Southwest Transit
Eden Prairie, Minnesota

Communications Letter

December 31, 2020

Southwest Transit
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**Report on Matters Identified as a Result of
the Audit of the Financial Statements**

Board of Commissioners and Management
SouthWest Transit
Eden Prairie, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SouthWest Transit (SWT), Eden Prairie, Minnesota, as of and for the year ended December 31, 2020, 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, we considered SWT's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of SWT's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated April 8, 2021, on such statements.

This communication is intended solely for the information and use of management, the Board of Commissioners, others within SWT, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV, Ltd.

St. Cloud, Minnesota
April 8, 2021

SouthWest Transit
Required Communication

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SWT as of and for the year ended December 31, 2020. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit
As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of SWT solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audited financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited and we do not express an opinion or provide any assurance on it.

SouthWest Transit
Required Communication

Our Responsibility in Relation to *Government Auditing Standards*
As communicated in our engagement letter, part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of SWT's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the termination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our Responsibility in Relation to Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about SWT's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on SWT's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on SWT's compliance with those requirements.

In planning and performing our audit of compliance, we considered SWT's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by SWT is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the financial statements are:

Depreciation – SWT is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of SWT for post employment benefits.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements taken as a whole and each applicable opinion unit.

Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Uncorrected and Corrected Misstatements (Continued)
In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to SWT's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management
We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues
In the normal course of our professional association with SWT, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting SWT, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as SWT's auditor.

Other Information in Documents Containing Audited Financial Statements
We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

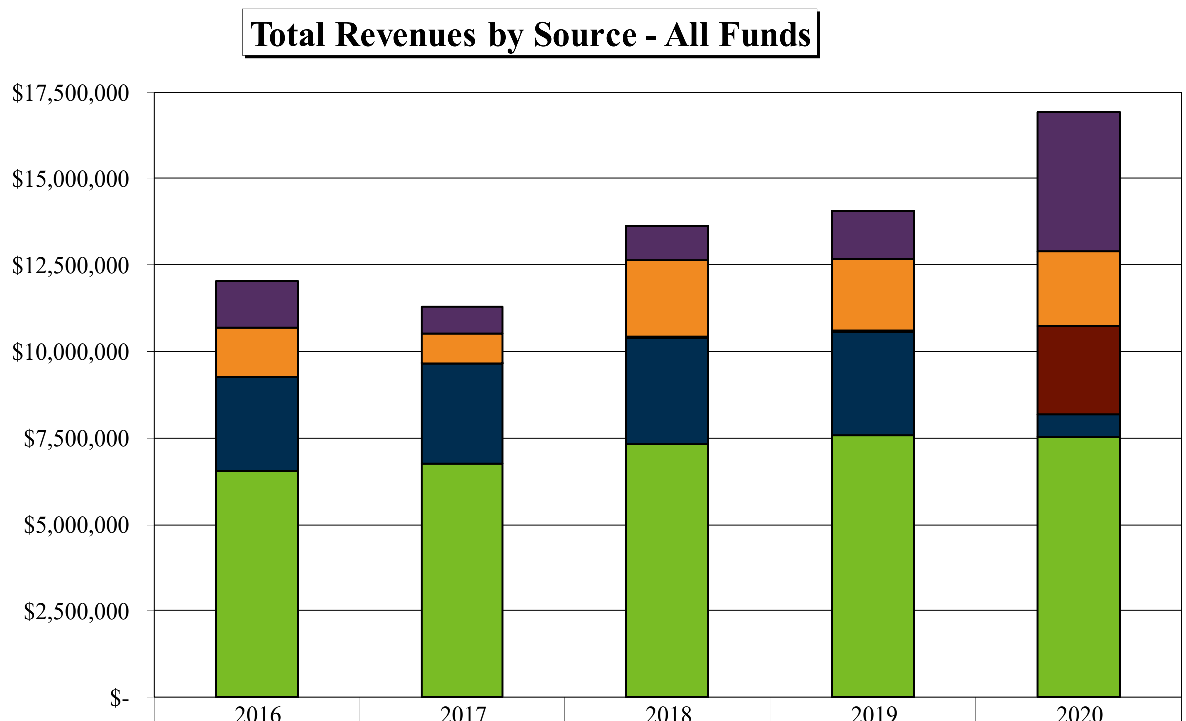
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information accompanying the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

SouthWest Transit
Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of SWT for the past five years. The graphs are included to facilitate discussion of past operating results and related trends for future years' operations of SWT. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Total Revenues by Source – All Funds



	2016	2017	2018	2019	2020
Other	$1,338,492	$817,418	$992,883	$1,423,744	$4,018,884
Met Council Funding	1,410,910	837,166	2,220,141	2,067,483	2,162,897
Federal Grants	-	6,588	49,650	46,350	2,526,886
Passenger Fares	2,745,131	2,882,098	3,065,441	2,977,194	673,042
Motor Vehicle Sales Tax	6,525,940	6,772,950	7,309,568	7,569,170	7,518,718

Total Revenues by Source – All Funds (Continued)
Revenue increased $2,816,486 in 2020 compared to 2019.

- Met Council revenue increased $95,414.
  - SWT received approximately $349,719 for vans, trolley replacement, and bus rehabilitation grants in 2020, of which similar funding was not received in 2019.
  - The previous increase was offset by a decrease in funding for the Eden Prairie Garage Remodel project due to the debt being paid off in 2020.

- Motor vehicle sales tax decreased $50,452.
  - This revenue is determined by a state allocation of vehicle sales tax in Minnesota and fluctuates each year based on vehicle sales in Minnesota.

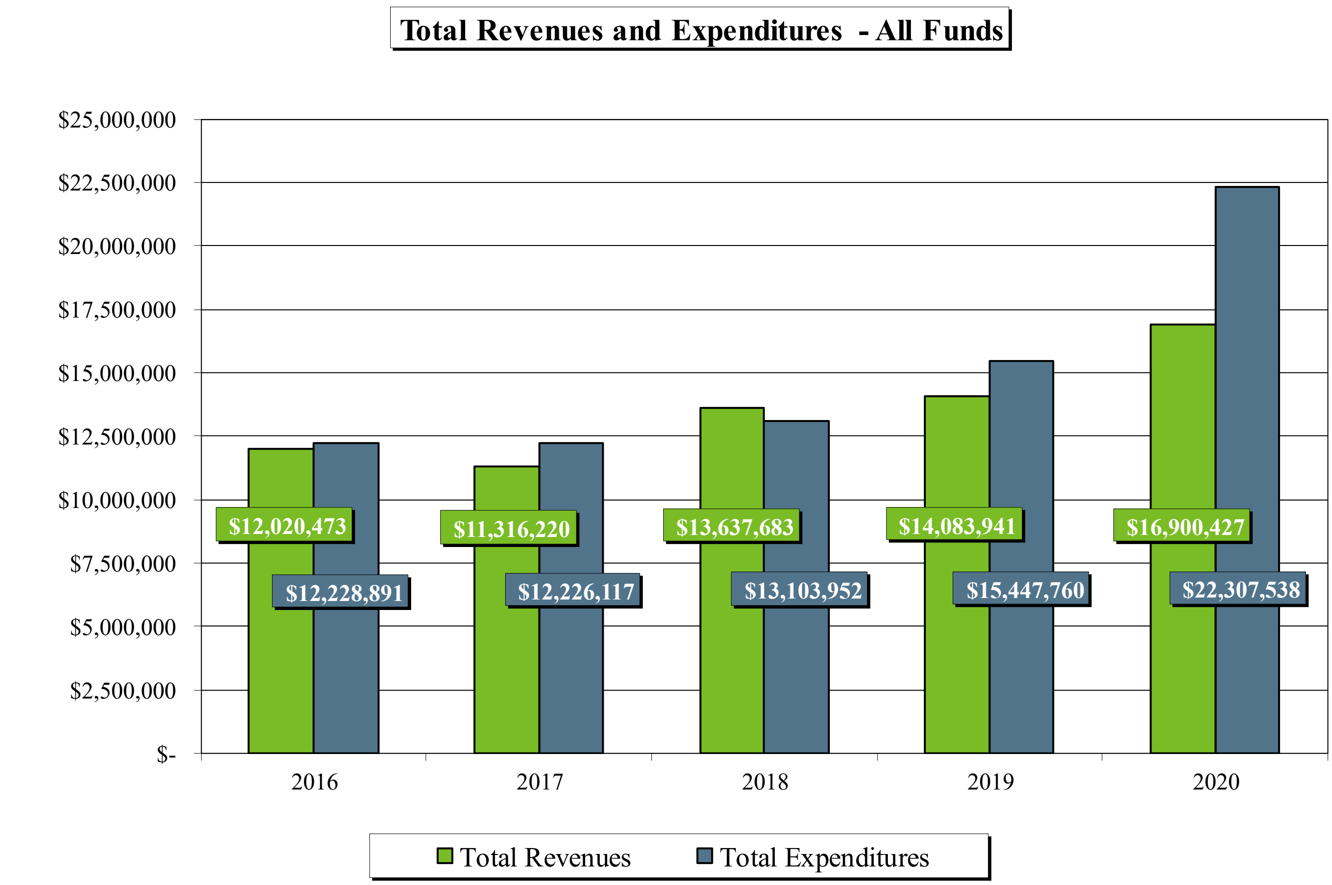
- Passenger fares decreased $2,304,152 as a result of less riders due to the COVID-19 Pandemic.

- Federal grants revenue increased $2,480,536.
  - This increase is due to the CARES Act grant related to the COVID-19 pandemic.

- Other revenue increased $2,595,140.
  - This increase was primarily a result of the contract for deed being paid off in December 2020.
  - The previous increase was offset by decreases due to decreases in investment income and having sold land in 2019, nothing similar in 2020.

SouthWest Transit
Financial Analysis

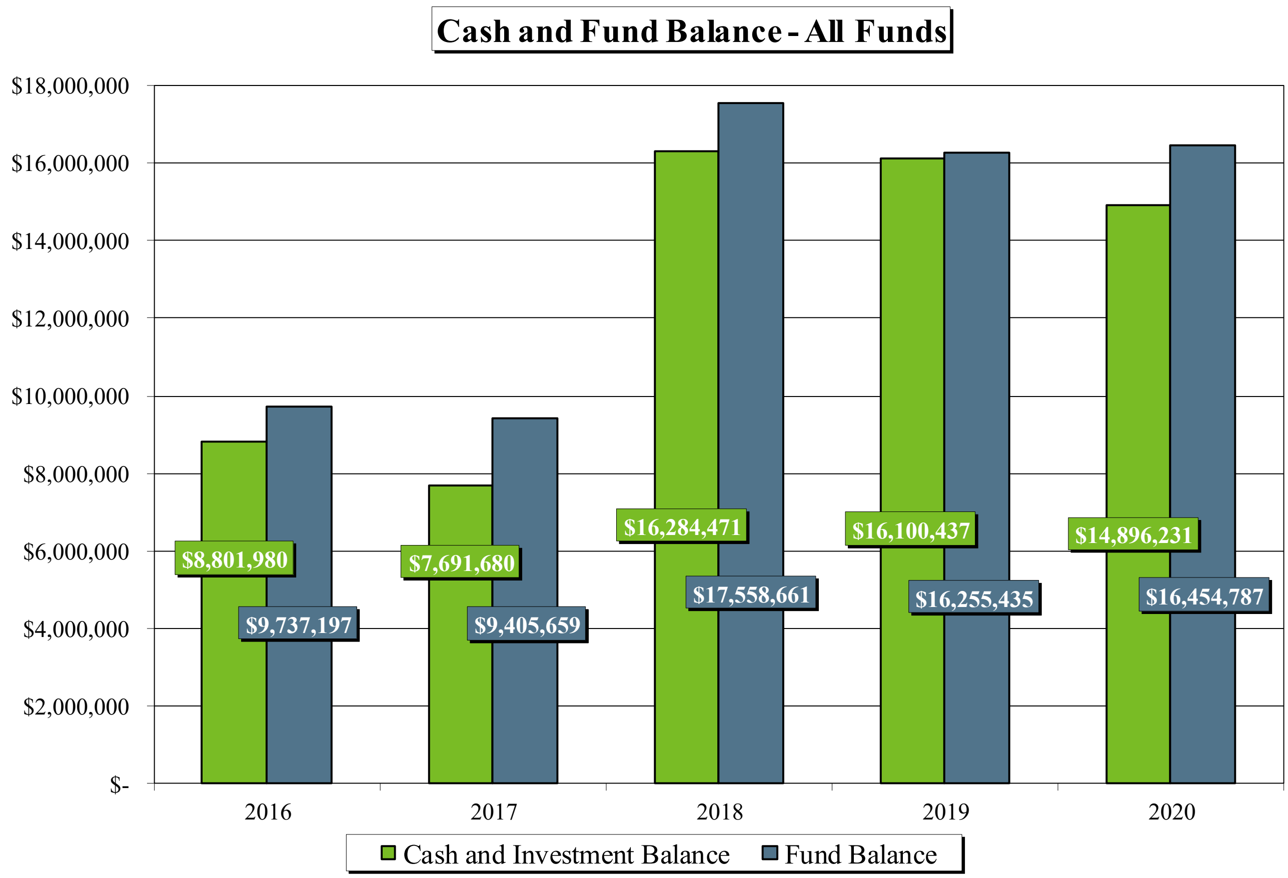
Total Revenues and Expenditures – All Funds



Total expenditures exceeded total revenues in four of the last five years, which was by design to bring fund balance levels in line with Met Council's policies. In 2020, expenditures exceeded revenues by $5,407,111. Total revenues increased $2,816,486, as mentioned on the previous page, while expenditures increased $6,859,778. There were some changes in expenditures by program:

- Debt service principal retirement expenditures increased $5,242,041, and interest and agency fees increased $304,245.
  - Result of issuing new Garage Facility Lease Purchase Agreement and paying it off by moving funds to an escrow account in 2020.
- Buildings and grounds capital outlay expenditures increased $4,025,174.
  - Primarily the result of construction at the Eden Prairie garage related to the relocation of offices.
- Operations and vehicle maintenance current expenditures decreased $2,645,416.
  - Less contracted purchase services in 2020 as a result of a decrease in operations due to COVID-19.
  - Fewer miscellaneous vehicle parts were purchased in 2020 as a result of the decrease in vehicle usage during the pandemic.

CASH AND FUND BALANCE – ALL FUNDS

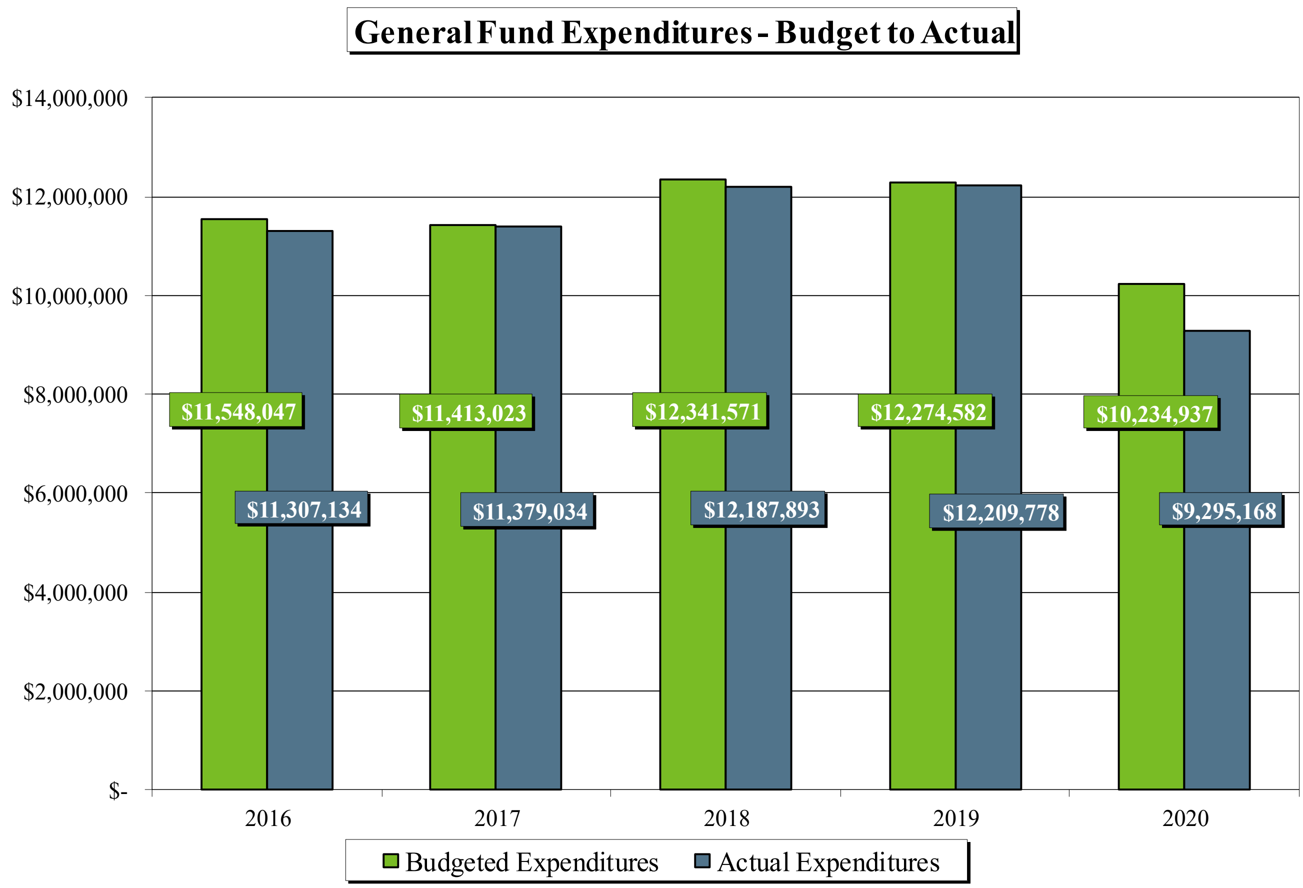


The cash and investment balance was lower than fund balance in all five years presented. Cash and investments which includes cash with fiscal agent in 2020, decreased $1,204,206 while fund balance increased $199,352 from 2019 to 2020.

The fund balance increased slightly due to receiving the CARES funding and the entire contract for deed receivable being paid in 2020, offset by SWT paying off all outstanding capital lease debt and the significant expenditures associated with the construction at the Eden Prairie garage related to the relocation of offices.

The General Fund balance increased $3,144,639 to $7,522,658 in 2020 due to revenues from operations and grants coming in over expenditures and transfers to other funds. The unassigned fund balance in the General Fund as of December 31, 2020, is $7,160,492, which represents approximately 79%, or nine months of expenditures, based on 2020 budgeted operating expenditure levels.

General Fund Expenditures – Budget to Actual



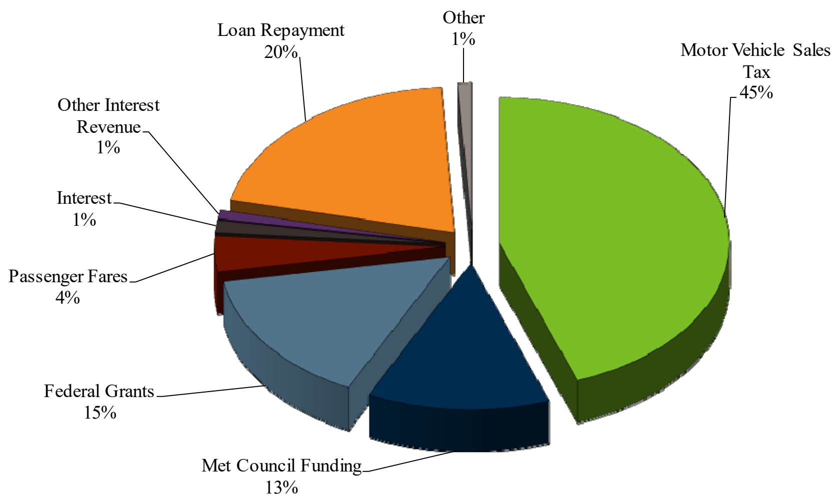
General Fund budgeted expenditures exceeded actual expenditures in all five years presented. Expenditures were under budget by $939,769 in 2020. The largest variance was in operations and vehicle maintenance capital expenditures, which were $572,272 under budget due to not purchasing the new prime vehicles like anticipated. Operations and vehicle maintenance current expenditures were under budget $212,456 as a result of buying less miscellaneous vehicle parts than anticipating. All other categories were under budget and were relatively close to budgeted amounts.

SouthWest Transit
Financial Analysis

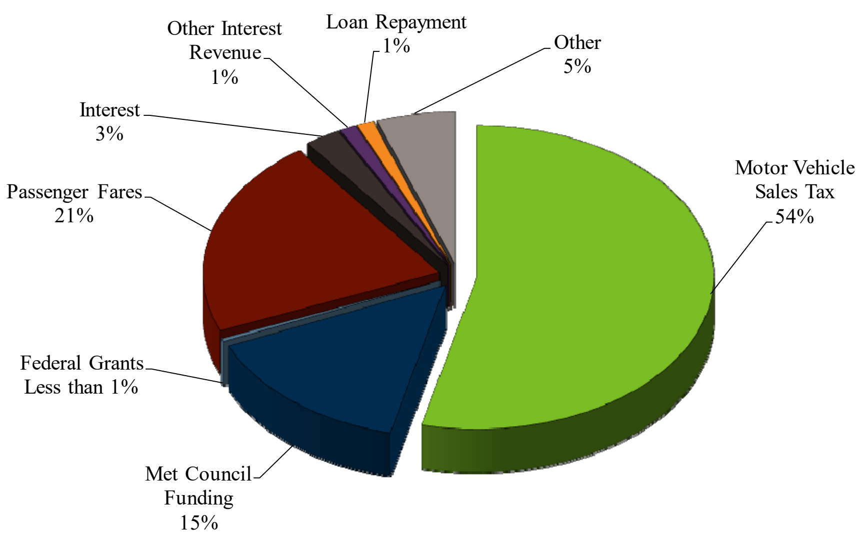
Operating Revenues – All Funds

The following pie charts show the allocation of revenue by source for all funds in 2020 and 2019. As illustrated below, passenger fees decreased from 21% in 2019 to 4% in 2020. This was a result of COVID-19 and the buses having to shut down for a long period of time. Loan repayment had a significant increase from 1% in 2019 to 20% in 2020 due to the contract for deed being paid off in 2020. Federal grant revenue increased from less than 1% in 2019 to 15% in 2020 due to the CARES Act funding. All other revenue sources decreased proportionately as a result of the increases discussed above.

Operating Revenues by Source for 2020 - All Funds



Operating Revenues by Source for 2019 - All Funds

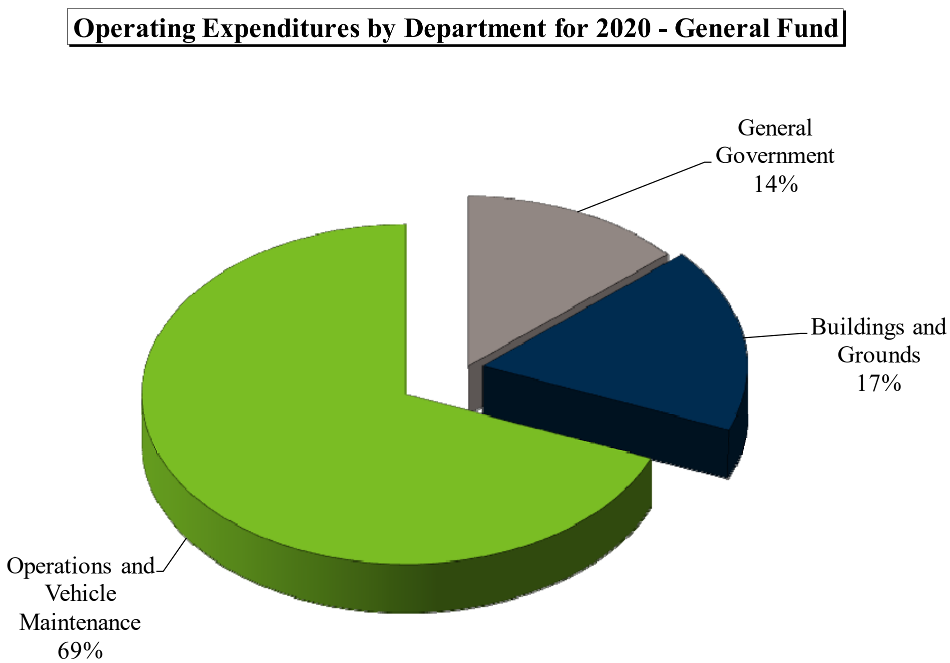


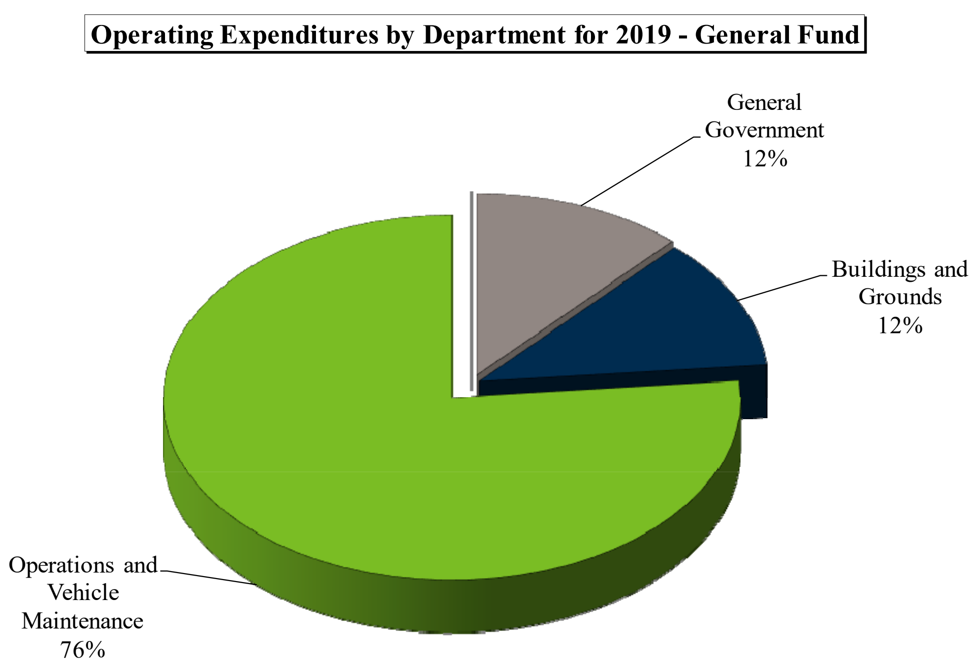
In the General Fund, the regional target for passenger farebox recovery revenue percentage in relation to operating expenditures is 28%. During 2020, SWT's passenger fare revenue as a percentage of operating expenditures was 7.72%, while it was 25.92% in 2019.

SouthWest Transit
Financial Analysis

Operating Expenditures – General Fund

The following pie charts show the allocation of expenditures by program for the General Fund in 2020 and 2019. The allocations increased in general government and buildings and grounds in 2020 as a result of a significant decrease in operations and vehicle maintenance expenditures as a result of the pandemic.





SouthWest Transit
Emerging Issue

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your organization.

Accounting Standard Update – GASB Statement No. 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)
A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021.

Information provided above was obtained from www.gasb.org.