

June 22, 2021

To the Joint Powers Board and Management
Minnesota River Valley Transit
Saint Peter, Minnesota

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Joint Powers Board, administration, or those charged with governance of the Minnesota River Valley Transit (the Transit).

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities and the major fund of the Transit as of and for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Transit's financial statements for the year ended December 31, 2020:

- We have issued an unmodified opinion on the Transit's financial statements. The Joint Powers Board has elected not to present management's discussion and analysis, which accounting principles generally accepted in the United States of America have determined necessary to supplement, although not required to be a part of, the basic financial statements. Our opinion on the Transit's basic financial statements is not affected by this missing information.
- We reported one deficiency in the Transit's internal control over financial reporting that we considered to be a material weakness.
 1. We reported that due to the small number of office staff, the Transit has limited segregation of duties in several areas, which we consider a significant deficiency in internal controls.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the Transit's compliance with Minnesota laws and regulations.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Electronic Funds Transfers Fraud

As the use of electronic funds transfers and payment methods has become more prevalent, we have seen increases in both the incidences of fraud related to these transactions and the dollar amounts involved. Operational changes related to the COVID-19 pandemic, including greater reliance on technology and more employees working remotely, have tended to increase risk in this area. We urge cities to carefully review controls over these transactions, and consider best practices to address these risks, such as:

- Ensuring segregation of duties over these transactions by involving more than one employee in the process.
- Requiring multi-factor authentication of requests for electronic payments from new vendors or for changes in wiring instructions for existing vendors. It is recommended that changes for existing vendors be verified through trusted contact information used previously for that vendor, not as provided in the change request, to verify the accuracy of the change.
- Educate employees on the controls in place to protect the organization's financial assets and ensure management is supportive and accepting of the processes in place. Attempted fraudulent transactions are often initiated using the profile of a supervisor. Employees must be comfortable questioning unusual transactions or requests, and instructed not to circumvent internal control procedures regardless of whom they believe initiated the transaction.
- Recommended cyber security measures, such as limiting network access and requiring robust passwords that are changed regularly, should be implemented and followed by all city employees, not just those directly involved with financial transactions.
- Review insurance policies to understand the coverage provided for financial losses due to cybersecurity risks and evaluate whether they provide adequate coverage based on management's assessment of these risks.

Uniform Guidance Written Controls and Micro-Purchase Threshold

Federal Uniform Guidance requires that nonfederal entities must have and use documented procurement procedures consistent with 2CFR § 200.317-320 for the acquisition of property or services required under a federal award or subaward. Effective August 31, 2020, the federal micro-purchase threshold, which is the threshold that allows for procurements without soliciting competitive price or rate quotations given certain conditions, was increased from \$3,500 to \$10,000 in the Federal Acquisition Regulations (FAR).

Effective November 12, 2020, the Uniform Guidance was also revised to allow nonfederal entities to establish a micro-purchase threshold higher than the \$10,000 threshold established in the FAR under certain circumstances. The nonfederal entity may self-certify a micro-purchase threshold up to \$50,000 if the requirements in 2CFR § 200.320(a)(1)(iv) are followed. Requirements include an **annual** self-certification and clear documentation of the justification to support the increase in the threshold. Acceptable reasons for justification must meet **one** of the following criteria:

- A qualification as a low-risk auditee, in accordance with the criteria in § 200.520 for the most recent audit,
- An annual internal institutional risk assessment to identify, mitigate, and manage financial risks, or,
- A higher threshold consistent with state law.

This flexibility would allow Minnesota local governments to increase and align their federal procurement procedures, specifically the micro-purchase threshold, with state law, which allows for procurements below \$25,000 to be made without competitive price or rate quotations.

We recommend that the Transit review its current federal procurement policy. If the micro-purchase threshold in your currently adopted policy is below the allowable FAR limit of \$10,000, you would need to make a one-time amendment to the policy to adopt the \$10,000 FAR limit before using it. If you prefer to increase your federal micro-purchase threshold to \$25,000 to align it with state law, in addition to amending your federal procurement policy, you would need to annually certify the higher threshold and the justification for using the higher threshold.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Transit are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

We noted no transactions entered into by the Transit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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

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

Compensated Absences – Management's estimate is based on current rates of pay and sick leave balances.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated June 22, 2021.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Transit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Transit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We were not engaged to report on the introductory section, which accompanies the financial statements, but is not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

CLOSING

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the Transit, management, and those who have responsibility for oversight of the financial reporting process required communications related to our audit process. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 22, 2021

MINNESOTA RIVER VALLEY TRANSIT

Financial Statements and
Supplemental Information

Year Ended
December 31, 2020

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MINNESOTA RIVER VALLEY TRANSIT

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INTRODUCTORY SECTION

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MINNESOTA RIVER VALLEY TRANSIT

Joint Powers Board and Management
as of December 31, 2020

JOINT POWERS BOARD

<u>Board Member</u>	<u>Position</u>	<u>Governmental Unit</u>
Mark Huntington	Chairman	City of Le Sueur
Stephen Grams	Board Member	City of Saint Peter
Marvin Sullivan	Board Member	City of Le Sueur
Chuck Zieman	Board Member	City of Saint Peter

MANAGEMENT

Sally Rheume-Vogel	Director of Finance	City of Saint Peter
Jasper Kruggel	City Administrator	City of Le Sueur
Todd Prafke	City Administrator	City of Saint Peter
Wayne Albers	Compliance Manager	Minnesota River Valley Transit
Sandi Owens	Operations Manager	Minnesota River Valley Transit

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FINANCIAL SECTION

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PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA
Kalen T. Karnowski, CPA

INDEPENDENT AUDITOR'S REPORT

To the Joint Powers Board and Management
Minnesota River Valley Transit
Saint Peter, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the major fund of the Minnesota River Valley Transit (the Transit) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Transit'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 Transit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit'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.

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Transit as of December 31, 2020, and the respective changes in financial position thereof, and the 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Transit's basic financial statements. The introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2021 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 22, 2021

BASIC FINANCIAL STATEMENTS

MINNESOTA RIVER VALLEY TRANSIT

Statement of Net Position
as of December 31, 2020

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 387,371
Receivables (net of allowance)	
Accounts	45
Inventory	1,926
Capital assets	
Vehicles and equipment	588,771
Less accumulated depreciation	<u>(313,054)</u>
Total capital assets, net of depreciation	<u>275,717</u>
Total assets	<u>\$ 665,059</u>
Liabilities	
Accounts and contracts payable	\$ 13,904
Salaries and withholdings payable	5,665
Due to other governmental units	431,230
Compensated absences	
Due within one year	26,378
Due in more than one year	<u>12,231</u>
Total long-term liabilities	<u>38,609</u>
Total liabilities	489,408
Net position	
Net investment in capital assets	275,717
Unrestricted	<u>(100,066)</u>
Total net position	<u>175,651</u>
Total liabilities and net position	<u>\$ 665,059</u>

MINNESOTA RIVER VALLEY TRANSIT

Statement of Activities
Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total Governmental Activities
Governmental activities					
Transit	\$ 819,864	\$ 56,055	\$ 512,387	\$ 65,306	\$ (186,116)
		General revenues			
		Miscellaneous			105
		Investment earnings			1,487
		Total general revenues			1,592
		Change in net position			(184,524)
		Net position – beginning			360,175
		Net position – ending			\$ 175,651

MINNESOTA RIVER VALLEY TRANSIT

Balance Sheet
 Governmental Funds
 as of December 31, 2020

	<u>General Fund</u>
Assets	
Cash and investments	\$ 387,371
Receivables	
Accounts	45
Inventory	<u>1,926</u>
Total assets	<u><u>\$ 389,342</u></u>
Liabilities	
Accounts and contracts payable	\$ 13,904
Salaries and withholdings payable	5,665
Due to other governmental units	<u>431,230</u>
Total liabilities	450,799
Fund balances (deficits)	
Nonspendable	1,926
Unassigned	<u>(63,383)</u>
Total fund balances (deficits)	<u><u>(61,457)</u></u>
Total liabilities and fund balances	<u><u>\$ 389,342</u></u>

MINNESOTA RIVER VALLEY TRANSIT

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2020

Total fund balances – governmental funds	\$ (61,457)
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	588,771
Less accumulated depreciation	(313,054)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.	
Compensated absences payable	<u>(38,609)</u>
Total net position – governmental activities	<u><u>\$ 175,651</u></u>

MINNESOTA RIVER VALLEY TRANSIT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2020

	<u>General Fund</u>
Revenue	
Intergovernmental	\$ 577,693
Charges for services	56,055
Investment earnings	1,487
Other	105
Total revenue	<u>635,340</u>
Expenditures	
Personnel	558,157
Administrative	34,648
Vehicle	
Operations	95,123
Insurance	22,784
Capital outlay	
Vehicles	81,633
Total expenditures	<u>792,345</u>
Excess (deficiency) of revenue over expenditures	(157,005)
Other financing sources	
Sale of capital assets	4,160
Net change in fund balances	(152,845)
Fund balances (deficit)	
Beginning of year	<u>91,388</u>
End of year	<u><u>\$ (61,457)</u></u>

MINNESOTA RIVER VALLEY TRANSIT

Reconciliation of the Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended December 31, 2020

Total net change in fund balances – governmental funds \$ (152,845)

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 outlay	81,633
Depreciation expense	(103,367)

A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances. (5,728)

Certain expenses are included in the change in net position, but do not require the use of current financial resources, and are not reported as expenditures in governmental funds, until actually due.

Compensated absences	<u>(4,217)</u>
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Change in net position – governmental activities \$ (184,524)

MINNESOTA RIVER VALLEY TRANSIT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended December 31, 2020

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue			
Intergovernmental	\$ –	\$ 577,693	\$ 577,693
Charges for services	172,265	56,055	(116,210)
Investment earnings	–	1,487	1,487
Other	–	105	105
Total revenue	<u>172,265</u>	<u>635,340</u>	<u>463,075</u>
Expenditures			
Personnel	649,691	558,157	(91,534)
Administrative	74,926	34,648	(40,278)
Vehicle			
Operations	126,421	95,123	(31,298)
Insurance	25,000	22,784	(2,216)
Capital outlay			
Vehicles	–	81,633	81,633
Total expenditures	<u>876,038</u>	<u>792,345</u>	<u>(83,693)</u>
Excess (deficiency) of revenues over expenditures	(703,773)	(157,005)	546,768
Other financing sources			
Sale of capital assets	–	4,160	4,160
Net change in fund balances	<u>\$ (703,773)</u>	<u>(152,845)</u>	<u>\$ 550,928</u>
Fund balances (deficit)			
Beginning of year		<u>91,388</u>	
End of year		<u>\$ (61,457)</u>	

MINNESOTA RIVER VALLEY TRANSIT

Notes to Basic Financial Statements
December 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Minnesota River Valley Transit (the Transit) was established in 2017 through a joint powers agreement, combining the public transit operations of the City of Saint Peter and the City of Le Sueur. The Transit is governed by four boardmembers who are appointed by the member entities. The Joint Powers Board consists of two member representatives from the City Council of each city. The joint powers agreement shall continue in force until a party gives the other contracting parties 12 months' written notice of its termination, delivered to the city administrator of each city. The termination will be effective on January 1st of the next calendar year.

The purpose of the Transit is to provide a coordinated service delivery and funding source for public transportation throughout the City of Le Sueur and the City of Saint Peter.

For financial reporting purposes, the Transit's financial statements are not included within the member cities' financial statements because the Transit is not a component unit of the cities. In addition, the Transit has no component units.

B. Reporting Entity

A joint venture is a legal entity resulting from a contractual agreement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain either an ongoing financial interest or an ongoing financial responsibility. The Transit, as described above, is considered a joint venture of the member cities.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the Transit. 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: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) operating grants and contributions; and 3) capital grants and contributions. Any taxes and other internally directed revenues are reported as general revenues.

The operating grants and contributions include operating specific and discretionary grants, while the capital grants and contributions include capital specific grants and contributions.

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. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net position represents the difference between assets and liabilities 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 statements when there are limitations on use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

D. Fund Financial Statement Presentation

The accounts of the Transit are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, expenditures, and other financing sources. The resources of the Transit are accounted for in one fund:

General Fund – The General Fund is the primary operating account of the Transit and is used to account for all financial resources of the Transit.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of this fund present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. 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 Transit considers revenues to be available if collected within 60 days after year-end. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met. Grant advances received for which not all eligibility requirements have been met are reported as unearned revenue at year-end. All significant revenue sources are considered susceptible to accrual.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Compensated absences are recorded only when due.

E. Budget

The Transit’s Joint Powers Board adopts an annual budget for the General Fund on the modified accrual basis of accounting. Budgetary control is at the fund level. All appropriations lapse at year-end.

The Joint Powers Board prepares an annual budget presented to each member unit of government for review and comment no later than July 31 of each year. The Joint Powers Board considers any such comments received by a member unit of government in good faith; however, the Joint Powers Board shall have exclusive and final decision-making authority with respect to its budget. The budget is effective January 1 of each year and is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. Cash and Investments

The Transit categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

H. Receivables

The Transit utilizes an allowance for uncollectible accounts to value its receivables; however, it considers all of its current receivables to be collectible.

I. Inventories

Inventories are stated at cost for supplies and at the lower cost or acquisition value for inventory held for resale, cost being determined by the first-in, first-out method.

J. Compensated Absences

It is the Transit's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. In the government-wide financial statements, sick leave is expensed as used or when it becomes likely it will be paid as termination pay and vacation is expensed when incurred. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are paid by the General Fund.

Paid vacation and sick leave are granted to all permanent, full-time employees of the Transit. Vacation benefits vary with the length of service of the employee. Sick leave can be accumulated up to 130 working days.

An employee of the Transit with more than six months of service who leaves the Transit in good standing, is paid for all unused and accrued vacation time. An employee who leaves the Transit may also receive pay for a percentage of accumulated sick days, up to 60 percent.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Position

In the government-wide financial statements, net position represents the difference between assets and liabilities, and is displayed in the following components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The Transit applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

L. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Joint Powers Board. Those committed amounts cannot be used for any other purpose unless the Joint Powers Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints consisting of amounts intended to be used by the Transit for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund.

When both restricted and unrestricted resources are available for use, it is the Transit’s policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the Transit’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Risk Management

The Transit is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The Transit participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property, casualty, and other miscellaneous insurance coverages. The LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The Transit pays an annual premium to the LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. The Transit also carries commercial insurance for certain other risks of loss, including employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage during 2020.

NOTE 2 – CASH AND INVESTMENTS

Cash balances of the Transit's funds are combined (pooled) and held by the City of Saint Peter on behalf of the Transit, and are invested to the extent available in various investments authorized by Minnesota Statutes. None of these amounts represent deposits with financial institutions. As such, the Transit does not have a formal deposit or investment policy.

NOTE 3 – CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset are not capitalized. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Capital asset amounts reported for governmental activities in the Statement of Net position are different than the balances in the governmental funds Balance Sheet because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the General Fund. The General Fund reports capital outlay as expenditures. In the governmental activities Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Machinery and equipment	\$	5,000
Vehicles	\$	5,000
Other assets	\$	5,000

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

<u>Assets</u>	<u>Years</u>
Machinery and equipment	5–15
Vehicles	5–15
Other assets	5–15

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated				
Vehicles and equipment	\$ 516,685	\$ 81,633	\$ 9,547	\$ 588,771
Less accumulated depreciation for				
Vehicles and equipment	<u>(213,506)</u>	<u>(103,367)</u>	<u>(3,819)</u>	<u>(313,054)</u>
Governmental activities capital assets, net	<u>\$ 303,179</u>	<u>\$ (21,734)</u>	<u>\$ 5,728</u>	<u>\$ 275,717</u>

NOTE 4 – RELATED PARTIES

The Transit utilizes personnel assigned to the Transit by certain members of its member agencies. Under the terms of the joint powers agreement established by the Transit, the Joint Powers Board may enter into interagency agreements or otherwise provide for the establishment, funding, coordination, administration, financial reporting, human resource management, and operation of public transportation services. The value of the contributed services not reimbursed to the member agencies has not been recognized in the Statement of Revenues, Expenditures, and Changes in Fund Balances or the Statement of Activities.

NOTE 5 – COMMITMENTS

On December 15, 2016, the Transit (lessee) signed a lease for use of the transit joint services building with the City of Le Sueur (lessor). The term of this lease commenced on January 1, 2017, and will terminate when indicated by either party providing a 120-day notice.

The lessee shall pay to the lessor, as rent under this lease agreement, the sum of \$20,563 per year to be paid in equal monthly installments commencing January 1, 2017, in the amount of \$1,714, with succeeding installments in like amounts to be due monthly thereafter during the term of this lease. Any installment of rent accruing under the provisions of this lease that shall not be paid when due, shall require the lessee, at lessor's option, to pay in addition to such rent, a late payment penalty of 5 percent of such rental payment. During 2020, the Transit paid \$20,563 relating to this lease agreement.

NOTE 5 – COMMITMENTS (CONTINUED)

On November 9, 2016, the Transit (lessee) signed a lease for use of the City Hall building with the City of Saint Peter (lessor). The terms of this lease commenced on January 1, 2017, and will terminate when indicated by either party providing a 120-day notice.

The lessee shall pay to the lessor, as rent under this lease agreement, the sum of \$14,310 per year to be paid in equal monthly installments commencing January 1, 2017, in the amount of \$1,193, with succeeding installments in like amounts to be due monthly thereafter during the term of this lease. Any installment of rent accruing under the provisions of this lease that shall not be paid when due, shall require the lessee, at the lessor's option, to pay in addition to such rent, a late payment penalty of 5 percent of such rental payment. During 2020, the Transit paid \$14,310 relating to this lease agreement.

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OTHER REQUIRED REPORTS

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PRINCIPALS

Thomas A. Karnowski, CPA
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INDEPENDENT AUDITOR'S 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

To the Joint Powers Board and Management
Minnesota River Valley Transit
Saint Peter, 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 the Minnesota River Valley Transit (the Transit) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated June 22, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Transit's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Transit's 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 one deficiency in internal control, described in the accompanying Schedule of Findings as finding 2020-001, that we consider to be a significant deficiency.

(continued)

COMPLIANCE AND OTHER MATTERS

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

RESPONSE TO THE FINDING

The Transit's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Transit's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit'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 Transit's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 22, 2021

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the Joint Powers Board and Management
Minnesota River Valley Transit
Saint Peter, 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 the Minnesota River Valley Transit (the Transit) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated June 22, 2021.

MINNESOTA LEGAL COMPLIANCE

In connection with our audit, nothing came to our attention that caused us to believe that the Transit failed to comply with the provisions of the claims and disbursements, deposits and investments, contracting and bidding, conflicts of interest, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Transit's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

PURPOSE OF THIS REPORT

The purpose of this report is solely 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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 22, 2021

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MINNESOTA RIVER VALLEY TRANSIT

Schedule of Findings
December 31, 2020

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2020-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – The Minnesota River Valley Transit (the Transit) has limited segregation of duties in several areas, including the processing of payroll transactions, cash receipts, and cash disbursements.

Cause – The limited segregation of duties is primarily caused by the limited size of the Transit’s finance department staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual should have responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the Transit to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Context – This is a current year and prior year finding.

Recommendation – This condition is common to organizations of your size. We recommend that the Transit segregate duties as best it can within the limits of the staff available. Any modifications in internal control in this area should be viewed from a cost-benefit perspective.

Management’s Response– The Transit reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available. However, the Transit does not consider it cost-beneficial at this time to increase the size of its staff in order to further segregate accounting functions. Management of the Transit will continue to monitor this deficiency and segregate duties as best as it can within the limits of the staff available.

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