

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Faribault/Martin County Transit Board
Fairmont, Minnesota**

Year Ended December 31, 2020

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.

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Faribault/Martin County Transit Board Fairmont, Minnesota

Year Ended December 31, 2020



Office of the State Auditor

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

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

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**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

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**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2020

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

<u>Name</u>	<u>Position</u>	<u>County</u>
Board		
William Groskreutz, Jr.	Chair	Faribault
Tom Mahoney*	Vice Chair	Martin
Greg Young	Secretary	Faribault
Elliot Belgard	Treasurer	Martin
Kathy Smith	Member	Martin
Richard Koons*	Member	Martin
Steve Flohrs	Member	Martin
John Roper	Member	Faribault
Tom Warmka	Member	Faribault
Tom Loveall	Member	Faribault
Jeremy Monahan	Transit Director	

* Tom Mahoney passed away in June 2020, Richard Koons fulfilled remainder of the term for Vice Chair on the board. The position on the board was vacant until 2021 when a new Commissioner was elected in Martin County.



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, 2020, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2020, and the changes in its financial position 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2021, on our consideration of the Faribault/Martin County Transit Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Faribault/Martin County Transit Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Faribault/Martin County Transit Board's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit Board's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance),

and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 8, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020
(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, 2020. 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 2020, the assets and deferred outflows of resources of the Transit Board exceeded its liabilities and deferred inflows of resources by \$813,447, of which \$705,093 is the investment in capital assets (Exhibit 1), leaving unrestricted net position of \$108,354.

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 \$813,447 at the close of 2020. 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 2019 is presented.

	Net Position	
	<u>2020</u>	<u>2019</u>
Assets		
Current assets	\$ 726,154	\$ 356,691
Capital assets, net of depreciation	<u>705,093</u>	<u>609,881</u>
Total Assets	<u>\$ 1,431,247</u>	<u>\$ 966,572</u>
Deferred Outflows of Resources		
Deferred pension outflows	\$ 97,253	\$ 202,257
Deferred other postemployment benefits outflows	<u>422</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>\$ 97,675</u>	<u>\$ 202,257</u>
Liabilities		
Current liabilities	\$ 70,269	\$ 90,608
Long-term liabilities	<u>614,160</u>	<u>539,702</u>
Total Liabilities	<u>\$ 684,429</u>	<u>\$ 630,310</u>
Deferred Inflows of Resources		
Deferred other postemployment benefits inflows	\$ 110	\$ 70
Deferred pension inflows	<u>30,936</u>	<u>104,078</u>
Total Deferred Inflows of Resources	<u>\$ 31,046</u>	<u>\$ 104,148</u>
Net Position		
Investment in capital assets	\$ 705,093	\$ 609,881
Unrestricted	<u>108,354</u>	<u>(175,510)</u>
Total Net Position	<u>\$ 813,447</u>	<u>\$ 434,371</u>

The Transit Board's activities increased net position during 2020 by \$379,076 largely due to the purchase of buses and the increased federal share of grant funds for operations.

Changes in Net Position

	2020	2019
Operating Revenues		
Charges for services	\$ 40,480	\$ 131,931
Intergovernmental	1,475,375	1,121,999
Miscellaneous	5,605	20,630
	\$ 1,521,460	\$ 1,274,560
Operating Expenses		
Personal services	\$ 897,885	\$ 826,122
Administrative charges	42,306	68,929
Operating charges	256,164	375,005
Insurance	26,263	27,859
Depreciation	111,415	73,600
	\$ 1,334,033	\$ 1,371,515
Total Operating Expenses	\$ 1,334,033	\$ 1,371,515
Operating Income (Loss)	\$ 187,427	\$ (96,955)
Nonoperating Revenues (Expenses)		
Investment earnings	\$ 150	\$ 96
Insurance recoveries	-	7,074
Gain on forgiveness of advance from other governments	-	2,100
	\$ 150	\$ 9,270
Total Operating Expenses	\$ 150	\$ 9,270
Income (Loss) Before Contributions and Special Item	\$ 187,577	\$ (87,685)
Capital contributions	191,499	-
Special Item		
Transfer of transit building from participating county	-	357,000
Change in Net Position	\$ 379,076	\$ 269,315
Net Position – January 1	434,371	165,056
Net Position – December 31	\$ 813,447	\$ 434,371

CAPITAL ASSETS

The Transit Board's depreciable capital assets (net of accumulated depreciation) at December 31, 2020, totaled \$705,093. 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.

	<u>2020</u>	<u>2019</u>
Capital assets not depreciated		
Building in progress	\$ 37,578	\$ -
Capital assets depreciated		
Vehicles	\$ 639,477	\$ 475,840
Equipment	8,415	8,415
Building and improvements	<u>365,661</u>	<u>365,661</u>
Total capital assets depreciated	<u>\$ 1,013,553</u>	<u>\$ 849,916</u>
Less: accumulated depreciation for		
Vehicles	\$ 319,789	\$ 232,911
Equipment	2,672	1,830
Building and improvements	<u>23,577</u>	<u>5,294</u>
Total accumulated depreciation	<u>\$ 346,038</u>	<u>\$ 240,035</u>
Total capital assets depreciated, net	<u>\$ 667,515</u>	<u>\$ 609,881</u>
Capital Assets, Net	<u>\$ 705,093</u>	<u>\$ 609,881</u>

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 Room 104, Fairmont, Minnesota 56301.

BASIC FINANCIAL STATEMENTS

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Assets

Current assets

Cash and cash equivalents	\$	411,132
Accounts receivable		2,847
Due from other governments		312,175
		312,175

Total current assets **\$ 726,154**

Capital assets

Nondepreciable	\$	37,578
Depreciable – net		667,515
		667,515

Total capital assets **\$ 705,093**

Total Assets **\$ 1,431,247**

Deferred Outflows of Resources

Deferred other postemployment benefits outflows	\$	422
Deferred pension outflows		97,253
		97,253

Total Deferred Outflows of Resources **\$ 97,675**

Liabilities

Current liabilities

Accounts payable	\$	18,634
Salaries payable		29,433
Contracts payable		3,518
Due to other governments		10,283
Unearned revenue		8,401
		8,401

Total current liabilities **\$ 70,269**

Noncurrent liabilities

Compensated absences payable	\$	11,095
Advance from other governments		101,989
Other postemployment benefits liability		3,453
Net pension liability		497,623
		497,623

Total noncurrent liabilities **\$ 614,160**

Total Liabilities **\$ 684,429**

Deferred Inflows of Resources

Deferred other postemployment benefits inflows	\$	110
Deferred pension inflows		30,936
		30,936

Total Deferred Inflows of Resources **\$ 31,046**

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Net Position

Investment in capital assets	\$ 705,093
Unrestricted	<u>108,354</u>
Total Net Position	<u><u>\$ 813,447</u></u>

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020**

Operating Revenues	
Intergovernmental	
Federal	\$ 867,927
State	<u>607,448</u>
Total intergovernmental	<u>\$ 1,475,375</u>
Fares	\$ 33,708
Advertising	6,772
Miscellaneous	<u>5,605</u>
Total Operating Revenues	<u>\$ 1,521,460</u>
Operating Expenses	
Personal services	\$ 897,885
Administrative charges	42,306
Operating charges	256,164
Insurance	26,263
Depreciation	<u>111,415</u>
Total Operating Expenses	<u>\$ 1,334,033</u>
Operating Income (Loss)	<u>\$ 187,427</u>
Nonoperating Revenues (Expenses)	
Investment earnings	<u>\$ 150</u>
Income (loss) before capital contributions	\$ 187,577
Capital contributions	<u>191,499</u>
Change in Net Position	\$ 379,076
Net Position – January 1	<u>434,371</u>
Net Position – December 31	<u><u>\$ 813,447</u></u>

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 54,312
Intergovernmental receipts	1,307,943
Payments to suppliers	(353,722)
Payments to employees	(779,197)
	<u>229,336</u>
Net cash provided by (used in) operating activities	\$ 229,336
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 164,107
Proceeds from loans from participating counties	132,960
Repayment of loans from participating counties	(132,960)
Purchases of capital assets	(206,627)
	<u>(42,520)</u>
Net cash provided by (used in) capital and related financing activities	\$ (42,520)
Cash Flows from Investing Activities	
Interest received	\$ 150
	<u>150</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 186,966
Cash and Cash Equivalents at January 1	<u>224,166</u>
Cash and Cash Equivalents at December 31	<u>\$ 411,132</u>

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ 187,427</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 111,415
(Increase) decrease in accounts receivable	11,000
(Increase) decrease in due from other governments	(166,105)
Increase (decrease) in accounts payable	(12,969)
Increase (decrease) in due to other governments	(18,925)
Increase (decrease) in due to contracts payable	3,518
Increase (decrease) in salaries payable	12,157
Increase (decrease) in compensated absences payable	1,304
Increase (decrease) in unearned revenue	(4,120)
(Increase) decrease in deferred pension outflows	105,004
Increase (decrease) in deferred pension inflows	(73,142)
Increase (decrease) in net pension liability	71,907
(Increase) decrease in deferred other postemployment benefits outflows	(422)
Increase (decrease) in deferred other postemployment benefits inflows	40
Increase (decrease) in other postemployment benefits liability	<u>1,247</u>
Total adjustments	<u>\$ 41,909</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 229,336</u></u>

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020. 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 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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, 2020, and interest earnings of \$150 for 2020.

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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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:

<u>Classification</u>	<u>Range</u>
Land improvements	20 to 30 years
Buildings and building improvements	20 to 40 years
Computer hardware, machinery, furniture, and equipment	5 years
Vehicles	5-7 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

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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 post employment 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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 \$411,132 as of December 31, 2020. During the year ended December 31, 2020, the Transit Board had no investments.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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, 2020, the Transit Board's deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2020, for the Transit Board are as follows:

	<u>Receivable</u>
Accounts receivable	\$ 2,847
Due from other governments	<u>312,175</u>
Total	<u>\$ 315,022</u>

All amounts are scheduled for collection during the subsequent year.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Building in progress	\$ -	\$ 37,578	\$ -	\$ 37,578
Capital assets depreciated				
Vehicles	\$ 475,840	\$ 173,108	\$ 9,471	\$ 639,477
Equipment	8,415	-	-	8,415
Building and improvements	365,661	-	-	365,661
Total capital assets depreciated	\$ 849,916	\$ 173,108	\$ 9,471	\$ 1,013,553
Less: accumulated depreciation for				
Vehicles	\$ 232,911	\$ 92,290	\$ 5,412	\$ 319,789
Equipment	1,830	842	-	2,672
Building and improvements	5,294	18,283	-	23,577
Total accumulated depreciation	\$ 240,035	\$ 111,415	\$ 5,412	\$ 346,038
Total capital assets depreciated, net	\$ 609,881	\$ 61,693	\$ 4,059	\$ 667,515
Capital Assets, Net	<u>\$ 609,881</u>	<u>\$ 99,271</u>	<u>\$ 4,059</u>	<u>\$ 705,093</u>

B. Liabilities

1. Unearned Revenue

The Transit Board reports unearned revenue of \$8,401 at December 31, 2020, for sold but unredeemed bus fare tokens.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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. 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, 2020, the advance reported was \$101,989.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 9,791	\$ 8,643	\$ 7,339	\$ 11,095	\$ -

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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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	<u>2</u>
--------------------------	----------

2. Total OPEB Liability

The Transit Board's total OPEB liability of \$3,453 was determined by an actuarial valuation as of January 1, 2020.

The total OPEB liability for the fiscal year-end December 31, 2020, 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

C. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	\$ 2,206
Changes for the year	
Service cost	\$ 713
Interest	111
Changes in assumptions	(60)
Differences between expected and actual experience	483
Net change	\$ 1,247
Balance at December 31, 2020	\$ 3,453

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%	\$ 3,842
Current	2.90	3,453
1% Increase	3.90	3,095

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:

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

C. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate		Total OPEB Liability
1% Decrease	5.5% Decreasing to 4.00%	\$	2,885
Current	6.5% Decreasing to 5.00%		3,453
1% Increase	7.5% Decreasing to 6.00%		4,132

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

For the year ended December 31, 2020, the Transit Board recognized OPEB expense of \$865. 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	\$ 422	\$ -
Changes in actuarial assumptions	-	110
Total	\$ 422	\$ 110

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
2021	\$ 41
2022	41
2023	41
2024	41
2025	43
Thereafter	105

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

C. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Assumptions

The following change in actuarial assumption occurred in 2020:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service.
- The discount rate was changed from 3.80 percent to 2.90 percent.

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

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan

1. Plan Description (Continued)

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.

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

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

(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.

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 2020.

In 2020, 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 2020, were \$45,793. The contributions are equal to the statutorily required contributions as set by state statute.

4. Pension Costs

At December 31, 2020, the Transit Board reported a liability of \$497,623 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan

4. Pension Costs (Continued)

on the Transit Board's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the Transit Board's proportion was 0.0083 percent. It was 0.0077 percent measured as of June 30, 2019. The Transit Board recognized pension expense of \$151,261 for its proportionate share of the General Employees Plan's pension expense.

The Transit Board also recognized \$1,327 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.

The Transit Board's proportionate share of the net pension liability	\$	497,623
State of Minnesota's proportionate share of the net pension liability associated with the Transit Board		15,245
Total	\$	512,868

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	\$ 4,217	\$ 1,883
Changes in actuarial assumptions	-	17,957
Difference between projected and actual investment earnings	14,590	-
Changes in proportion	55,203	11,096
Contributions paid to PERA subsequent to the measurement date	23,243	-
Total	\$ 97,253	\$ 30,936

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$23,243 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2021	\$ 10,871
2022	2,480
2023	17,700
2024	12,023

5. Actuarial Assumptions

The total pension liability in the June 30, 2020, 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	7.50 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, 2020, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. Inflation and investment assumptions for all plans were reviewed in the experience study report for the General Employees Plan.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan

5. 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 geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equities	35.50%	5.10%
Broad international stock pool	17.50	5.30
Bond pool	20.00	0.75
Alternatives	25.00	5.90
Cash equivalents	2.00	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2020, which remained consistent with 2019. 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 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.
- 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 changes result 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

2. Detailed Notes

D. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions and Plan Provisions (Continued)

- 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.

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	6.50%	\$ 797,517
Current	7.50	497,623
1% Increase	8.50	250,234

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; 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT MINNESOTA**

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 2020 and 2021. 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, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 713	\$ 689	\$ 718
Interest	111	73	49
Differences between expected and actual experience	483	-	-
Changes of assumption or other inputs	<u>(60)</u>	<u>(82)</u>	<u>-</u>
Net change in total OPEB liability	\$ 1,247	\$ 680	\$ 767
Total OPEB Liability – Beginning	<u>2,206</u>	<u>1,526</u>	<u>759</u>
Total OPEB Liability – Ending	<u><u>\$ 3,453</u></u>	<u><u>\$ 2,206</u></u>	<u><u>\$ 1,526</u></u>
Covered-employee payroll	\$ 100,005	\$ 97,016	\$ 94,278
Total OPEB liability (asset) as a percentage of covered-employee payroll	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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

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
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	0.0008	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-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

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)
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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020

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. Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following change in actuarial assumption occurred in 2020:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service.
- The discount rate was changed from 3.80 percent to 2.90 percent.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

4. 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

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.
- 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 changes result 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

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

General Employees Retirement Plan

2020 (Continued)

- 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.

2019

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

2018

- The mortality projection scale was changed from MP-2015 to 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- 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.
- 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.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

- 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.
- 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.

SUPPLEMENTARY INFORMATION

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Formula Grants for Rural Areas and Tribal Transit Program	20.509	1035589	\$ 45,969
COVID-19 – Formula Grants for Rural Areas and Tribal Transit Program	20.509	1035589	821,958
(Total Formula Grants for Rural Areas and Tribal Transit Program 20.509 \$867,927)			<hr/>
Total Federal Awards			\$ 867,927

The Faribault/Martin County Transit Board did not pass any federal awards through to subrecipients during the year ended December 31, 2020.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Fairbault/Martin County Transit Board. The Transit Board's reporting entity is defined in Note 1 to the financial statements.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Faribault/Martin County Transit Board under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Transit Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Transit Board.

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

The Faribault/Martin County Transit Board has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Faribault/Martin County Transit Board as of and for the year ended December 31, 2020, 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 November 8, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Faribault/Martin County Transit Board's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Transit Board's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Faribault/Martin County Transit Board's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001, that we considered to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Faribault/Martin County Transit Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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 contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections 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. 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.

Faribault/Martin County Transit Board's Response to Finding

The Faribault/Martin County Transit Board's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The 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.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion

on the effectiveness of the Transit Board's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit Board's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 8, 2021



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

Board Members
Faribault/Martin County Transit Board
Fairmont, Minnesota

Report on Compliance for the Major Federal Program

We have audited the Faribault/Martin County Transit Board's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Transit Board's major federal program for the year ended December 31, 2020. The Faribault/Martin County Transit Board's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Faribault/Martin County Transit Board's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Faribault/Martin County Transit Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Transit Board's compliance.

Opinion on the Major Federal Program

In our opinion, the Faribault-Martin County Transit Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2020-002 and 2020-003. Our opinion on the major federal program is not modified with respect to these matters.

The Faribault-Martin County Transit Board's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Transit Board's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Faribault/Martin County Transit Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Transit Board's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Transit Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2020-002 and 2020-003 that we consider to be significant deficiencies.

The Faribault/Martin County Transit Board's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Transit Board's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 8, 2021

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor’s report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs is:

Formula Grants for Rural Areas and Tribal Transit Program	CFDA No. 20.509
COVID-19 – Formula Grants for Rural Areas and Tribal Transit Program	CFDA No. 20.509

The threshold for distinguishing between Types A and B programs was \$750,000.

The Faribault/Martin County Transit Board qualified as a low-risk auditee? **No**

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

Finding Number: 2020-001

Prior Year Finding Number: 2019-001

Repeat Finding Since: 2016

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 policies and procedures 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.

View of Responsible Official: Acknowledged

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Finding Number: 2020-002

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Uniform Guidance Written Procurement Policies and Procedures

Programs: U.S. Department of Transportation's Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509), Award No. 1035589, 2020; COVID-19 Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509), Award No. 1035589, 2020

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation.

Condition: The Transit Board's written procurement policies contain some of the components of a procurement policy in accordance with Title 2 U.S. *Code of Federal Regulations*. However, not all the specific language pertaining to §§ 180.300, 200.318, 200.320, and 200.326 is included.

Questioned Costs: None.

Context: Written policies and procedures that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements.

Effect: Written policies and procedures that do not reflect specific Uniform Guidance procurement requirements could increase the risk of noncompliance with federal program requirements.

Cause: The Transit Board believed the policy that was approved by Minnesota Department of Transportation for procurement included all necessary requirements.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Recommendation: We recommend the Transit Board include the specific components of the Uniform Guidance requirements in its written procurement policies and procedures.

View of Responsible Official: Acknowledged

Finding Number: 2020-003

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Procurement, Suspension, and Debarment

Programs: U.S. Department of Transportation's Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509), Award No. 1035589, 2020; COVID-19 Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509), Award No. 1035589, 2020

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.319 states that all procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and § 200.320.

Condition: In a sample of eight procurement transactions tested under \$5,000, two of the procurements had no documentation to verify the purchases were made when the competition was full and open. No additional pricing was obtained before purchases were made.

Questioned Costs: None.

Context: The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The Transit Board is not in compliance with federal grant requirements.

**FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Cause: The Transit Board indicated that staff were not aware of the level of effort they needed to put in to additional prices for purchases less than \$5,000 as the process is very time consuming.

Recommendation: We recommend the Transit Board implement procedures to ensure procurement transactions are conducted in a manner that provides full and open competition and that documentation is maintained.

View of Responsible Official: Acknowledged

IV. PREVIOUSLY REPORTED ITEM RESOLVED

2019-002 Audit Adjustments

FARIBAULT – MARTIN COUNTY TRANSIT BOARD
201 Lake Avenue # 104 Fairmont, MN 56031



**REPRESENTATION OF FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2020**

Finding Number: 2020-001

Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Jeremy Monahan, Transit Director

Corrective Action Planned:

Draft revisions continue to be made on the Accounting Policies and Procedures that will address cash and investments, net position, and determination of compensated absences. These were the areas found to be deficient. Revised policies for cash and investments, net position, and determination of current compensated absences have been drafted and will be presented to the Full Transit Board of Commissioners for consideration of adoption.

Anticipated Completion Date:

December 22, 2021 – Full Board adoption of Revised Accounting Policies and Procedures

Finding Number: 2020-002

Finding Title: Uniform Guidance Written Procurement Policies and Procedures

Program: Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509); COVID-19 Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509)

Name of Contact Person Responsible for Corrective Action:

Jeremy Monahan, Transit Director

Corrective Action Planned:

A list of the specific components provided to Transit Board staff that was deemed to be missing from the Transit Board's Procurement Manual to be in compliance will be included in a draft of a revised policy manual. With assistance with reviewing from MnDOT Office of Transit and Active Transportation Compliance Department staff the completed and approved revisions will be brought before the Full Transit Board of Commissioners for consideration of adoption.

Anticipated Completion Date:

December 22, 2021 – Full Board adoption of Revised Procurement Policy Manual

Finding Number: 2020-003

Finding Title: Procurement, Suspension and Debarment

Program: Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509); COVID-19 Formula Grants for Rural Areas and Tribal Transit Programs (CFDA No. 20.509)

Name of Contact Person Responsible for Corrective Action:

Jeremy Monahan, Transit Director

Corrective Action Planned:

Purchases under \$5,000 are made on the free and open market. When purchases in that price range are made, the estimated costs of two or more vendors for the item will be attained whenever feasible. These estimated costs will be attached or notes regarding the estimated price of non-selected vendors will be added to the invoice for the item or service purchased from the selected vendor.

Anticipated Completion Date:

To begin immediately – November 1, 2021.

FARIBAULT – MARTIN COUNTY TRANSIT BOARD
201 Lake Avenue # 104 Fairmont, MN 56031



**REPRESENTATION OF FARIBAULT/MARTIN COUNTY TRANSIT BOARD
FAIRMONT, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Finding Number: 2019-001

Repeat Finding Since: 2016

Finding Title: Accounting Policies and Procedures Manual

Summary of 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.

Summary of Corrective Action Previously Reported: A number of draft revisions to the Accounting Policies and Procedures Manual were made in part of the effort to satisfy this finding. While a number of changes and additions were made the draft modifications were not enough to bring to the Full Board for adoption. Efforts will continue, with the help and advice of the Office of the State Auditor, to complete the necessary revisions and then work to obtain Board adoption.

Status: Not Corrected. Finding appropriate language to fit the Transit Board’s policy based on their operations was difficult. Efforts were made to find similar agency’s language in their policies but that was not successful. Eventually language that is expected to be sufficient was found and will be included in the Revised Policy document. The Revised Accounting Policy will be presented to the Full Transit Board for consideration of adoption at their December 2021 meeting.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2019-002
Repeat Finding Since: 2016
Finding Title: Audit Adjustments

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

Summary of Corrective Action Previously Reported: The Transit Board will continue to work on establishing more complete reviews and documentation of our procedures over financial statement presentation. We recognize that relying on the external auditor to properly complete documentation and journal entries with our accounting system is not sufficient. With our limited staff we struggle with that aspect. The member counties' staff and local CPA firm had previously declined to assist us with this finding. With new staff members at the local CPA firm, another attempt will be made to see if they are willing and able to assist us with this finding and provide us professional support for ongoing help with journal entries and to ensure the financial statements are fairly presented in accordance with generally accepted accounting principles.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X