

**St. Cloud Metropolitan
Transit Commission
St. Cloud, Minnesota**

Financial Statements

September 30, 2016



**St. Cloud Metropolitan Transit Commission
Table of Contents**

Board of Commissioners, Administration and Other Data	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	20
Notes to the Financial Statements	21
Required Supplementary Information	
Schedule of Commission's Proportionate Share of Net Pension Liability – GERS Retirement Fund	44
Schedule of Commission Contributions – GERS Retirement Fund	44
Schedule of Commission Contributions – Central States, Southeast and Southwest Areas Pension Fund	45
Supplementary Information	
Statement of Revenues and Expenses Compared to Budget	49
Statement of Expenses and Functions	50
Statement of Changes in Equity	52
Schedule of Tax Levies, Tax Capacity and Rates	55
Schedule of Expenditures of Federal and State Awards	56
Note to the Schedule of Expenditures of Federal and State Awards	58
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	61

**St. Cloud Metropolitan Transit Commission
Table of Contents**

Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance	63
Report on Legal Compliance	67
Schedule of Findings and Corrective Action Plans on Legal Compliance	68

**St. Cloud Metropolitan Transit Commission
Board of Commissioners, Administration and Other Data
September 30, 2016**

<u>Elected Officials</u>	<u>Position</u>	<u>Community Represented</u>	<u>Term Expires</u>
David Kleis	Chairperson	St. Cloud	June 30, 2017
Rick Miller	Vice Chairperson	Waite Park	June 30, 2019
Amy Braig-Lindstrom	Secretary	Sartell	November 14, 2016
Kurt Hunstiger	Treasurer	Sauk Rapids	June 30, 2017
John Libert	Member	St. Cloud	June 30, 2018

Administration

Ryan I. Daniel	Chief Financial Officer
Paula Mastey	Director of Finance

Other Data

Revenue Bus Miles	1,969,147
Number of Passengers	2,130,759
Revenue Bus Hours Operated	138,190

Independent Auditor's Report

To the Board of Commissioners
St. Cloud Metropolitan Transit Commission
St. Cloud, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of St. Cloud Metropolitan Transit Commission, St. Cloud, Minnesota, as of and for the year ended September 30, 2016, and the related notes to financial statements, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Commission'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 Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of St. Cloud Metropolitan Transit Commission, St. Cloud, Minnesota, as of September 30, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund 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, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.



Other Matters

Other Information

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such 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 accompanying supplementary information and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 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 Commission's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 27, 2017

St. Cloud Metropolitan Transit Commission Management's Discussion and Analysis

As management of the St. Cloud Metropolitan Transit Commission (the "Commission"), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2016. All amounts, unless otherwise indicated, are expressed in dollars. Certain comparative information between the current fiscal year and the prior fiscal year is presented in the Management's Discussion and Analysis (MD&A).

FINANCIAL HIGHLIGHTS

The assets of the Commission exceeded its liabilities at the close of fiscal year 2016 by \$25,852,461 (net position). Of this amount, \$5,735,991 (unrestricted net position) may be used to meet the Commission's ongoing obligations to customers and creditors.

The Commission's net position increased by \$329,265 in fiscal year 2016. Unrestricted net position also increased by \$1,308,910.

At the end of the 2016 fiscal year, total current assets increased \$2,329,631 from 2015 levels primarily due to increases in cash and investments and federal grant receivables. Metro Bus issued a revenue bond in 2014, which requires restricted investments, in 2016 this restricted amount was \$987,269. 2015 current and noncurrent liabilities increased by \$556,934 from fiscal year 2015 due to unearned revenue recognized in 2016.

Ridership on the fixed route transit system experienced a decline of 102,083 riders. The Northstar Link service also experienced a decline in ridership and saw 6,073 less riders in 2016 than in 2015. Overall fixed route service saw a decrease of 3.59 passengers per hour in 2016. Metro Bus's paratransit service increased services levels by 0.19 passengers per hour.

Metro Bus partnered with the St. Cloud APO in 2015 and began work on a long range plan update. An independent planning firm was hired to analyze ridership, demographics, and route needs. The updated plan was completed in 2016. The plan recommended expanding our service in three phases. Phase I was able to be implemented in August of 2016, initiating an additional ten-thousand hours of fixed route service within our current service area. Routes have been adjusted to better meet the changing needs of our communities, including the changing demographics of St. Cloud State University students. Outlying areas were also analyzed to determine the needs and potential for riders in those areas. Expansion to additional service areas is included in Phase II of the recommended long range plan expansion.

The Commission entered into an agreement in fiscal year 2009 with the Northstar Corridor Development Authority (NCDA) to administer and operate the Northstar Link Commuter Bus Service Demonstration Project, linking the City of St. Cloud, Minnesota, and the Northstar Commuter Rail station in Big Lake, Minnesota. The Commission receives \$36,000 in annual administrative fees and is reimbursed for all expenses, less retained passenger fare revenue, to operate the service during the calendar year. The State of Minnesota also participates in a subsidy agreement. For 2016 this was \$440,000. After significant discussion, the NCDA has agreed to disband effective December 31, 2016. Four counties will continue to move forward with the Northstar Link agreement, forming essentially a new NCDA. The counties involved are Stearns, Sherburne, Anoka, and Hennepin. These counties have agreed that the Northstar Link will continue to run for an additional five years, at which time they will re-evaluate its success for a second time. Northstar Link ridership leveled off in 2015, after a steady increase each year since its origination in 2009, and is constant in 2016.

St. Cloud Metropolitan Transit Commission Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS (CONTINUED)

Fiscal year 2016 experienced an increase in passenger fares of \$149,052, for a total of \$1,912,901.

Special transit fares attributable to the U-Pass Programs with SCTCC and Independent School District No.742 fares all remained constant in 2016. Due to a decrease in available resources and a decrease in enrollment, U-Pass program services with SCSU were decreased for a second year in a row in 2016, for a total contract amount of \$431,822, which is a decrease of \$3,408. Auxiliary revenues attributable to exterior bus advertising increased by \$21,888 in 2016, for a total of \$148,294.

The Ad Valorem levied property tax used for operations decreased by \$9,634 in 2016. The tax levy dollar amount remained consistent from 2015 to 2016, however less tax revenue was received. State of Minnesota Funding grant revenue increased by \$1,401,236. The State contract levels increased in calendar year 2016 for a second year. This amount was again slightly increased for calendar year 2017. The Commission receives four quarterly payments from the State in January, April, July, and a final payment in October. We received no FTA funds in 2016 for operating or capital. Total operating revenues, not including capital funding grants and taxes levied for fixed asset acquisitions, were \$12,649,592. Total operating expenses before depreciation were \$12,065,943, resulting in net operating budget surplus of \$583,649 for fiscal year 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements, and 4) compliance reports in accordance with governmental auditing standards and federal and state grant requirements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a governing broad overview of the Commission's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected motor vehicle excise taxes and earned but unused vacation leave).

St. Cloud Metropolitan Transit Commission Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

With the implementation of GASB 68 in 2015, the Statement of Net Position and the Statement of Activities will have significant changes from prior years. GASB 68 requires government entities to recognize a portion of the overall liability a pension fund has. Metro Bus employees contribute to two pension funds, PERA and Central States. However only a portion of the liability of PERA is recognized on the government-wide statements. Therefore, a portion of this entity's liabilities will be held on our

Government-wide financial statements. Additional information on this requirement is given in detail in the notes section.

The government-wide financial statements include only the Commission itself. The Commission has no component units.

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission has one General Fund to account for all of the activity of the Commission.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 21 thru 42 of this report.

Government-Wide Financial Analysis – As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,852,461 at the close of fiscal year 2016.

Of the Commission's net position, 22.2% (\$5,735,991) are unrestricted, up 5% from 17.3% in fiscal year 2015. This is the amount available to meet the Commission's ongoing obligations to its riders and creditors.

The other 77.8% (\$20,116,470) reflects the Commission's debt requirement for future bond payments, as well as its investment in capital assets (e.g. land, buildings, transit vehicles, equipment); \$930,002 and \$19,186,468 respectively. The Commission uses these capital assets to provide transit services to the citizens within the transit service area as defined by *Minnesota Statutes* 458A. Consequently, these assets are not available for future spending.

**St. Cloud Metropolitan Transit Commission
Management's Discussion and Analysis**

**Net Position
Governmental Activities at September 30, 2016**

	2016	2015
Current and other assets	\$ 12,143,171	\$ 9,813,540
Capital assets, net of depreciation	25,271,337	26,904,743
Total assets	37,414,508	36,718,283
 Deferred outflows of pension related resources	 2,141,693	 348,303
Long-term liabilities outstanding	5,778,778	6,435,192
Other liabilities	2,578,494	2,021,560
Net pension liabilities	4,944,778	2,938,488
Total liabilities	13,302,050	11,395,240
 Deferred inflows of pension related resources	 401,690	 148,150
 Net Position		
Net investment in capital assets	\$ 19,186,468	\$ 20,145,516
Restricted for debt service	930,002	950,599
Unrestricted	5,735,991	4,427,081
Total net position	\$ 25,852,461	\$ 25,523,196

Statement of Activities for Fiscal Year 2016

	2016	2015
Program Revenues		
Charges for services	\$ 1,948,901	\$ 1,799,849
Operating grants and contributions	8,535,432	8,702,083
Capital grants and contributions	1,290,205	1,108,670
Total program revenues	11,774,538	11,610,602
 General Revenues		
Property taxes	2,467,387	2,467,058
Auxiliary	148,294	126,406
Revenues not restricted to specific programs	81,202	182,355
Unrestricted investment earnings	17,776	19,695
Total general revenues	2,714,659	2,795,514
 Total Revenues	\$ 14,489,197	\$ 23,070,080

**St. Cloud Metropolitan Transit Commission
Management's Discussion and Analysis**

Statement of Activities for Fiscal Year 2016

	Expenses		Net (Expense) Revenue	
	2016	2015	2016	2015
Expenses				
Operations	\$ 8,974,407	\$ 8,423,670	\$ (1,324,000)	\$ (989,330)
Vehicle maintenance	2,120,463	2,049,154	135,061	30,769
Facility maintenance	1,080,464	1,214,021	(399,450)	(413,207)
General administration	1,827,061	1,614,015	(639,468)	(318,490)
Interest and fiscal IT debt	157,537	107,264	(157,537)	(107,264)
Total expenses	<u>\$ 14,159,932</u>	<u>\$ 13,408,124</u>	<u>\$ (2,385,394)</u>	<u>\$ (1,797,522)</u>
Change in Net Position	2016 - \$329,265		2015 - \$997,992	

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CAPITAL ASSETS

The Commission's investment in capital assets as of September 30, 2016, amounted to \$19,186,468 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, transit vehicles, and equipment. See the table on following page for more detail.

**Capital Assets
(Net of Depreciation)**

	2016	2015
Land	\$ 783,923	\$ 783,923
Construction in progress (not depreciated)	203,174	15,987
Buildings and bus shelters	13,246,242	13,765,923
Buses and bus equipment	10,758,932	12,074,053
Office furniture, computers, and equipment	249,376	217,107
Vehicles	13,497	32,727
Transit priority systems	<u>16,193</u>	<u>15,023</u>
Total	<u>\$ 25,271,337</u>	<u>\$26,904,743</u>

St. Cloud Metropolitan Transit Commission Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's 2017 operating budget for Federal Transit Administration funding is based on stable allocations. Passenger fare revenues are projected to remain stable with flat ridership impacts. A decrease in special transit fare revenues is budgeted, due to the anticipated reduction of SCSU contracted services. Auxiliary advertising revenues from vinyl wrapped buses and Jefferson Lines commissions, along with investment revenue are expected to remain consistent in 2016. The CNG powered buses began operating in May of 2014. With the favorable rate of diesel and the cost savings of operating a CNG fleet, the commission anticipates saving an additional \$24,000 in fuel costs for 2017. This savings is in addition to the \$150,000 decrease budgeted in 2016. The salaries and wages of all union employees will increase by 1.5% for fiscal year 2017, per the union contract, which was settled in June 2014. Non-union salaries were also budgeted for this increase. Health insurance costs are to remain stable through July 2017, with no increase. Fleet liability insurance and workers' compensation insurance costs are also anticipated to remain constant in 2017, after seeing a significant increase in 2016 due to an unfavorable claims year in 2014. The Northstar Link Commuter Service contract with the NCDA provides 100% reimbursement of all operating deficit costs (less passenger fares and State funding assistance), and is projected to be approximately \$110,000, this is significantly less than in 2016, as MNDOT has agreed to fund a larger portion of the service.

In 2009, the Commission completed a substantial fixed route restructuring study of which plans, entitled 'Moving Forward', were approved to be implemented in September 2010. The Interim Service Plan was projected to cost approximately \$500,000 more than 2009 current levels of service. As a result of that Plan, the Commission's property tax rate was increased for 2010 payable, with future rate increases necessary to better implement the Plan. Because of the recession, the Interim Service Plan was tabled; however, necessary improvements to the Sartell route could no longer be tabled and major changes were implemented in 2010 and 2011 costing an additional \$270,000. Due to Moving Forward a new assigned fund balance account entitled 'Fixed Route Expansion' was established in 2010, and now has a balance of \$788,713 to be carried over and applied to future 'Moving Forward' route initiatives once the Commission is in a position to permanently implement those improvements. The City of Waite Park recently annexed portions of St. Joseph Township which includes the Bel Clare Acres Park; transit service was extended to this area via a restructured route in 2014. An updated long range plan was completed in 2016. The plan recommended route expansion and adjustments in three phases. Phase I was implemented in August 2016. Phase I originally recommended an increase of over 15,000 additional service hours. This was scaled back, and 10,000 additional service hours were added. Phase II suggested implementing an additional 20,000 hours of service. Due to the significant level of service adjustment, Metro Bus is considering implementing this in two parts. Phase III of the route expansion suggests an additional 5,000 hours. Because our ridership has decreased since the additional 10,000 hours of service were added, we are re-evaluating Phase II to determine how best to re-gain ridership.

**St. Cloud Metropolitan Transit Commission
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

Six ADA Compressed Natural Gas buses were received and put into service in 2016. The total cost is approximately \$1,146,000. The State of Minnesota will provide funding of \$916,800 and local share of approximately \$229,000 has been set aside for this purchase.

Federal funding of \$200,000 was used to purchase the property located at 635 Franklin Avenue. Because Metro Bus's operations facility is filled to capacity and had been land-locked, the 635 Franklin property was an ideal solution for future expansion. The property is located directly next to the current facility. No work is anticipated to be done to the property for several years. The current use of the building will be for employee parking.

In 2016 a hoist was installed in one of the maintenance bays. The hoist was purchased to replace an existing hoist that has not worked for some time. In 2017, there is operational funding of \$40,000 budgeted to repair additional an additional hoist until Metro Bus is able to replace another of its four hoists.

Also in 2016, Metro Bus budgeted \$25,000 to make some much needed improvements at our downtown transit center facility. The employee bathroom was remodeled, the entire interior of the facility was re-painted, and the floors were re-grouted. In addition, outside improvements were also made regarding landscaping and exterior benches.

As Metro Bus continues to grow, storage at the operations facility has become an issue. A vehicle storage addition was budgeted for 2015 along with a roof replacement of the operations facility. The overall project cost is anticipated at \$2.1 million; with a local share of \$450,000 and the remaining funding budgeted from the State. Due to unforeseen delays, this project has been put on hold; construction is anticipated to begin spring of 2017.

Phase II of our website update, Improvements to the operations facility, a methane detection system, two new vehicles for our street supervisors, and six (6) replacement paratransit buses have all been budgeted capital projects for 2017.

The Commission has been increasing its assigned fund balance for fixed asset acquisitions for several years. At the end of fiscal year 2013 this balance was \$1,446,626. Because of the substantial commitment in 2014 to the fleet replacement, CNG project and downtown training facility, these reserves were significantly reduced, with a 2015 balance of \$889,143. The commission has again set funds aside in 2017 (\$225,000) for future capital expenditures.

Revenue bonds were issued in 2014 to cover the remaining local share of capital projects. As part of the requirements of the bonds, a monthly, budgeted principal and interest payment of \$69,142 is made to an escrow account held at Wells Fargo, of which the semi-annual bond payments are made.

**St. Cloud Metropolitan Transit Commission
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

All of these factors plus more were considered in preparing the Commission's budget for fiscal year 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Finance Officer, St. Cloud Metropolitan Transit Commission, 665 Franklin Avenue N.E., St. Cloud, Minnesota 56304.

BASIC FINANCIAL STATEMENTS

St. Cloud Metropolitan Transit Commission
Statement of Net Position
September 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 8,158,291
Restricted investments	987,269
Receivables	
Local tax levies - current	1,198,282
Local tax levies - delinquent	17,899
State grants	487,237
Federal grants	991,723
Other	109,355
Materials and supplies inventory	129,840
Prepaid insurance	63,275
Capital assets	
Land	783,923
Construction in progress	203,174
Buildings and bus shelters	18,609,153
Buses and bus equipment	20,416,929
Office furniture, computers and equipment	403,521
Vehicles	163,442
Transit priority systems	1,070,411
Less accumulated depreciation	<u>(16,379,216)</u>
Total assets	<u>37,414,508</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	<u>2,141,693</u>
Total assets and deferred outflows of resources	<u>\$ 39,556,201</u>
Liabilities	
Accounts and contracts payable	\$ 439,704
Salaries and benefits payable	255,092
Interest payable	57,267
Unearned revenue	874,315
Bond principal payable (net of unamortized premium)	
Payable within one year	660,000
Payable after one year	5,424,869
Compensated absences payable	
Payable within one year	292,116
Payable after one year	353,909
Net pension liability	<u>4,944,778</u>
Total liabilities	<u>13,302,050</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	<u>401,690</u>
Net Position	
Net investment in capital assets	19,186,468
Restricted for debt service	930,002
Unrestricted	<u>5,735,991</u>
Total net position	<u>25,852,461</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 39,556,201</u>

St. Cloud Metropolitan Transit Commission
Statement of Activities
Year Ended September 30, 2016

Functions/Programs	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
Governmental activities	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Transit operations	\$ 8,974,407	\$ 1,912,901	\$ 315,569	\$ (1,324,000)
Vehicle maintenance	2,120,463	-	919,000	135,061
Facility maintenance	1,080,464	-	55,636	(399,450)
General administration	1,827,061	36,000	-	(639,468)
Interest and fiscal charges on long-term debt	157,537	-	-	(157,537)
Total governmental activities	<u>\$ 14,159,932</u>	<u>\$ 1,948,901</u>	<u>\$ 1,290,205</u>	<u>(2,385,394)</u>
General revenues				2,467,387
Property taxes				148,294
Auxiliary				81,202
Revenues not restricted to specific programs				17,776
Investment income				<u>2,714,659</u>
Total general revenues				<u>329,265</u>
Change in net position				<u>25,523,196</u>
Net position - beginning				<u>\$ 25,852,461</u>
Net position - ending				<u>25,852,461</u>

15 See notes to financial statements.

**St. Cloud Metropolitan Transit Commission
Balance Sheet - Governmental Funds
September 30, 2016**

	<u>General Fund</u>
Assets	
Cash and investments	\$ 8,158,291
Restricted investments	987,269
Receivables	
Local tax levies - current	1,198,282
Local tax levies - delinquent	17,899
State grants	487,237
Federal grants	991,723
Other	109,355
Materials and supplies inventory	129,840
Prepaid insurance	63,275
	<u> </u>
Total assets	<u><u>\$ 12,143,171</u></u>
Liabilities	
Accounts and contracts payable	\$ 439,704
Salaries and benefits payable	255,092
Unearned Revenue	874,315
Total liabilities	<u><u>1,569,111</u></u>
Deferred Inflows of Resources	
Unavailable revenue - delinquent property taxes	<u>17,899</u>
Fund Balances	
Nonspendable	193,115
Restricted for debt service	987,269
Assigned for	
Fixed asset acquisitions	1,178,531
Self insurance - vehicle collision and liability	234,148
Self insurance - health insurance	109,921
Fixed route expansion	788,713
FTA funds for future bus purchase	70,008
Long range plan	54,832
Early bond payoff	215,000
Employee wellness/retention	24,158
Unassigned	6,700,466
Total fund balances	<u><u>10,556,161</u></u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 12,143,171</u></u>

**St. Cloud Metropolitan Transit Commission
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
September 30, 2016**

Total fund balances - governmental funds	\$ 10,556,161
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	41,650,553
Less accumulated depreciation	(16,379,216)
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(5,850,000)
Premium on bonds payable	(234,869)
Compensated absences payable	(646,025)
Net pension liability	(4,944,778)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	17,899
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(401,690)
Deferred outflows of resources related to pensions	2,141,693
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	
	(57,267)
Total net position - governmental activities	\$ 25,852,461

**St. Cloud Metropolitan Transit Commission
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended September 30, 2016**

	<u>General Fund</u>
Revenues	
Local property taxes	\$ 2,461,617
Revenue from state sources	8,576,214
Federal capital grant entitlement	999,955
Charges for services	1,912,901
Auxiliary	148,294
Other local revenue	285,468
Other nontransportation revenues	98,978
Total revenues	14,483,427
Expenditures	
Current	
Transit operations	7,126,931
Vehicle maintenance	2,067,175
Facility maintenance	534,365
General administration	1,694,661
Capital outlay	
Transit operations	312,306
Vehicle maintenance	2,204
Facility maintenance	73,645
General administration	72,428
Debt service	
Principal	645,000
Interest and fiscal charges	191,195
Total expenditures	12,719,910
Net change in fund balance	1,763,517
Fund Balance	
Beginning of year	8,792,644
End of year	\$ 10,556,161

**St. Cloud Metropolitan Transit Commission
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
Year Ended September 30, 2016**

Net change in fund balances - governmental funds \$ 1,763,517

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	460,583
Depreciation expense	(2,093,989)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(18,834)
---	----------

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net position in the Statement of Activities.	645,000
--	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	4,300
--	-------

Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	29,358
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Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(466,440)
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Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	5,770
---	-------

Change in net position - governmental activities	\$ 329,265
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**St. Cloud Metropolitan Transit Commission
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended September 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final			
Revenues				
Local property taxes	\$ 2,463,267		\$ 2,461,617	\$ (1,650)
Revenue from state sources	8,328,800		8,576,214	247,414
Revenue from federal sources	1,975,715		-	(1,975,715)
Federal capital grant entitlement	855,600		999,955	144,355
Charges for services	1,480,000		1,912,901	432,901
Auxiliary	107,000		148,294	41,294
Other local revenue	250,000		285,468	35,468
Other nontransportation revenues	64,300		98,978	34,678
Total revenues	15,524,682		14,483,427	(1,041,255)
Expenditures				
Current				
Transit operations	7,849,936		7,126,931	(723,005)
Vehicle maintenance	2,372,327		2,067,175	(305,152)
Facility maintenance	555,314		534,365	(20,949)
General administration	1,832,405		1,694,661	(137,744)
Capital outlay				
Transit operations	-		312,306	312,306
Vehicle maintenance	-		2,204	2,204
Facility maintenance	-		73,645	73,645
General administration	-		72,428	72,428
Debt service				
Principal	645,000		645,000	-
Interest and fiscal charges	184,700		191,195	6,495
Total expenditures	13,439,682		12,719,910	(719,772)
Net change in fund balances	\$ 2,085,000		1,763,517	\$ (321,483)
Fund balance				
Beginning of year			8,792,644	
End of year			\$ 10,556,161	

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The St. Cloud Metropolitan Transit Commission (the "Commission") is a transit agency, operated by and for the Cities of St. Cloud, Waite Park, Sauk Rapids and Sartell, Minnesota. The Commission was organized in 1969 under *Minnesota Statutes* Section 458A. The Commission is governed by a five member board comprised of one representative member from each City, except the City of St. Cloud has two members. Each representative is entitled to one vote.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

For financial reporting purposes, the Commission's financial statements include all funds which the Commission exercises financial accountability. Component units are legally separate organizations for which the elected officials of the Commission are financially accountable and are included with the financial statements of the Commission because of the significance of their operational or financial relationships with the Commission. Based on the component unit definition criteria stated, it has been determined the Commission has no component units.

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information on the Commission as a whole. These statements include all the financial activities of the Commission. The Commission has only governmental activities, which normally are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues; instead, they are properly reported as general revenues.

The Commission applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense is included in the direct expenses of the function it is specifically identified with.

Separate fund financial statements are provided for governmental funds.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current period. State grants are recorded in the year in which the scheduled payment from the state is due while federal grants are recorded in the year in which the related expenditure is made.

2. Recording of Expenditures

Expenditures generally are recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures on long-term debt, compensated absences and claims and judgments are recognized when payment is due.

The Commission applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the Commission will strive to spend resources from fund balance classifications in the following order: assigned and unassigned.

Description of Fund:

Major Fund:

General Fund – This Fund is the Commission's only operating fund. It accounts for all financial resources of the Commission.

D. Cash and Investments

Cash and investments are invested to the extent available in various securities as authorized by state law. State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

St. Cloud Metropolitan Transit Commission
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Restricted Investments

Restricted investments totaling \$987,269 at September 30, 2016, were comprised of two escrows invested in Wells Fargo Advantage Treasury Money Markets funds. The amounts are restricted for the 2014 Gross Revenue Bonds. One escrow is required upon issuance of the bond to be used in case of deficiency of funds of the general fund or default. The other escrow consists of monthly principal and interest payments the Commission makes, upon which the escrow then makes the semi-annually required payments specified under the bond agreement.

F. Taxes Receivable

Current taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the Commission. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the Commission in the current year.

G. Materials and Supplies Inventory

Materials and supplies inventory are stated at cost which does not exceed market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Insurance

Insurance payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid insurance in both government-wide and fund financial statements. Prepaid insurance is recorded as an expenditure as the insurance policy period expires.

I. Tax Levies

The Commission levies its property tax during the month of December. December 28 is the last day the Commission can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Benton, Sherburne, and Stearns Counties are the collecting agencies for the levy and remit the collections to the Commission three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Capital Assets

Capital assets, which include property, facilities, equipment and transit vehicles, are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial individual cost of more than \$2,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized when they are placed in service.

Property, plant and equipment of the Commission are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30-40
Building improvements	5-20
Furniture and equipment	5-15
Vehicles	5-12

Capital assets not being depreciated include land and construction in progress. The Commission does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Commission has one item that qualifies for reporting in this category – deferred outflow relating to pension activity, reported in the government-wide Statement of Net Position. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has two types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is deferred inflows of resources related to pensions and is recorded on the government-wide statements for various estimate differences that will be amortized over future years.

St. Cloud Metropolitan Transit Commission
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column of the Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium.

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

M. Compensated Absences

Commission employees earn vacation time based on years of service with a maximum accrual amount depending on the employee contract. Upon termination, employees will receive compensation for unused vacation time. Sick leave is accumulated depending on the employee contract with various maximum carryover amounts. The Commission compensates employees who leave the Commission for unused sick time at various amounts. Union employees also have the option of being paid out their unused sick time on an annual basis. In addition, employees earn personal holidays throughout the year, which are also paid out upon termination. Vacation, sick and personal leave benefits are recorded as expenditures in governmental funds when payment is made and in the government-wide financial statements when earned by the employees.

N. Pensions

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

Pension expense for The Central States, Southeast and Southwest Areas Pension Fund (the "Fund") is recognized as the commission's required contributions to the Fund during the reporting period.

O. Risk Management

The Commission is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the Commission carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the Commission's insurance coverage during the year ending September 30, 2016.

St. Cloud Metropolitan Transit Commission
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Commission is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and includes inventory and prepaid insurance.
- **Assigned Fund Balances** – The Board of Commissioner's is authorized to assign fund balances for fixed asset acquisition, self-insurance collision and liability, fixed route expansion, self-insurance health insurance, long range plan, FTA funds for future bus purchases, early bond payoff, and employee wellness/retention. The policy to establish that authorization is a majority vote by the Board of Commissioners. The Executive Director also has been delegated the power to assign portions of fund balance.
- **Unassigned Fund Balances** – These are amounts that have not been assigned to a specific purpose.
- **Minimum Fund Balance Policy** – The Commission will strive to maintain an unassigned fund balance equal to 30% of the annual operating budget.

Q. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. As of September 30, 2016, \$930,002 of net position was restricted for debt service payments.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Budgetary Information

The Commission annually prepares an operating budget for the General Fund. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America. State statutes define the source, method and allocation of a major portion of its funding. Budget amounts are amended only upon approval of the Board of Commissioners.

NOTE 2 – DEPOSITS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the Commission maintains deposits at depository banks authorized by the Commission's Governing Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. In accordance with the Commission's investment policy and applicable *Minnesota Statutes*, the Commission maintains deposits at depository banks authorized by the Commission's Board. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate security bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. As of September 30, 2016, the Commission's bank balance was not exposed to custodial credit risk because it was insured through FDIC and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the Commission's name. The Commission's deposits had a book balance as follows:

Checking and savings	\$ 6,095,677
Certificates of deposit	<u>2,061,114</u>
Total deposits and investments	<u><u>\$ 8,156,791</u></u>

B. Investments

The following is a summary of total deposits and investments as of September 30, 2016:

Deposits	\$ 8,156,791
Wells Fargo Advantage Treasury Money Market Funds	987,269
Petty cash	<u>1,500</u>
Total deposits and investments	<u><u>\$ 9,145,560</u></u>

Deposits and investments are presented in the September 30, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 8,158,291
Restricted investments	<u>987,269</u>
Total cash and investments	<u><u>\$ 9,145,560</u></u>

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 2 – DEPOSITS (CONTINUED)

B. Investments (Continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission's investment policy requires their investments be rated as required by *Minnesota Statutes* 118A.04. These Statutes limit investments to those that are in the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk: This risk limits the amount the Commission may invest in any one issuer. The Commission's policy states the Commission shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Interest Rate Risk: This is the risk that correlates with managing exposure to fair value arising from increasing interest rates. The Commission's investment policy states the Commission shall manage its investments in a manner to attain a market rate of return through various economic and budgetary cycles.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Per the Commission's investment policy, all investment securities purchased by the Commission shall be held in third party safekeeping by an institution designated as custodial agent. The custodial agent may be any Federal Reserve Bank, any bank authorized under the laws of the United States or any state to exercise corporate trust powers, a primary reporting dealer in the United States government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined in *Minnesota Statutes* 118A.06.

The Commission has the following recurring fair value measurements as of September 30, 2016:

- \$987,269 of \$987,269 are valued using quoted market prices (Level 1 inputs)

NOTE 3 – RECEIVABLES AND UNAVAILABLE REVENUE

A. Local Tax Levies

Tax levies receivable at September 30, 2016, were:

Current taxes receivable	
Stearns County	\$ 960,254
Benton County	203,604
Sherburne County	<u>34,424</u>
 Total current taxes receivable	 <u><u>\$ 1,198,282</u></u>

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 3 – RECEIVABLES AND UNAVAILABLE REVENUE (CONTINUED)

A. Local Tax Levies (Continued)

Delinquent taxes receivable and unavailable revenue	
Stearns County	\$ 10,517
Benton County	6,211
Sherburne County	<u>1,171</u>
 Total delinquent taxes receivable and unavailable revenue	 <u><u>\$ 17,899</u></u>

NOTE 4 – CAPITAL GRANTS

During the year ended September 30, 2016, the Commission earned, from the Federal Transit Administration, capital grants in the amount of \$999,955, which were used to purchase equipment as well as for preventative maintenance. These amounts collectively compromise the Federal Capital Grant Entitlement.

During the year ended September 30, 2016, the Commission earned from the Minnesota Department of Transportation, capital grants in the amount of \$290,250, which were used to purchase dial-a-ride buses, a maintenance hoist, and design for the dial-a-ride garage addition.

NOTE 5 – LESSOR AGREEMENT

In September 2014, the Commission entered into an agreement to lease out the second floor of the Mobility Training Center to a lessor. Beginning October 1, 2014, the Commission will receive monthly rental payments of \$1,400 through September 2024. Under the lease agreement, the Commission has the right to increase the base rent amounts to match the fair market value of rental space in the area beginning in 2018. Future payments to be received by the Commission are as follows:

2017	\$ 16,800
2018	16,800
2019	16,800
2020	16,800
2021	16,800
Thereafter	<u>50,400</u>
 Total minimum future rental payments	 <u><u>\$ 134,400</u></u>

St. Cloud Metropolitan Transit Commission
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, was as listed below:

	Beginning Balance, Restated	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 783,923	\$ -	\$ -	\$ 783,923
Construction in progress	15,987	187,187	-	203,174
Total capital assets not being depreciated	799,910	187,187	-	987,097
Capital assets being depreciated				
Buildings and bus shelters	18,706,900	32,551	130,298	18,609,153
Buses and bus equipment	20,248,512	168,417	-	20,416,929
Office furniture, computers and equipment	336,146	72,428	5,053	403,521
Vehicles	163,442	-	-	163,442
Transit priority systems	1,070,411	-	-	1,070,411
Total capital assets being depreciated	40,525,411	273,396	135,351	40,663,456
Less accumulated depreciation for				
Buildings and bus shelters	4,949,346	543,863	130,298	5,362,911
Buses and bus equipment	8,170,545	1,487,452	-	9,657,997
Office furniture, computers and equipment	118,920	40,278	5,053	154,145
Vehicles	130,605	19,340	-	149,945
Transit priority systems	1,051,162	3,056	-	1,054,218
Total accumulated depreciation	14,420,578	2,093,989	135,351	16,379,216
Total capital assets being depreciated, net	26,104,833	(1,820,593)	-	24,284,240
Governmental activities, capital assets, net	<u>\$ 26,904,743</u>	<u>\$ (1,633,406)</u>	<u>\$ -</u>	<u>\$ 25,271,337</u>

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$2,093,989 for the year ended September 30, 2016, was charged to functions/programs of the Commission as follows:

Governmental activities	
Transit operations	\$ 1,487,452
Vehicle maintenance	19,340
Facility maintenance	546,919
General administration	40,278
	<hr/>
Total depreciation expense	<u><u>\$ 2,093,989</u></u>

NOTE 7 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rate	Original Issue	Final Maturity	Total Outstanding	Due Within One Year
Gross revenue bonds, Series 2014	03/28/14	1.00% - 5.00%	\$7,100,000	06/01/24	\$ 5,850,000	\$ 660,000
Unamortized bond premium					234,869	-
Compensated absences payable					646,025	292,116
					<hr/>	<hr/>
Total long-term liabilities					<u><u>\$ 6,730,894</u></u>	<u><u>\$ 952,116</u></u>

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bond liabilities:

<u>Year Ending September 30,</u>	Revenue Bond		
	Principal	Interest	Total
2017	\$ 660,000	\$ 171,800	\$ 831,800
2018	675,000	158,600	833,600
2019	695,000	138,350	833,350
2020	730,000	103,600	833,600
2021	740,000	89,000	829,000
2022-2024	2,350,000	142,350	2,492,350
	<hr/>	<hr/>	<hr/>
Total	<u><u>\$ 5,850,000</u></u>	<u><u>\$ 803,700</u></u>	<u><u>\$ 6,653,700</u></u>

St. Cloud Metropolitan Transit Commission
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue bond	\$ 6,495,000	\$ -	\$ 645,000	\$ 5,850,000
Bond premium	264,227	-	29,358	234,869
Compensated absences	<u>627,191</u>	<u>579,678</u>	<u>560,844</u>	<u>646,025</u>
	<u>\$ 7,386,418</u>	<u>\$ 579,678</u>	<u>\$ 1,235,202</u>	<u>\$ 6,730,894</u>

NOTE 8 – FUND BALANCES

Fund balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	<u>General Fund</u>
Nonspendable	
Materials and supplies inventory	\$ 129,840
Prepaid insurance	<u>63,275</u>
Total nonspendable	<u>193,115</u>
Restricted	
Debt service	987,269
Assigned for	
Fixed asset acquisition	1,178,531
Fixed route expansion	788,713
Self insurance - health insurance	109,921
Self insurance - vehicle collision and liability	234,148
Long range plan	54,832
FTA funds for future bus purchase	70,008
Early bond payoff	215,000
Employee wellness/retention	<u>24,158</u>
Total assigned fund balance	<u>2,675,311</u>
Unassigned	<u>6,700,466</u>
Total fund balance	<u><u>\$ 10,556,161</u></u>

Nonspendable for Materials and Supplies Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Insurance – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the Commission on expenses for the next year.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 8 – FUND BALANCES (CONTINUED)

Restricted for Debt Service – This balance represents a portion of the fund balance that is restricted for debt service principal and interest payments that is held as a restricted investment.

Assigned for Fixed Asset Acquisition – This balance represents a portion of the fund balance that can provide a 20% "local" match to anticipated 80% FTA and/or state matches to scheduled capital improvement projects adopted each year by the Commission and programmed in the multi-year State Transportation Improvement Plan.

Assigned for Fixed Route Expansion – This balance represents a portion of the fund balance that is used to fund future route expansion as identified in the "Moving Forward" process, and to bank the unspent balance.

Assigned for Self Insurance Health Insurance – This balance represents a portion of the fund balance that was created to offer funding for alternative employee health insurance programs.

Assigned for Self Insurance Vehicle Collision and Liability – This balance represents a portion of the fund balance that was created to offer funding for vehicle collision and liability self-insurance.

Assigned for Long Range Plan – This balance represents a portion of the fund balance that was created as the Plan was partially budgeted to begin in fiscal year 2014, however due to other project completion delays, the long range plan was moved back, and began in fiscal year 2015, with completion expected in 2016.

Assigned for FTA (Federal Transit Administration) Funds for Future Bus Purchase – This balance represents a portion of the fund balance that was created as the Commission sold buses in fiscal year 2014 and the FTA requires that if any bus sale is greater than \$5,000, 80% of the amount above that is given back to the FTA, or used for a future bus purchase. The Commission will be using it on future bus purchases.

Assigned for Early Bond Payoff – This balance represents a portion of the fund balance that was created to be able to make an early payment on the bond when the option is there in 2021.

Assigned for Employee Wellness/Retention – This balance represents a portion of fund balance to offset employee appreciation, retention and wellness activities.

NOTE 9 – LOCAL TAX LEVIED FOR CAPITAL IMPROVEMENTS

Included in the payable 2016 tax levy are levies for capital improvements for \$549,400.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 10 – SELF INSURANCE

The Commission maintains self-insurance for vehicle collision and liability and health insurance. A summary of the activity in the assignment for self-insurance is as follows:

<u>Vehicle Collision and Liability</u>	
Balance - September 30, 2015	\$ 255,797
Levy for self insurance	-
Interest income	79
Insurance proceeds	8,565
Claims paid	<u>(30,293)</u>
Balance - September 30, 2016	<u><u>\$ 234,148</u></u>
<u>Health Insurance</u>	
Balance - September 30, 2015	\$ 109,889
Interest income	32
Claims paid	<u>-</u>
Balance - September 30, 2016	<u><u>\$ 109,921</u></u>

NOTE 11 – PENSION PLANS

Public Employees' Retirement Association

A. Plan Description

The Commission participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 ad 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the Commission are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2016. The Commission was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in fiscal year 2016. The Commission's contributions to the General Employees Fund for the year ended September 30, 2016, were \$297,115. The Commission's contributions were equal to the required contributions as set by state statute.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At September 30, 2016, the Commission reported a liability of \$4,944,778 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$64,585. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Commission's proportion share was 0.0609%, which was an increase of 0.0042% from its proportion measured as of June 30, 2015.

For the year ended September 30, 2016, the Commission recognized pension expense of \$708,535 for its proportionate share of General Employees Plan's pension expense. In addition, the Commission recognized an additional \$19,258 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At September 30, 2016, the Commission reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 401,690
Changes in actuarial assumptions	968,192	-
Difference between projected and actual investments earnings	938,540	-
Changes in proportion	160,682	-
Contributions paid to PERA subsequent to the measurement date	74,279	-
	<u>\$ 2,141,693</u>	<u>\$ 401,690</u>

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

\$74,279 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

September 30,	Amount
2017	\$ 478,864
2018	478,864
2019	529,385
2020	178,611
Total	\$1,665,724

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF
Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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>
Domestic stocks	45%	5.50 %
International stock	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. 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.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following table presents the Commission's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	Discount Rate (6.5%)	Discount Rate (7.5%)	Discount Rate (8.5%)
Commission's proportionate share of the General Employees Fund net pension liability	\$ 7,023,050	\$ 4,944,778	\$ 3,232,847

H. Pension Plan Fiduciary Net Position

Detailed information about each 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.

Central States, Southeast, and Southwest Areas Pension Fund

A. Plan Description

Union employees are covered by a defined benefit pension plan administered by a Board of Trustees composed of four Teamsters Union employees and four nonunion employees. The Trustees administer the Central States, Southeast, and Southwest Areas Pension Fund (the "Fund") which is a cost sharing, multiple-employer defined benefit plan that is not a state or local government pension plan, is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers and has no predominant state or local governmental employer. As of September 30, 2016, the Commission had 59 employees covered by the Fund. The Commission's payroll for employees covered by the plan for the year ended September 30, 2016 was \$2,436,076 and the Commission's total payroll was \$6,073,435.

Employers and the Union may apply to have eligible employees participate in the plan. Participation is based on covered service as defined by the collective bargaining agreement. Benefits under the plan are generally based on the participant's age, accumulated service credit (including certain noncontributory service credit) and the rate at which contributions were required to be made to the Fund.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Central States, Southeast, and Southwest Areas Pension Fund (Continued)

A. Plan Description (Continued)

The principal benefit under the plan is a 20 year service pension, which is available to participants who attain age 57 and have 20 years of service credit. A 30-and-Out Pension is available to participants of any age who have 30 years of contributory service credit and meet certain other requirements. The plan provides a 10 Year Vested Pension upon completion of 10 years of vesting service and satisfaction of certain other conditions. An Age 65 Vested Pension is available to participants who attain age 65, have 5 years of vesting service and satisfy certain other conditions. A Joint and Survivor Pension and pre-retirement and post retirement survivor benefits are provided and an Early Retirement Pension is available at reduced amounts. Eligible participants may defer the payment of their 20 Year Service Pension or Early Retirement Pension to receive a larger monthly benefit. The plan also provides for a disability pension benefit and for lump sum disability and death benefits. Under certain conditions, partial pensions are available at reduced amounts where participation has been divided between the plan and other pension plans that have reciprocal agreements with the Fund.

The Contribution Based Pension and Transition Pension are available to participants whose pensions were first payable on or after January 1, 1987, and who have established a specified contribution rate and have met certain other requirements. The Contribution Based Pension provides for monthly pensions equal to 2% of the amount of contributions required to be paid on behalf of a qualifying participant after January 1, 1986, plus the participant's accrued benefit as of that date. The Transition Pension is a fixed amount payable to pensioners who are at least age 57 at retirement, have 25 or more years of contributory service credit and meet certain other requirements. The Contributory Credit Pension also provides a fixed amount payable to pensioners who are at least age 57 at retirement, have at least 20 years of contributory service credit and have established Benefit Class 16.

On September 25, 2015, the Fund filed an application with the U.S. Department of Treasury seeking approval for a pension rescue plan under the Multiemployer Pension Reform Act of 2014 to ensure that the Fund will continue providing benefits for many years in the future.

B. Contributions

Employers make contributions to the Fund, on behalf of employee participants, at the rate specified in the applicable collective bargaining agreement. Participating employees, under specified conditions, may make self contributions to secure benefits. Trustees are empowered to establish and amend the level of plan benefits. Although an individual Trustee may participate in collective bargaining in the capacity of an employer or Union representative, the Fund itself is not a party to such negotiations. Collective bargaining agreements are generally negotiated for three-year periods with varying expiration dates, terms and employer contribution rates.

The current collective bargaining agreement, which is effective October 1, 2014 through September 30, 2017, requires the commission to contribute to the Fund for each employee covered by the collective bargaining agreement who has completed 30 days of employment. For each eligible employee, contributions shall be made for each week according to the following rates: \$116.30 weekly effective July 1, 2014, \$121.00 weekly effective July 1, 2015, and \$125.80 weekly effective July 1, 2016.

**St. Cloud Metropolitan Transit Commission
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Central States, Southeast, and Southwest Areas Pension Fund (Continued)

B. Contributions (Continued)

Total contributions made by the Commission during the year ended September 30, 2016 were:

Central states, southeast, and southwest areas pension fund		
Employee contributions	\$	-
Employer contributions		356,687

The December 31, 2015, Central States, Southeast, and Southwest Areas Pension Fund annual report was the most recent annual report available as of the date of the Commission's September 30, 2016 audited financial statements.

C. Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the Fund. The Fund does not make separate measurements of assets and pension benefit obligations for individual employers.

The fair market value of plan assets was \$16,126,208,142 as of December 31, 2015.

The measurement of the pension benefit obligation is based on an actuarial valuation as of January 1, 2015. Net position available to pay pension benefits was valued as of December 31, 2015.

The Fund does not issue a publicly available financial report.

D. Related Party

The Fund has common Trustees and shares the cost of common office facilities, personnel and other functions with Central States, Southeast, and Southwest Areas Health and Welfare Fund (Health and Welfare Fund). In addition, all Fund employees are covered by one of the Health and Welfare Fund's benefit plans. Shared costs are allocated between the Fund and the Health and Welfare Fund on the basis of estimated utilization.

St. Cloud Metropolitan Transit Commission
Notes to Financial Statements

NOTE 12 – SUBSEQUENT EVENT

The Commission entered into an agreement in October 2016 to purchase property adjacent to their property in the amount of \$165,000.

NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. This new statement requires additional note disclosures and additional required supplementary information. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. We are recommending that a review of your actuarial study be completed with your actuarial firm to ensure compliance with the new standard.

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

REQUIRED SUPPLEMENTARY INFORMATIO

**St. Cloud Metropolitan Transit Commission
Schedule of Commission's Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years***

For Fiscal Year Ended September 30,	Commission's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Commission's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability	Commission's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Commission	Commission's Covered-Employee Payroll	Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0567%	\$ 2,938,488	\$ -	\$ 2,938,488	\$ 3,279,280	89.6%	78.2%
2016	0.0609%	4,944,778	64,585	5,009,363	3,637,359	135.9%	68.9%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of Commission Contributions -
General Employees Retirement Fund
Last Ten Years***

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Commission's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	\$ 222,438	\$ 222,438	\$ -	\$ 3,068,110	7.25%
2015	245,946	245,946	-	3,279,280	7.50%
2016	283,286	283,286	-	3,777,147	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**St. Cloud Metropolitan Transit Commission
Schedule Of Commission Contributions - Central States,
Southeast, And Southwest Areas Pension Fund
Last Ten Years**

<u>For Fiscal Year Ended September 30,</u>	<u>Employer Contributions to the Plan</u>
2007	\$ 147,177
2008	176,925
2009	203,166
2010	240,584
2011	237,857
2012	276,604
2013	284,436
2014	287,598
2015	393,668
2016	356,687

Note: Significant factors that affect trends in the amounts of employer contributions include changes in the size of the population covered by the benefit and changes in the required contribution rates.

**St. Cloud Metropolitan Transit Commission
Notes to Required Supplementary Information**

GENERAL EMPLOYEES FUND

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

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St. Cloud Metropolitan Transit Commission
Statement of Revenues and Expenses
Compared to Budget
Year Ended September 30, 2016

	<u>Budgeted Amounts</u> Original and Final	Actual Amounts	Variance with Final Budget Over (Under)
Revenues			
Passenger fares for transit service	\$ 1,050,000	\$ 1,116,955	\$ 66,955
Northstar Link fares	100,000	87,149	(12,851)
Special transit fares - other	300,000	477,623	177,623
Special transit fares - students	30,000	26,030	(3,970)
Charges for service - other	-	205,144	205,144
Auxiliary transportation revenues	107,000	148,294	41,294
Nontransportation revenues - other	45,300	100,460	55,160
Nontransportation revenues - investment income	19,000	17,776	(1,224)
Taxes levied by transit system - operations	1,913,867	1,917,987	4,120
State of minnesota grants - operating assistance	8,328,800	8,266,706	(62,094)
Northstar corridor development authority - NCDA	250,000	285,468	35,468
Federal operating grants	1,975,715	-	(1,975,715)
Total operating revenues	<u>14,119,682</u>	<u>12,649,592</u>	<u>(1,470,090)</u>
Taxes levied for fixed asset acquisitions	549,400	549,400	-
Federal capital grant entitlement	855,600	999,955	144,355
State capital grant entitlement	-	290,250	290,250
Total nonoperating revenues	<u>1,405,000</u>	<u>1,839,605</u>	<u>434,605</u>
Total revenues	<u>\$ 15,524,682</u>	<u>\$ 14,489,197</u>	<u>\$ (1,035,485)</u>
Expenses			
Operators' salaries and wages	\$ 4,222,736	\$ 3,643,989	\$ (578,747)
Other salaries and wages	2,623,681	2,429,446	(194,235)
Payroll taxes	523,751	457,698	(66,053)
Hospital, medical and surgical plans	1,525,667	1,376,611	(149,056)
Uniform and work clothing allowances	19,450	13,604	(5,846)
Other fringe benefits - retirement	705,903	1,164,197	458,294
Unemployment insurance	28,800	8,246	(20,554)
Workers' compensation	275,000	253,714	(21,286)
Advertising fees	9,250	44,011	34,761
Professional and technical services	280,800	334,442	53,642
Sublet mechanic labor and preventative maintenance	72,500	94,829	22,329
Other services	25,950	18,589	(7,361)
Fuel and lubricants	865,000	573,284	(291,716)
Tires and tubes	98,400	85,219	(13,181)
Other material and supplies	564,231	665,057	100,826
Utilities	258,900	213,325	(45,575)
Insurance	218,958	256,964	38,006
Dues and subscriptions	35,055	30,215	(4,840)
Travel and meetings	70,300	45,199	(25,101)
Advertising - promotion/media	107,610	106,586	(1,024)
Miscellaneous expenses	78,040	86,469	8,429
Interest	829,700	157,537	(672,163)
Transit way structures and equipment	-	6,712	6,712
Total expenses before depreciation and loss on disposal of capital assets	<u>\$ 13,439,682</u>	<u>\$ 12,065,943</u>	<u>\$ (1,373,739)</u>

**St. Cloud Metropolitan Transit Commission
Statement of Expenses and Functions
Year Ended September 30, 2016**

Expense Object Classes	<u>Total Expenses</u>	<u>Fixed Route Operations</u>	<u>Dial-A-Ride Operations</u>
Labor			
Operators' salaries and wages	\$ 3,643,989	\$ 2,468,893	\$ 1,175,096
Other salaries and wages	2,429,446	658,494	267,278
Fringe benefits			
Payroll taxes	457,698	235,095	109,911
Hospital, medical, and surgical plans	1,376,611	738,271	409,043
Uniforms and work clothing allowances	13,604	7,701	3,501
Other fringe benefits			
Retirement	1,164,197	706,018	241,885
Reemployment insurance	8,246	8,246	-
Workers' compensation	253,714	201,404	48,530
Services			
Advertising fees	44,011	-	-
Professional and technical services	334,442	22,747	82,865
Sublet mechanic labor and preventative maintenance	94,829	-	-
Other services	18,589	-	-
Materials and supplies consumed			
Fuel and lubricants	573,284	-	-
Tires and tubes	85,219	-	-
Other materials and supplies	665,057	-	-
Utilities	213,325	4,190	-
Insurance	256,964	81,684	479
Miscellaneous expenses			
Dues and subscriptions	30,215	-	-
Travel and meetings	45,199	7,929	3,857
Advertising - promotion/media	106,586	-	-
Other miscellaneous expenses	86,469	3,838	-
Interest	157,537	-	-
Leases and rentals			
Transit way structures and equipment	6,712	-	-
Total expenses before depreciation and loss on disposal of capital assets	12,065,943	5,144,510	2,342,445
Depreciation expense	2,093,989	1,235,762	251,690
Total operating expenses	<u>\$ 14,159,932</u>	<u>\$ 6,380,272</u>	<u>\$ 2,594,135</u>

<u>Vehicle Maintenance</u>	<u>Facility Maintenance</u>	<u>General Administration</u>
\$ -	\$ -	\$ -
627,874	57,190	818,610
47,098	4,375	61,219
117,500	12,220	99,577
2,402	-	-
82,993	(6,948)	140,249
-	-	-
3,780	-	-
-	-	44,011
5,897	42,110	180,823
49,935	44,894	-
500	17,592	497
573,284	-	-
85,219	-	-
497,714	159,860	7,483
640	187,793	20,702
-	-	174,801
-	-	30,215
5,604	-	27,809
-	-	106,586
518	7,912	74,201
-	-	157,537
165	6,547	-
<u>2,101,123</u>	<u>533,545</u>	<u>1,944,320</u>
<u>19,340</u>	<u>546,919</u>	<u>40,278</u>
<u>\$ 2,120,463</u>	<u>\$ 1,080,464</u>	<u>\$ 1,984,598</u>

**St. Cloud Metropolitan Transit Commission
Statement of Changes in Equity
September 30, 2016**

	Net Investment in Capital Assets	Unassigned	Nonspendable	Restricted for Debt Service	Assigned for Fixed Asset Acquisitions	Assigned for Self Insurance Vehicle Collision and Liability
Balance - September 30, 2015	\$ 20,145,516	\$ 1,792,785	\$ 240,842	\$ 950,599	\$ 889,143	\$ 255,797
Revenues over (under) expenses for the year ended September 30, 2016	<u>(959,048)</u>	<u>1,074,780</u>	<u>(47,727)</u>	<u>(20,597)</u>	<u>289,388</u>	<u>(21,649)</u>
Balance - September 30, 2016	<u>\$ 19,186,468</u>	<u>\$ 2,867,565</u>	<u>\$ 193,115</u>	<u>\$ 930,002</u>	<u>\$ 1,178,531</u>	<u>\$ 234,148</u>

<u>Assigned for Self Insurance Health Insurance</u>	<u>Assigned for Fixed Route Expansion</u>	<u>Assigned for Long Range Plan</u>	<u>Assigned for Early Bond Payoff</u>	<u>Assigned for Employee Wellness/ Retention</u>	<u>Assigned for FTA Funds for Future Bus Purchase</u>	<u>Total</u>
\$ 109,889	\$ 788,713	\$ 50,000	\$ 215,000	\$ 14,904	\$ 70,008	\$ 25,523,196
<u>32</u>	<u>-</u>	<u>4,832</u>	<u>-</u>	<u>9,254</u>	<u>-</u>	<u>329,265</u>
<u>\$ 109,921</u>	<u>\$ 788,713</u>	<u>\$ 54,832</u>	<u>\$ 215,000</u>	<u>\$ 24,158</u>	<u>\$ 70,008</u>	<u>\$ 25,852,461</u>

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**St. Cloud Metropolitan Transit Commission
Schedule of Tax Levies, Tax Capacity, and Rates
For Taxes Payable in 2016**

	Levy					Initial Net Tax Capacity Rates
	Total	St. Cloud	Waite Park	Sauk Rapids	Sartell	
Stearns County	\$ 1,966,087	\$ 1,233,886	\$ 322,949	\$ -	\$ 409,252	3.288
Benton County	424,153	138,728	-	242,218	43,207	3.288
Sherburne County	73,027	73,027	-	-	-	3.288
Total net levy	<u>2,463,267</u>	<u>\$ 1,445,641</u>	<u>\$ 322,949</u>	<u>\$ 242,218</u>	<u>\$ 452,459</u>	
Total gross levy	<u>\$ 2,463,267</u>					

Tax Capacity	Valuations
Stearns County - City of St. Cloud	\$ 37,524,322
Stearns County - City of Waite Park	9,821,367
Stearns County - City of Sartell	12,445,952
Benton County - City of St. Cloud	4,218,949
Benton County - City of Sauk Rapids	7,366,200
Benton County - City of Sartell	1,313,993
Sherburne County - City of St. Cloud	<u>2,220,858</u>
Total	<u>\$ 74,911,641</u>

**St. Cloud Metropolitan Transit Commission
Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2016**

Federal Assistance Grant Number/ Funding Source	Grant Name	Project Time Period
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Through U.S. Department of Transportation

CFDA No. 20.507:

Not Available	Section 5307 - Capital	10/01/15-12/31/16
Not Available	Section 5307 - Capital Assistance - PM	10/01/15-12/31/16

Through Minnesota Department of Transportation

CFDA No. 20.514:

MN-26-0010-11	Public Transportation Research, Technical Assistance and Training	06/06/2014-09/30/2016
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Total Federal Grants

State Assistance Contract Number

Through Minnesota Department of Transportation

07172	Public Transit Operating Assistance Contract	01/01/15-12/31/15
07171	Public Transit Operating Assistance Contract	01/01/15-12/31/15
07212	Public Transit Operating Assistance Contract	01/01/15-12/31/15
1001716	Public Transit Operating Assistance Contract	01/01/16-12/31/16
1001717	Public Transit Operating Assistance Contract	01/01/16-12/31/16
1001718	Public Transit Operating Assistance Contract	01/01/16-12/31/16
1001686	Public Transit Operating Assistance Contract	01/01/16-12/31/16
07276	Public Transit Capital Grant Contract	01/01/15-12/31/15
1003171	Public Transit Capital Grant Contract	01/01/16-12/31/16
1000879	Public Transit Capital Grant Contract	01/01/16-12/31/16

Total State Grants

Audit Report This Period	Expenditures		Total
	Prior Reports	This Report	
10/01/15-09/30/16	\$ -	\$ 72,723	\$ 72,723
10/01/15-09/30/16	-	919,000	919,000
10/01/15-09/30/16	-	8,232	8,232
	<u>\$ -</u>	<u>\$ 999,955</u>	<u>\$ 999,955</u>
10/01/14-09/30/15	\$ 3,562,950	\$ 736,565	\$ 4,299,515
10/01/14-09/30/15	2,098,600	699,550	2,798,150
10/01/14-09/30/15	225,000	75,000	300,000
10/01/15-09/30/16	-	2,367,923	2,367,923
10/01/15-09/30/16	-	4,040,262	4,040,262
10/01/15-09/30/16	-	330,000	330,000
10/01/15-09/30/16	-	17,406	17,406
10/01/15-09/30/16	-	128,503	128,503
10/01/15-09/30/16	-	55,636	55,636
10/01/15-09/30/16	-	106,111	106,111
	<u>\$ 5,886,550</u>	<u>\$ 8,556,956</u>	<u>\$ 14,443,506</u>

St. Cloud Metropolitan Transit Commission
Note to the Schedule of Expenditures of Federal and State Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal grant activity of the Commission and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**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

To the Board of Commissioners
St. Cloud Metropolitan Transit Commission
St. Cloud, Minnesota

We have audited, in accordance with the 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 governmental activities and the major fund of St. Cloud Metropolitan Transit Commission, St. Cloud, Minnesota, as of and for the year ending September 30, 2016, and the related notes to financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the 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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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 such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. 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.



Internal Control over Financial Reporting

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control 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 that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as Audit Findings 2002-001 and 2007-001 that we consider to be significant deficiencies in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 determination of financial statement amounts. 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*.

Commission's Response to the Findings

The Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 27, 2017

**Report on Compliance for Each Major Federal Program and on Internal
Control over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the Board of Commissioners
St. Cloud Metropolitan Transit Commission
St. Cloud, Minnesota

Report on Compliance for Each Major Federal Program

We have audited St. Cloud Metropolitan Transit Commission's, St. Cloud, Minnesota compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended September 30, 2016. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs 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 of 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 Commission'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 each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.



Opinion on Each Major Federal Program

In our opinion, St. Cloud Metropolitan Transit Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Commission 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 Commission'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. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 a 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 attention by 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Bergank DV, Ltd.

St. Cloud, Minnesota
March 27, 2017

**St. Cloud Metropolitan Transit Commission
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Findings 2002-001 and 2007-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	20.507
Name of Federal Program or Cluster:	Federal Transit – Formula Grants
Auditee qualified as low risk auditee?	Yes

**St. Cloud Metropolitan Transit Commission
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2002-001

Criteria or Specific Requirement:

Internal control that supports the Commission's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

The Commission has a lack of segregation of accounting duties due to a limited number of office employees.

Management and Board of Commissioners are aware of this condition and have taken certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the Board of Commissioners must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Chief Financial Officer has access to all areas of the accounting system.
- The Accounting Coordinator enters invoices into the accounting system, prepares the checks, and has access to the Treasurer's signature stamp.
- The Chief Financial Officer creates journal entries, enters them into the accounting system, and reconciles the bank statement. The Commission does include in their procedures that the Chief Financial Officer will review the journal entries and bank reconciliations.

Context:

This finding impacts the internal control for all significant accounting functions.

**St. Cloud Metropolitan Transit Commission
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2002-001 (Continued)

Effect:

The lack of adequate segregation of accounting duties could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Views of Responsible Officials and Planned Corrective Actions:

Management has determined the cost of obtaining complete segregation of accounting duties exceeds the benefits which could be derived. Management, however, continues to explore methods to improve compliance to this area, has implemented a number of changes in the past several years and will continue to implement additional measures in the future where practical and feasible.

Audit Finding 2007-001

Criteria or Specific Requirement:

Internal control should be established to provide for the preparation of the financial statements being audited.

Condition:

As a function of the audit process, auditors are required to gain an understanding of the Commission's internal control, including the financial reporting process.

The Commission does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements.

Even though all management decisions related to financial reporting are made by the Commission's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**St. Cloud Metropolitan Transit Commission
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2007-001 (Continued)

Context:

This finding impacts the Commission's ability to internally prepare the financial statements.

Effect:

This could result in a misstatement to the financial statements and incomplete financial disclosures in the financial statements that would not be prevented, or detected and corrected in a timely manner as a result of the Commission's current internal controls.

Cause:

There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements by the Commission.

Recommendation:

Continue to request assistance from a third party to draft the financial statements and accompanying Notes to the Financial Statements and thoroughly review these financial statements after they have been prepared so the Commission can take responsibility for them.

Views of Responsible Officials and Planned Corrective Actions:

Because of cost and staffing considerations with internally preparing a complete financial statement for the auditors and noting the Director of Finance is capable of discovering potential financial report misstatements or errors, the degree of risk associated with this condition is minor and acceptable to both management and the Commission. Management has assumed certain financial statement preparatory activities within the past several years and will continue to evaluate and assume more activities in the future where practical and responsible.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None



Report on Legal Compliance

Independent Auditor's Report

To the Board of Commissioners
St. Cloud Metropolitan Transit Commission
St. Cloud, 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 governmental activities and the major fund of St. Cloud Metropolitan Transit Commission, St. Cloud, Minnesota, as of and for the year ended September 30, 2016, and the related notes to financial statements, and have issued our report thereon dated March 27, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance. 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 Commission's noncompliance with the above referenced provisions.

The purpose of this report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 27, 2017

**St. Cloud Metropolitan Transit Commission
Schedule of Findings and Corrective Action Plans
on Legal Compliance**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Obtain Sufficient Performance and Payment Bonds for Service Contracts

Minnesota Statutes 574.26 requires that contractors doing public work pledge a performance and payment bond in an amount not less than the contract price if the contract is in excess of \$100,000.

During our audit as of September 30, 2016 the Commission failed to obtain a payment bond for the hoist project. The Commission also failed to obtain a sufficient amount for the performance bond for the hoist project.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The St. Cloud Metropolitan Transit Commission will ensure that it requests and obtains performance and payment bonds for all competitively bid contracts exceeding \$100,000. A “pre-proposal checklist” will be created to ensure compliance on all future projects.
3. Official Responsible for Ensuring CAP
Gary Korneck, Procurement Manager, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is December 31, 2016.
5. Plan to Monitor Completion of CAP
The Board of Commissioners will be monitoring this CAP.

**St. Cloud Metropolitan Transit Commission
Schedule of Findings and Corrective Action Plans
on Legal Compliance**

CURRENT YEAR LEGAL COMPLIANCE FINDING: (CONTINUED)

Obtain Required Responsible Contract Verbiage

Minnesota Statutes 16C.285 requires that contractors doing public work receive responsible contractor verbiage in the contract if the contract is in excess of \$50,000. This is to ensure that the contractor is in compliance with: worker's compensation and unemployment insurance requirements, with Department of revenue requirements, that the contractor has a valid tax identification number, and has filed a certificate of authority to transact business in Minnesota with the secretary of state.

During our audit as of September 30, 2016 the Commission failed to obtain the Responsible Contract verbiage for the hoist project.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The St. Cloud Metropolitan Transit Commission will ensure that it will obtain a signed responsible contractor form for all competitively bid contracts exceeding \$50,000. A “pre-proposal checklist” will be created to ensure compliance on all future projects.
3. Official Responsible for Ensuring CAP
Gary Korneck, Procurement Manager, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is December 31, 2016.
5. Plan to Monitor Completion of CAP
The Board of Commissioners will be monitoring this CAP.