**
Cash Flows from Noncapital Financing Activities		
Donation	$	500
Repayment of advance to Faribault County		(41,990)
Net cash provided by (used in) noncapital financing activities	**$**	**(41,490)**
Cash Flows from Capital and Related Financing Activities		
Capital contributions	$	215,256
Proceeds from the sale of capital assets		1,350
Purchases of capital assets		(245,014)
Net cash provided by (used in) capital and related financing activities	**$**	**(28,408)**
Cash Flows from Investing Activities		
Interest received	**$**	**265**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(104,199)**
Cash and Cash Equivalents at January 1		**411,132**
Cash and Cash Equivalents at December 31	**$**	**306,933**

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

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	**$ (526,446)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	$ 120,371
(Increase) decrease in accounts receivable	(65)
(Increase) decrease in due from other governments	284,783
Increase (decrease) in accounts payable	(7,751)
Increase (decrease) in due to other governments	24,694
Increase (decrease) in due to contracts payable	(323)
Increase (decrease) in salaries payable	1,594
Increase (decrease) in compensated absences payable	616
Increase (decrease) in unearned revenue	67,272
(Increase) decrease in deferred pension outflows	(182,259)
Increase (decrease) in deferred pension inflows	312,414
Increase (decrease) in net pension liability	(130,364)
(Increase) decrease in deferred other postemployment benefits outflows	61
Increase (decrease) in deferred other postemployment benefits inflows	(20)
Increase (decrease) in other postemployment benefits liability	857
Total adjustments	**$ 491,880**
Net Cash Provided by (Used in) Operating Activities	**$ (34,566)**

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

1. Summary of Significant Accounting Policies

The Faribault-Martin County 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, 2021. 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 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 Transit Board provides public transportation services through the Prairie Lakes Transit system.

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, 2021, and interest earnings of $265 for 2021.

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.

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 building improvements	20 to 40 years
Computer hardware, machinery, furniture, and equipment	5 years
Vehicles	5 to 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 of Minnesota (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 will not be recognized as an outflow of resources (expense) until then. The Transit Board reports deferred outflows of resources associated with defined benefit pension plans and other postemployment benefits (OPEB).

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 will not be recognized as an inflow of resources (revenue) until that time. The Transit Board reports deferred inflows of resources associated with defined benefit pension plans and OPEB.

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

A. Assets

1. Deposits

The Transit Board's deposits were $306,933 as of December 31, 2021. During the year ended December 31, 2021, the Transit Board had no investments.

2. Detailed Notes

A. Assets

1. Deposits (Continued)

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, 2021, the Transit Board's deposits were not exposed to custodial credit risk.

2. Receivables

Accounts receivable as of December 31, 2021, were $2,912. All amounts are scheduled for collection during the subsequent year.

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Building in progress	$ 37,578	$ -	$ 37,578	$ -
Capital assets depreciated				
Vehicles	$ 639,477	$ -	$ -	$ 639,477
Equipment	8,415	-	-	8,415
Building and improvements	365,661	282,592	-	648,253
Total capital assets depreciated	$ 1,013,553	$ 282,592	$ -	$ 1,296,145
Less: accumulated depreciation for				
Vehicles	$ 319,789	$ 101,246	$ -	$ 421,035
Equipment	2,672	842	-	3,514
Building and improvements	23,577	18,283	-	41,860
Total accumulated depreciation	$ 346,038	$ 120,371	$ -	$ 466,409
Total capital assets depreciated, net	$ 667,515	$ 162,221	$ -	$ 829,736
Capital Assets, Net	$ 705,093	$ 162,221	$ 37,578	$ 829,736

B. Liabilities

1. Unearned Revenue

The Transit Board reports unearned revenue of $8,075 for sold but unredeemed bus fare tokens. In addition, the Transit Board reports unearned revenue of $67,598 for the 2020 - 2021 state operating grant overpayment that is expected to be returned to the Minnesota Department of Transportation.

2. Detailed Notes

B. Liabilities (Continued)

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. In 2018, $28,011 of the advance from Faribault County was forgiven based on the Transit Board's operating losses of the previous years. In 2019, Martin County advanced $30,000 and Faribault County advanced $30,000. In 2021, the Transit Board repaid Faribault County $41,990. The remaining advance is expected to be repaid with future fare revenues generated by the Transit Board or forgiven for any operating losses. Currently, there is no schedule for repayment. At December 31, 2021, the advance reported was $59,999.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 11,095	$ 9,490	$ 8,874	$ 11,711	$ -

C. Other Postemployment Benefits (OPEB)

1. Plan Description

The Faribault-Martin County Transit Board's OPEB plan is a single-employer defined benefit health care plan administered through Martin County. The Transit Board allows eligible retirees and their spouses to continue on the employee-sponsored health insurance plan as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost; however, because premium costs are determined based on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

2. Detailed Notes

   C. Other Postemployment Benefits (OPEB)

      1. Plan Description (Continued)

         As of the January 1, 2020, actuarial valuation, the following employees were covered by the benefit terms:

Active plan participants	2

      2. Total OPEB Liability

         The Transit Board's total OPEB liability of $4,310 was determined by an actuarial valuation as of January 1, 2020, and was rolled forward to a measurement date of January 1, 2021.

         The total OPEB liability for the fiscal year-end December 31, 2021, reporting date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry Age, level percentage of pay
Inflation	2.50 percent
Salary increases	Service graded table
Health care cost trend	6.50 percent in 2020, decreasing to 5.00 percent over six years

         The current year discount rate is 2.90 percent. For the current valuation, the discount rate is the 20-year municipal bond yield. The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of January 1, 2020.

         Mortality rates are based on Society of Actuaries Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2019 Generational Improvement Scale.

         Economic assumptions are based on input from a variety of published sources of historical and projected future financial data.

2. Detailed Notes

C. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2020	$ 3,453
Changes for the year	
Service cost	$ 736
Interest	121
Net change	$ 857
Balance at December 31, 2021	$ 4,310

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the Transit Board, calculated using the discount rate previously disclosed, as well as what the Transit Board's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	1.90%	$ 4,772
Current	2.90	4,310
1% Increase	3.90	3,884

The following presents the total OPEB liability of the Transit Board, calculated using the health care cost trend previously disclosed, as well as what the Transit Board's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

2. Detailed Notes

C. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.50% Decreasing to 4.00%	$ 3,599
Current	6.50% Decreasing to 5.00%	4,310
1% Increase	7.50% Decreasing to 6.00%	5,161

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2021, the Transit Board recognized OPEB expense of $898. The Transit Board reported deferred inflows of resources and deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability losses	$ 361	$ -
Changes in actuarial assumptions	-	90
Total	$ 361	$ 90

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31	OPEB Expense Amount
2022	$ 41
2023	41
2024	41
2025	43
2026	53
Thereafter	52

2. Detailed Notes

C. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Assumptions

No changes in actuarial assumption occurred in 2021.

D. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the Faribault-Martin County Transit Board are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees 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 plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees 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 the 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 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 Employees Retirement Fund.

2. 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.

2. Detailed Notes

D. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 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 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.

2. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

3. 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 Plan members were required to contribute 6.50 percent of their annual covered salary in 2021.

In 2021, the Transit Board was required to contribute 7.50 percent of annual covered salary. The employee and employer rates did not change from the previous year.

The Transit Board's contributions for the General Employees Plan for the year ended December 31, 2021, were $46,335. The contributions are equal to the statutorily required contributions as set by state statute.

4. Pension Costs

At December 31, 2021, the Transit Board reported a liability of $367,259 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the Transit Board's proportion was 0.0086 percent. It was 0.0083 percent measured as of June 30, 2020. The Transit Board recognized pension expense of $47,035 for its proportionate share of the General Employees Plan's pension expense.

The Transit Board also recognized $909 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's expense related to its contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan annually until September 15, 2031.

2. Detailed Notes

D. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The Transit Board's proportionate share of the net pension liability	$	367,259
State of Minnesota's proportionate share of the net pension liability associated with the Transit Board		11,263
Total	$	378,522

The Transit Board reported its proportionate share of the General Employees 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	$	2,020	$	11,195
Changes in actuarial assumptions		224,240		7,661
Difference between projected and actual investment earnings		-		318,946
Changes in proportion		30,076		5,548
Contributions paid to PERA subsequent to the measurement date		23,176		-
Total	$	279,512	$	343,350

The $23,176 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, 2022. 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	
2022	$	(8,343)
2023		6,879
2024		1,202
2025		(86,752)

2. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.25 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	6.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2021, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated June 24, 2021, was utilized.

The long-term expected rate of return on pension plan investments is 6.50 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 geometric 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 equities	33.50%	5.10%
International equities	16.50	5.30
Fixed income	25.00	0.75
Private markets	25.00	5.90

2. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent in 2021, which is a decrease of one percent from 2020. 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 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.

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2021:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

8. 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 one percentage point lower or one percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Plan	
	Discount Rate	Net Pension Liability
1% Decrease	5.50%	$ 749,020
Current	6.50	367,259
1% Increase	7.50	54,000

2. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

9. 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.

3. 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 three 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 2021 and 2022. 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.

4. 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

FARIBAULT-MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA

EXHIBIT A-1

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2021

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	$ 736	$ 713	$ 689	$ 718
Interest	121	111	73	49
Differences between expected and actual experience	-	483	-	-
Changes of assumption or other inputs	-	(60)	(82)	-
Net change in total OPEB liability	**$ 857**	**$ 1,247**	**$ 680**	**$ 767**
Total OPEB Liability – Beginning	**3,453**	**2,206**	**1,526**	**759**
Total OPEB Liability – Ending	**$ 4,310**	**$ 3,453**	**$ 2,206**	**$ 1,526**
Covered-employee payroll	$ 103,255	$ 100,005	$ 97,016	$ 94,278
Total OPEB liability (asset) as a percentage of covered-employee payroll	4.17%	3.45%	2.27%	1.62%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2021**

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
2021	0.0086 %	$ 367,259	$ 11,263	$ 378,522	$ 618,688	59.36 %	87.00 %
2020	0.0083	497,623	15,245	512,868	588,721	84.53	79.06
2019	0.0077	425,716	13,333	439,049	546,684	77.87	80.23
2018	0.0081	449,355	14,624	463,979	543,226	82.72	79.53
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	0.0080	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-3

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2021

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)
2021	$ 46,335	$ 46,335	$ -	$ 617,800	7.50 %
2020	45,793	45,793	-	610,570	7.50
2019	42,398	42,398	-	565,303	7.50
2018	40,496	40,496	-	540,052	7.50
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.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021

1. Other Postemployment Benefits Funded Status

   See Note 2.C in the notes to the financial statements for additional information regarding the Faribault-Martin County Transit Board's other postemployment benefits.

2. Employer Contributions to Other Postemployment Benefits

   Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

3. 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

   2021

   - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
   - The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

   2020

   - The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
   - The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
   - Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2020 (Continued)

- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.

- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

- The assumed spouse age difference was changed from two years older for females to one year older.

- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2018 (Continued)

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 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 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

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

3. 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

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

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, 2021, 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 12, 2023.

In connection with our audit, we noted that the Faribault-Martin County Transit Board failed to comply with the provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Recommendations as item 2021-001. Also, 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 depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

The Faribault-Martin County Transit Board's response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Recommendations. The Faribault-Martin County Transit Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

January 12, 2023

Main: (651) 296-2551 • Fax: (651) 296-4755 • TTY: (800) 627-3529 • State.Auditor@osa.state.mn.us • www.osa.state.mn.us
An equal opportunity employer

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECMBER 31, 2021

OTHER FINDINGS AND RECOMMENDATIONS

2021-001 **Contracting and Bidding Compliance**
Prior Year Finding Number: N/A
Repeat Finding Since: N/A
Type of Finding: Minnesota Legal Compliance

Criteria: Minnesota statutes contain requirements for the contracting and bidding processes used by local governments.

Condition: During testing of compliance with the State of Minnesota contracting and bid laws, noncompliance with the following requirements was noted:

- Contract Language: Minnesota Statute § 471.425, subd. 4a, requires that the contract between the government entity and a prime contractor contain language that requires the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1.5 percent per month or any part of a month. For the one contract tested requiring the specific language in the contract with the prime contractor, the language was not included.

- Retainage: Minnesota Statute § 15.72 requires that, if retainage is withheld, the local government must release the retainage no more than 60 days after substantial completion, except for the following exceptions: (1) up to 250 percent of the cost to correct or complete work known at the time of substantial completion (must be released within 60 days of work completion), and (2) the greater of $500 or one percent of the value of the contract pending submission of final paperwork (must be released within 60 days of submission of final paperwork). For one contract tested, final payment was paid on December 23, 2021. The Transit Board did not get a signed form for substantial completion; however, per review of the Board minutes, substantial completion was July - August 2021. The five percent retainage release was done more than 60 days after substantial completion by the contractor.

- Withholding Affidavit for Contractors (Form IC-134): Minnesota Statute § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the Transit Board is required to obtain a certificate from the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92. The Transit Board did not obtain Form IC-134 for either of the contracts that were tested.

Context: The Transit Board typically does not handle construction or repair contracts for buildings. Therefore, staff are not familiar with all the requirements and relied on an engineering firm to meet the requirements.

Effect: Noncompliance with Minn. Stat. §§ 270C.66, 15.72, and 471.425.

Cause: The Transit Board relies on engineering and consulting firms to assist in the contracting process as staff do not have the required knowledge. The Transit Board does not have a contracting policy or guide to follow to ensure compliance with Minnesota statutory requirements.

Recommendation: We recommend the Transit Board update its policy and procedures manual to include contracting requirements so that management overseeing outside vendors will be aware of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client's Response: *The Faribault-Martin Transit Board approved a procurement policy on December 22, 2021, which includes state requirements. While this type of contracting is rare at Faribault-Martin Transit Board, going forward we will review requirements before entering into contracts.*