



**SOUTH WEST TRANSIT**  
Eden Prairie, Minnesota



**Comprehensive Annual Financial Report**  
*For the Fiscal Year Ended December 31, 2016*

**SOUTHWEST TRANSIT**  
Eden Prairie, Minnesota

**Comprehensive Annual Financial Report**  
**For the Year Ended December 31, 2016**

**Mission Statement**

*SouthWest Transit is committed to providing a quality riding experience that fulfills the needs and exceeds the expectations of our customers.*

**Prepared by:**

**Department of Finance and Administration**



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Eden Prairie, Minnesota  
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April 18, 2017

Honorable Chair and Members of the Commission  
SouthWest Transit

We are pleased to respectfully submit the SouthWest Transit (SWT) Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2016 to the SouthWest Transit Commission, the citizens of this area and all interested in its financial condition. SWT is a public agency created by a joint powers agreement between the Cities of Eden Prairie, Chanhassen, and Chaska for the purposes of providing transit services to the Cities of Eden Prairie, Chanhassen, and Chaska and contracting to provide transit and planning services, as approved by the Commission, pursuant to *Minnesota Statutes 473.384* and/or *Minnesota Statutes 473.388* and *471.59*. This report is published to fulfill the requirements of Minnesota state law that all general purpose local governments publish annually a complete set of financial statements in conformance with accounting principles generally accepted in the United States of America (GAAP), audited in accordance with accounting standards generally accepted in the United States of America by a firm of licensed certified public accountants.

This report was prepared by the SWT Finance Department and responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, supporting schedules and statistical tables rests with SWT. Management believes the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of SWT as measured by the financial activity of its various funds and that all disclosures necessary to enable the reader to gain an understanding of SWT's financial position have been included. Management of SWT has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of SWT's financial statements in conformance with GAAP. Because the cost of internal controls should not outweigh their benefit, SWT's framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

SWT's financial statements were audited by BerganKDV, Ltd., a firm of licensed and certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of SWT for the year ended December 31, 2016 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and any significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on their audit, that there was a reasonable basis for rendering an unmodified opinion that SWT's financial statements for the year ended December 31, 2016 are presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. SWT's MD&A can be found in the financial section of this report immediately following the report of the independent auditors.

## **PROFILE OF THE GOVERNMENT**

The SouthWest Transit Commission was formed in July of 1986 by a joint powers agreement between the Cities of Eden Prairie, Chanhassen, and Chaska to provide public transit services and celebrated its 30<sup>th</sup> anniversary in 2016. The Commission consists of seven members. Each of the three Cities appoints two Commissioners; one must be a City Council member or the current Mayor of the respective Cities. The seventh member must reside or maintain a business in one of the three Cities and is appointed by the six Commissioners. This Commissioner is the rider representative. The Treasurer is a member of the Commission and is elected by the Commission.

The Chief Executive Officer (CEO) is appointed by the Commission to administer the day to day activities of SWT, including administration of the transit system, contracts for transportation services, marketing and promotion of such services, administration of personnel matters including hiring and termination of employees.

The primary mission of SWT is committed to providing a quality riding experience that fulfills the needs and exceeds the expectations of our customers.

SWT provides fixed route transit services within the three communities and connects the communities to other metropolitan destinations, including downtown Minneapolis, the University of Minnesota, the Southdale area, as well as providing reverse commute services to businesses within the three communities. SWT services are provided by a fleet of eighty six (86) active vehicles (74 motor coaches and 12 cutaways). Driver services are provided by a private contractor. 2016 was the first full year of operations for SW Prime which is local service between its member communities. The SW Prime service is an on-demand curb to curb shared ride service that allows riders to be picked up and dropped off anywhere in SWT's service area.

The annual operating budget serves as the basis for SWT's financial planning and control. Departments submit their line item detailed budget requests to the Finance Department in August and the Chief Executive Officer presents the proposed budget to the Commission in October. The final budget is adopted before the next year begins, often in December of each year. Actual amounts exceeding the budgeted line items are allowed if there is corresponding revenue increase or if the total expenses for the department are within the department budgeted amount. However, the level at which management cannot overspend the budget without approval of the governing body is the fund level for all budgets. If significant changes occur after the budget is adopted, budget adjustments are proposed by SWT management and adopted by the Commission.

SWT does not have any component units.

## **ECONOMIC CONDITIONS AND OUTLOOK**

### **Operating Funds**

The General Fund accounts for all the operating activities of SWT. SWT's primary funding source is the Motor Vehicle Sales Tax (MVST). In 2006, a constitutional amendment was passed by the state legislature dedicating one hundred percent of all state motor vehicle sales tax revenue to state-wide transportation improvement with forty percent dedicated to public transportation. In 2016, SWT received \$6,525,940 from MVST in accordance with the statutory formula in Minnesota Statutes, Section 473.388.

The Metropolitan Council (MC) may also provide Suburban Transit Providers such as SWT with additional revenues known as Regionally Allocated MVST (RAMVST) above the amount required under Minnesota Statutes, Section 473.388. The RAMVST is distributed in accordance with the Metropolitan Council's transit revenue allocation model which is intended to preserve existing operations levels at SWT and to maintain an existing reserve in SWT's General Fund. SWT received \$1,047,000 under the RAMVST formula in 2016. While SWT continues to pursue a fair share of the RAMVST funding, we are also committed to a proactive approach to operations that relies on effectiveness and sound management decisions.

SWT ridership totaled 1,246,090 in 2016 and generated \$2,745,131 from traditional passenger fares and \$245,553 from Ryder Cup special event passenger fares. Passenger fare rates are established by the Metropolitan Council. In 2016, passenger fare recovery of operating costs (vehicle maintenance and operations) was 29.57%, a recovery rate that exceeded the regional performance target. Subsidy represents the cost per ride less the passenger fares received. The SWT subsidy in 2016 was \$6.11 compared to \$6.32 in 2015.

The Ryder Cup is an international golf event held in the United States every fourth year. In 2016, the Professional Golf Association's (PGA) Ryder Cup tournament was held within the SWT service area at Hazeltine Golf Course in Chaska, Minnesota. Included in the ridership passenger totals (104,561) and revenue (\$245,553) are significant one-time ridership and revenues generated by services provided for the Ryder Cup. The net revenue generated by the Ryder Cup service was \$128,905 and is reported as a Special Item in the General Fund financial statements.

The Minnesota State Fair is an annual twelve day event held in Minnesota each year. SWT provided 100,034 rides to the Minnesota State Fair in 2016, up from 86,000 rides in 2015.

Several major maintenance projects were completed in 2016 and are reported in General Fund expenditures. The maintenance projects totaled approximately \$840,200 and included items such as:

- IT improvements to dispatch area,
- Retro fit of annunciators for 40 buses,
- Scheduled maintenance of vehicle operation and maintenance facilities,
- Major maintenance expenditures to 2003, 2005, and 2006 buses held beyond prior expected lives,
- Improved vehicle safety with the addition of backup cameras for buses, and
- Improvements in SWT overall technology.

As SWT moves forward into 2017 and beyond, commitment to quality, safety, customer service, and to the development of our employees continues to be the primary focus.

## Capital Funds

Historically, capital expenditures for facilities such as park and ride lots, stations, and bus garage facilities as well as bus purchases have been funded by state, local and federal grants, or SWT reserve funds. Capital funds are awarded on the basis of competitive proposals submitted by regional providers. SWT has developed and maintains a long range Capital Improvement Plan (CIP) to plan for future needs and services and to support application for the capital funds.

No major capital projects were completed in 2016.

## Long Term Financial Planning

SWT has implemented various financial/budget policies to guide the Commission and staff when making financial decisions and to ensure the long-term stability of SWT finances and operations. These policies include the following:

- The SWT Commission shall set the General Fund balance to represent 25-35% of the current year operating budget. The fund balance exceeds this range by approximately 5% at December 31, 2016. However, with the 2017 RAMVST allocation from the MC, the fund balance is projected to drop to 25% by the end of 2017.
- A debt service fund balance of \$310,313 as stated on the Balance Sheet is dedicated to retirement of the Refunding Certificates of Participation for the SouthWest Village construction, the Energy Savings lease purchase financing, and the 2015 Certificates of Participation.
- Intergovernmental revenue or local funds will be used to pay the debt service on the current outstanding balance of \$870,000 for the above stated COP.
- The Commission issued \$1,000,000 in energy savings debt in 2013 that will be repaid from future energy savings. A separate debt service fund has been set up to account for the repayment of the remaining debt outstanding which totals \$799,087.
- The lease purchase financing for the Eden Prairie garage is expected to be repaid with local, regional and federal funds. A separate debt service fund was set up to account for the repayment of the remaining debt outstanding which totals \$1,997,953.

SWT has also adopted the following Capital and Debt Policies:

- SWT will first seek state and federal capital funding to the extent it is available. State and federal sources include the Metropolitan Council (MC), Federal Congestion Mitigation Air Quality (CMAQ) grants, and/or other sources as they become available.
- SWT will look towards its Capital and Equipment Fund (C&E) fund balance to fund one-time capital expenditures.
- Should SWT need to issue debt, it shall confine long-term borrowing to capital improvements or assets for which there is no limited or delayed capital funding from the Metropolitan Council or other grant sources and that cannot be funded from current revenues. When debt is issued, it will pay back the debt within a period not more than the useful life of the improvement or asset.
- A minimum reserve in the amount of one year debt retirement will be dedicated to the debt retirement at the time the debt is issued or an amount recommended by the SWT financial advisor.
- Total annual debt retirement payments funded by current revenue will not exceed 10% of the General Fund budget. Debt retirement for issues with a dedicated reserve will not be included in the 10% maximum.

- SWT will maintain a five-year Capital Improvement Plan for all projects over \$50,000 and update the plan with the annual budget process.

## **Major Initiatives**

Major initiatives for SWT operations included:

- Ridership on SWT reached its highest level ever in 2016. New service, special events services to the Ryder Cup and State Fair, a new station, and the agency's marketing efforts are all responsible for the increase.
- SWT continues to increase its business outreach efforts through its founding of the Carver County Transportation Management Association (TMA). The TMA will serve to help SWT greater tailor its services to meet the staffing needs of local businesses within the SWT service area.
- Wi-Fi service is available on all of SWT's buses. SWT is the first transit agency in the state and one of the first in the country to offer Wi-Fi on all buses. In addition, free Wi-Fi is available at all four of SWT's major Park & Ride locations.
- 2016 was the first full year of operations for SW Prime which is a nationally recognized first of its kind on-demand curb to curb service within the SW service area.
- SWT continues to look at new service options including partnerships with private on-demand rideshare services to supplement SW Prime, weekend services, new special event services, expanded reverse commute services, and expansion of service into new areas.
- SWT worked through a Memo of Understanding with the Metropolitan Council which will provide guaranteed service and local control once the Light Rail (LRT) is operating in Eden Prairie.
- SWT has started plans to move the administrative operation from SW Station to its Eden Prairie garage under the terms of the sale of the SW Station for the SouthWest Light Rail project expected to begin later in 2017.
- An additional five new cutaways have been added to the SW Prime service fleet in 2016.
- SWT service was extended to the City of Carver beginning in January 2015 under a grant agreement that continues through 2017.
- SW Perks is a program designed to reward riders for using SWT service, as well as encourage referrals, to increase ridership.

## **Certificate of Achievement**

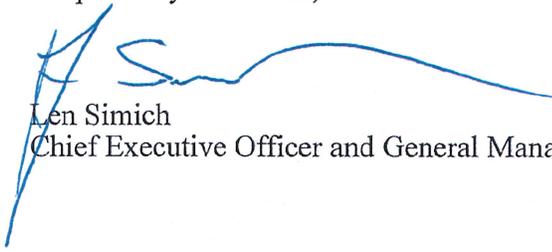
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SWT for its comprehensive annual financial report for the year ended December 31, 2015. This was the tenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Acknowledgements

We would like to express our appreciation to the Commission for their continued support in planning and conducting the financial operations of SWT in a responsible and progressive manner. We also want to thank the Finance Department staff for their contribution in the preparation of this report. The Finance Department staff is responsible for the operational oversight of the financial system, closing adjustments, coordination of the annual audit, and compilation of the statistical information and preparation of the CAFR.

Respectfully submitted,



Len Simich  
Chief Executive Officer and General Manager



Government Finance Officers Association

Certificate of  
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in Financial  
Reporting

Presented to

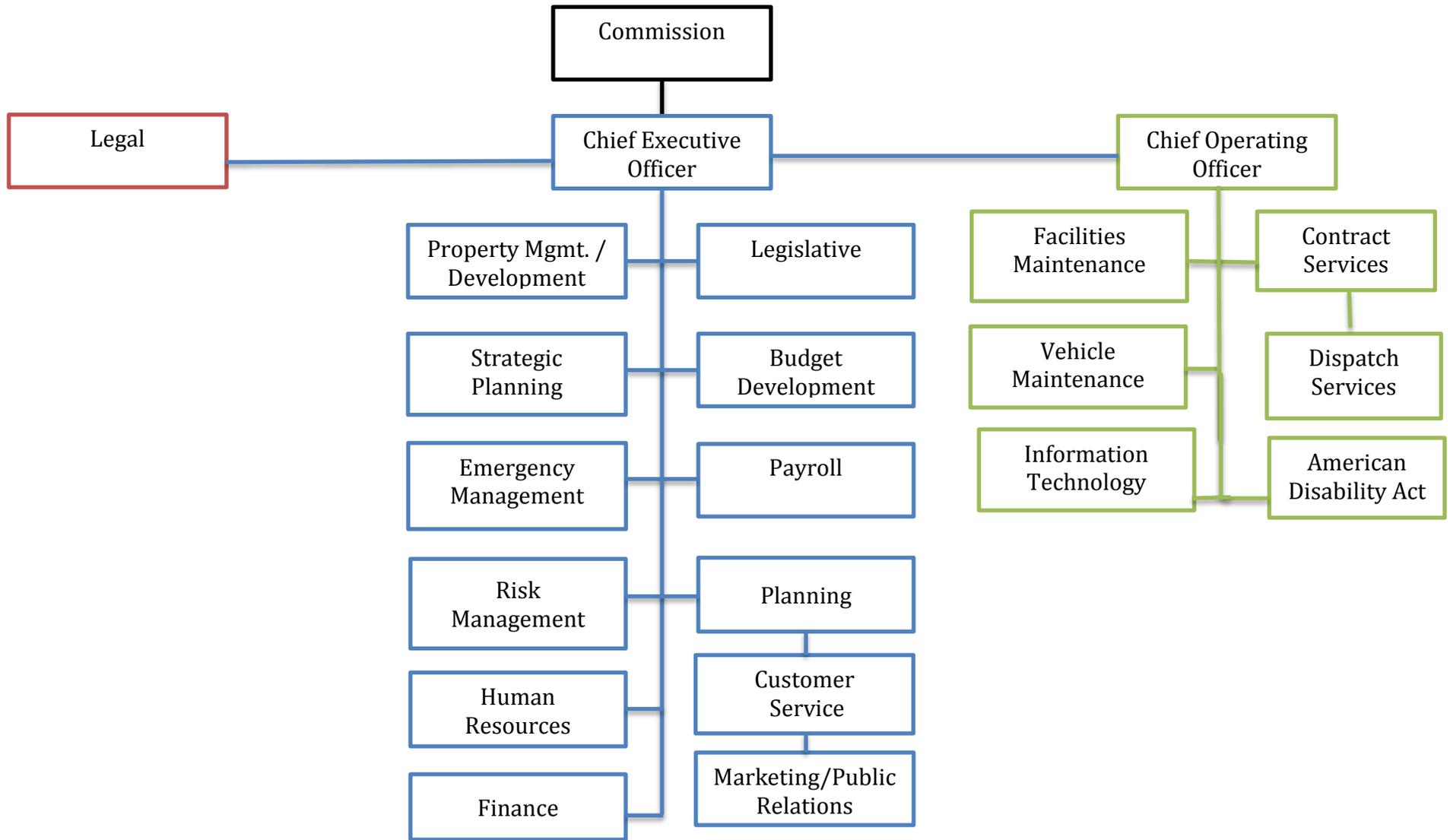
**SouthWest Transit  
Minnesota**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO

# SouthWest Transit Organization Chart



**SouthWest Transit  
Eden Prairie, Minnesota  
Board of Commissioners and Key Personnel  
December 31, 2016**

<u>Board Member</u>	<u>Position on Board</u>	<u>Community Represented</u>	<u>Term Expires</u>
Jay Rohe	Chairperson	Chaska	December 31, 2018
Jerry McDonald	Vice Chairperson	Chanhassen	December 31, 2016
Brad Aho	Treasurer	Eden Prairie	December 31, 2017
Denny Laufenburger	Board Member	Chanhassen	December 31, 2017
Bob Roepke	Board Member	Chaska	December 31, 2016
Nancy Tyra-Lukens	Board Member	Eden Prairie	December 31, 2018
Jody Collis King	Rider Representative	Chanhassen	December 31, 2018
<u>Key Personnel</u>			
Len Simich	Chief Executive Officer		
Dave Jacobson	Chief Operating Officer		
Steve LaFrance	Maintenance and Facilities Director		



## **FINANCIAL SECTION**



## Independent Auditor's Report

Board of Commissioners  
SouthWest Transit  
Eden Prairie, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SouthWest Transit (SWT), Eden Prairie, Minnesota, as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise SWT'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 SWT'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 SWT'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, each major fund, and the aggregate remaining fund information of SouthWest Transit, Eden Prairie, Minnesota, as of December 31, 2016, and the respective changes in financial position 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*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and 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 SouthWest Transit's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules 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 combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



## **Other Matters (Continued)**

### *Other Information (Continued)*

The introductory and statistical sections have 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.

### **Report on Summarized Comparative Information**

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SWT's basic financial statements for the year ended December 31, 2015, from which such partial information was derived.

We have previously audited SWT's 2015 financial statements and our report, dated April 18, 2016, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017 on our consideration of SouthWest Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 SouthWest Transit's internal control over financial reporting and compliance.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
April 18, 2017



**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

As management of SouthWest Transit (SWT), we offer readers of SWT's financial statements this narrative overview and analysis of the financial activities of SWT for the year ended December 31, 2016. All amounts, unless otherwise indicated, are expressed in dollars.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of SWT exceeded its liabilities and deferred inflows of resources at the close of 2016 by \$53,194,178 (net position). Of this amount, \$12,140,778 (unrestricted net position) may be used to meet SWT's ongoing obligations to customers and creditors.
- SWT's total net position decreased by \$1,693,778, or 3.1%, based on 2016 activity.
- As of the close of the current year, SWT's governmental funds reported combined ending fund balances of \$9,737,197, a decrease of \$39,520 in comparison with the prior year. \$4,043,568 of the General Fund is unassigned and available for spending at SWT's discretion.
- At the end of the current fiscal year, the General Fund had a fund balance of \$4,661,886. Of that amount, \$618,318 was in nonspendable form and the remaining \$4,043,568 was unassigned.
- SWT has a fund balance of \$310,313 available for debt retirement. Funds from the General Fund were budgeted and were transferred to cover 2016 debt payments together with other financing sources dedicated for debt retirement.
- In May 2014, SWT approved the sale of a 95,000 square foot garage in Chaska for \$4,750,000. SWT received 10% down and is carrying a contract for deed that totaled \$4,275,000. Monthly payments of \$27,335 including interest at 4.625% started July 2014 and will continue for 20 years. The balance receivable at December 31, 2016 is \$3,930,368 and is reported in the SWS Development Capital Projects fund.
- In 2015, SWT started providing service to the City of Carver under a contract financed by a CMAQ grant. The service agreement will continue through 2017.
- SW Prime service is an on-demand curb to curb shared ride service that allows riders to be picked up and dropped off anywhere in SWT's service area and 2016 was the first full year of operations.
- SWT ridership increased by 10.7% to 1,246,090; operations decreased the overall subsidy per passenger from \$6.32 in 2015 to \$6.11 in 2016.

**Overview of the Financial Statements** – This discussion and analysis is intended to serve as an introduction to SWT's basic financial statements. SWT's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Management's Discussion and Analysis (Unaudited)**  
**December 31, 2016**

**Government-Wide Financial Statements** – The government-wide financial statements are designed to provide readers with a broad overview of SWT's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how SWT's net position changed during the most recent 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 periods (e.g. uncollected motor vehicle excise taxes, and earned but unused personal leave).

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

The government-wide financial statements can be found on pages 28-29 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. SWT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of SWT are governmental funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating SWT's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of SWT's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SWT maintained the following individual governmental funds during 2016: the General Fund, SWS Relocation, SWT Buses, SWS Development, and the Capital and Equipment Capital Projects Funds. In addition, SWT maintains three Debt Service Funds for SW Village Debt, Energy Savings Debt, and Eden Prairie Garage Remodel Debt.

**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

SWT adopts annual budgets for its General Fund, Capital Project Funds, and Debt Service Funds. However, capital projects that are totally grant funded are typically controlled through the grant provisions. A budgetary comparison statement has been provided for the funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 32-39 of this report.

**Notes to Financial Statements** – The notes to financial statements 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 41-64 of this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. In the case of SWT, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$53,194,178 at the close of 2016.

22.82% of SWT's net position is unrestricted. This is the amount available to meet SWT's ongoing obligations to its riders and creditors.

The remaining 77.18% reflects SWT's investment in capital assets (e.g. land, buildings, vehicles, equipment) less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. SWT uses these capital assets to provide transit services to the citizens within our service area. Consequently, these assets are not available for future spending. Although SWT's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources because the capital assets themselves cannot be used to liquidate these liabilities.

GASB Statement No. 68 was implemented for the year ended December 31, 2015, and required a \$1,091,999 (reduction) restatement of beginning net position. GASB Statement No. 68 is related to the accounting treatment of defined benefit pension plans, specifically the Public Employees Retirement Association of Minnesota (PERA). This is a result of a change in an accounting principle and does not affect SWT's obligation requirements as set by Minnesota Statute. While the accounting standard changed, SWT will continue to fund the pension plan based on required contribution rates as set by MN Statute. See Note 9 of the notes to financial statements for additional information.

**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

**Net Position**

	Governmental Activities	
	2016	2015
Current and other assets	\$ 14,610,129	\$ 15,031,261
Capital assets, net of depreciation	44,785,173	46,432,121
Total assets	59,395,302	61,463,382
Deferred outflows of resources		
Deferred outflows of resources related to pension	1,042,744	175,031
Total assets and deferred outflows of resources	\$ 60,438,046	\$ 61,638,413
Current liabilities	\$ 1,468,659	\$ 1,674,801
Long-term liabilities	5,593,845	5,002,378
Total liabilities	7,062,504	6,677,179
Deferred inflows of resources		
Deferred inflows of resources related to pension	181,364	73,278
Total liabilities and deferred inflows of resources	\$ 7,243,868	\$ 6,750,457
Net position		
Net investment in capital assets	\$ 41,053,400	\$ 42,534,479
Unrestricted	12,140,778	12,353,477
Total net position	\$ 53,194,178	\$ 54,887,956

**Governmental Activities** – Governmental activities decreased SWT's net position by \$1,693,778. The components of net position increased or decreased as follows:

- Net position invested in capital assets decreased by \$1,481,079 during the year. Depreciation expense in 2016 totaled \$1,964,232 which was offset in part by capital assets additions. Capital additions included equipment, software, and some facility projects.
- Unrestricted net position decreased by \$212,699 primarily due to the expenditure incurred for potential SWS office relocation and capital equipment additions during the year.

Please see pages 28-29 for further detailed information.

**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

**Changes in Net Position**

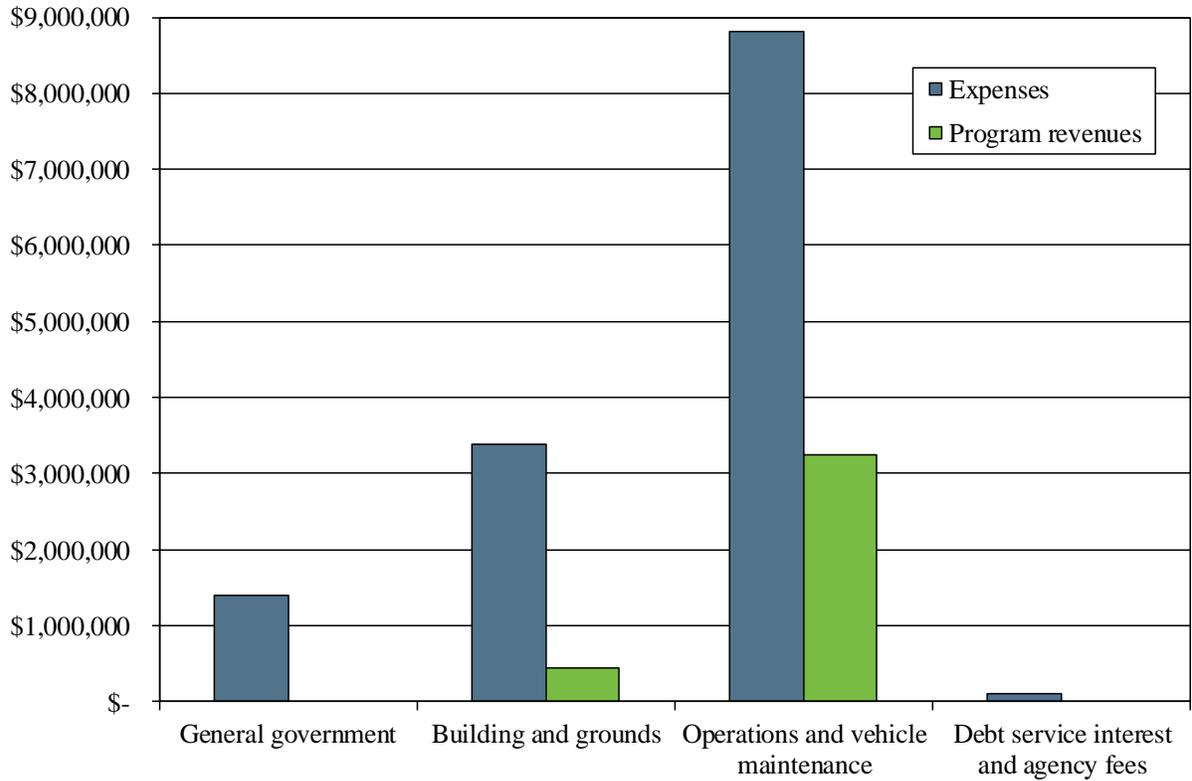
	Governmental Activities	
	2016	2015
Revenues		
Program revenues		
Charges for services	\$ 3,131,412	\$ 2,965,015
Operating grants and contributions	192,189	165,699
Capital grants and contributions	363,910	1,075,156
Total program revenues	3,687,511	4,205,870
General revenues		
Unrestricted intergovernmental revenue	7,572,940	9,157,043
Other local revenue	549,450	412,002
Unrestricted investment earnings	67,929	52,429
Total revenues	11,877,830	13,827,344
 Expenses		
General government	1,389,838	1,142,604
Building and grounds	3,384,282	3,820,148
Operations and vehicle maintenance	8,814,286	8,684,285
Debt service interest and agency fees	112,107	86,967
Total expenses	13,700,513	13,734,004
 Special items - see note 11	128,905	-
 Change in net position	(1,693,778)	93,340
 Net Position		
Beginning, as previously stated	54,887,956	55,886,615
Change in accounting principle	-	(1,091,999)
Beginning, as restated	54,887,956	54,794,616
 Ending	\$ 53,194,178	\$ 54,887,956

Governmental activities changes in net position – highlights of the change in net position are as follows:

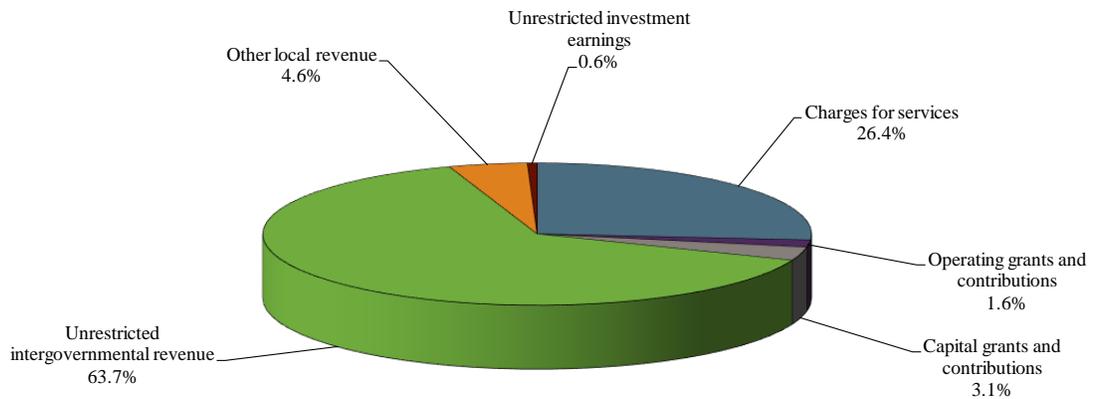
- Capital grants and contributions from federal and state sources finance facilities and equipment purchases. In 2016, state grants totaling \$363,910 financed the renovation of SWT buses and financed a portion of the Eden Prairie garage and SW Village debt.
- Unrestricted intergovernmental revenue includes both MVST and RAMVST. MVST increased by \$59,897 and RAMVST decreased by \$1,644,000 in 2016. The 2016 funding levels for MVST and RAMVST provided through the Metropolitan Council will be reduced in 2017. The reduction in 2017 RAMVST will reduce the fund balance to levels determined by the Metropolitan Council.

**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Sources - Governmental Activities**



**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

## **FINANCIAL ANALYSIS OF SWT FUNDS**

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

**Governmental Funds** – The focus of SWT's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SWT's financing requirements. In particular, unassigned and assigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, SWT's governmental funds reported combined ending fund balances of \$9,737,197, a decrease of \$39,520 in comparison with the prior year. Fund balances are classified to reflect the limitations and restriction of the respective funds. Additional information on fund balance classifications are in Note 6 on pages 54-55 of this report.

The decrease in SWT's fund balance of \$39,520 during the current year is comprised of the following key factors:

- The General Fund expenditures and transfers out exceeded revenues and special item net revenue by \$50,282.
- Expenditures in the Capital and Equipment Capital Projects Fund exceeded revenue by \$69,491.
- The SWS Development Capital Projects Fund includes the payments received totaling \$312,323 on the contract for deed of Chaska garage.
- The SWS Relocation Capital Projects Fund expenditures totaled \$151,192 that was funded by transfer from the SWS Development Fund.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The SWT Commission approved an amended budget in 2016 that reflected the adjustments to the MVST and RAMVST revenues. The operations savings from the fuel cost was used for major maintenance projects for both facilities and equipment.

The Intergovernmental revenue (MVST and RAMVST) were less than the original adopted budget by \$390,060. In addition, the original adopted budget anticipated that expenditures would exceed the revenue by \$733,859, reducing the General fund balance in accordance with MC guidelines. The amended budget reduction in fund balance was estimated to be \$908,424. However, the 2016 actual revenues exceeded the amended budget by \$448,331 and the actual expenditures were \$240,913 less than the amended expenditure budget. As a result, the General Fund balance was reduced by \$50,282 during 2016.

**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – SWT's investment in capital assets as of December 31, 2016 totaled \$44,785,173 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements including parking decks, equipment, and intangible assets. See the following table for more detail.

**Capital Assets (Net of Depreciation)**

	2016	2015
Buildings and facilities	\$ 9,796,642	\$ 10,153,996
Bus equipment	270,369	301,068
Equipment and software	1,037,645	989,404
Furniture	20,701	22,293
Land	2,270,717	2,270,717
Land improvements	655,807	740,760
Park and ride facilities	30,193,399	31,298,494
Transit hub facilities	380,205	454,396
Vehicles	159,688	200,993
 Total	 \$ 44,785,173	 \$ 46,432,121

SWT operates 85 buses owned by the Metropolitan Council. SWT acquired one additional transit bus in 2015 for its local on-demand service.

Additional information on SWT's capital assets can be found in Note 1.D.5 on pages 44-45 of this report and Note 5 on pages 53-54 of this report.

**Long-Term Debt** – SWT debt totals \$3,731,773, a net decrease of \$371,679 during 2016. SWT debt includes four issues including Certificates of Participation, Lease Purchase, and Capital Lease financing, and are briefly described as follows:

- The SouthWest Village Parking Ramp (COP) debt totals \$870,000 with the final payment due October 1, 2025.
- The Energy Savings Lease Purchase debt totals \$799,087 with the final payment due April 2028.
- The Eden Prairie Garage Lease Purchase debt totals \$1,997,953 with the final payment due April 2025.
- The Turtle Top Bus Capital Lease debt totals \$64,733 with final payment due July 2020.

Additional information on SWT's long-term debt can be found in Note 7 on pages 55-57 of this report.

**SouthWest Transit  
Eden Prairie, Minnesota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2016**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

SWT has approved the General Fund operating budget for 2017. The 2017 budget projects the SWT fund balance will decrease to 25% of budgeted operating expenditures as projected in the MC Transit Service Revenue Allocation Model. According to the current revenue allocation model, SWT is projected to receive \$6,610,000 from MVST and \$509,000 from RAMVST. These funding levels are less than the 2016 amounts received. The 2017 Transit Revenue Allocation Model is subject to final review and approval by the MC.

SWT ridership increased by 10.7% in 2016 and the trend is expected to continue in 2017. Ridership increases are expected with both the current express routes and the continued growth of SW Prime. The 2017 budget increased passenger fares to \$2,904,300; up 1.0% over the 2016 amended budget.

SWT General Fund balance policy states the SWT Commission shall set the General Fund balance to represent 25%-35% of the current year operating budget. It is projected the fund balance will decrease as provided in the MC revenue allocation model and is using the fund balance available at the end of 2016 to finance a portion of the operation in 2017.

SWT will utilize the following strategies to balance the 2017 budget:

- Implementing additional operating efficiencies
- Forging new partnerships
- Actively pursuing an equitable share of state and federal funding for transit operation
- Use of reserves as necessary

SWT's goal is to balance the budget by minimizing as much as possible any negative impacts to both our riding customers and staff.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of SWT's finances for all those with an interest in SWT's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, 13500 Technology Drive, Eden Prairie, Minnesota 55344.



## **BASIC FINANCIAL STATEMENTS**

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Statement of Net Position - Governmental Activities**  
**December 31, 2016**  
**(With Comparative Totals for December 31, 2015)**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets		
Cash and investments	\$ 8,801,980	\$ 9,392,514
Cash with fiscal agent	-	205,810
Accounts receivable	32,736	2,692
Interest receivable	13,381	28,050
Intergovernmental receivable	705,382	770,853
Contract for deed receivable - current portion	149,381	142,643
Inventory - vehicle parts	484,463	418,699
Land held for resale	507,964	-
Prepaid items	133,855	139,633
Total current assets	<u>10,829,142</u>	<u>11,100,894</u>
Noncurrent assets		
Contract for deed receivable - noncurrent portion	3,780,987	3,930,367
Capital assets		
Land	2,270,717	2,270,717
Land improvements	1,507,829	1,507,829
Buildings and facilities	15,230,873	15,139,246
Transit hub facilities	1,635,636	1,635,636
Bus equipment	430,553	430,553
Park and ride facilities	38,808,968	38,808,968
Equipment and software	2,062,112	1,836,455
Vehicles	329,842	329,842
Furniture	48,340	48,340
Total cost	<u>62,324,870</u>	<u>62,007,586</u>
Less accumulated depreciation	<u>(17,539,697)</u>	<u>(15,575,465)</u>
Total capital assets	<u>44,785,173</u>	<u>46,432,121</u>
Total noncurrent assets	<u>48,566,160</u>	<u>50,362,488</u>
Total assets	<u>59,395,302</u>	<u>61,463,382</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions	<u>1,042,744</u>	<u>175,031</u>
Total assets and deferred outflows of resources	<u>\$ 60,438,046</u>	<u>\$ 61,638,413</u>
<b>Liabilities</b>		
Current liabilities		
Accounts and contracts payable	\$ 890,937	\$ 962,590
Retainage payable	-	169,049
Salaries and benefits payable	51,627	49,895
Interest payable	24,882	26,822
Long-term liabilities due within one year	501,213	466,445
Total current liabilities	<u>1,468,659</u>	<u>1,674,801</u>
Noncurrent liabilities		
Lease purchase/certificates of participation payable	3,731,773	4,103,452
Compensated absences payable	146,660	121,566
Net pension liability	2,216,625	1,243,805
Less amounts due within one year	<u>(501,213)</u>	<u>(466,445)</u>
Total noncurrent liabilities	<u>5,593,845</u>	<u>5,002,378</u>
Total liabilities	<u>7,062,504</u>	<u>6,677,179</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pensions	<u>181,364</u>	<u>73,278</u>
<b>Net Position</b>		
Net investment in capital assets	41,053,400	42,534,479
Unrestricted	<u>12,140,778</u>	<u>12,353,477</u>
Total net position	<u>53,194,178</u>	<u>54,887,956</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 60,438,046</u>	<u>\$ 61,638,413</u>

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Statement of Activities**  
**Year Ended December 31, 2016**  
**(With Comparative Totals for the Year Ended December 31, 2015)**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2016	2015
					Governmental Activities	Governmental Activities
Governmental activities						
General government	\$ 1,389,838	\$ -	\$ -	\$ -	\$ (1,389,838)	\$ (1,142,604)
Buildings and grounds	3,384,282	206,281	-	243,009	(2,934,992)	(3,421,869)
Operations and vehicle maintenance	8,814,286	2,925,131	192,189	120,901	(5,576,065)	(4,876,694)
Debt service interest and agency fees	112,107	-	-	-	(112,107)	(86,967)
Total governmental activities	<u>\$ 13,700,513</u>	<u>\$ 3,131,412</u>	<u>\$ 192,189</u>	<u>\$ 363,910</u>	(10,013,002)	(9,528,134)
General revenues						
Unrestricted intergovernmental revenue					7,572,940	9,157,043
Other local revenue					549,450	412,002
Unrestricted investment earnings					67,929	52,429
Special item - see Note 11					128,905	-
Total general revenues and special item					<u>8,319,224</u>	<u>9,621,474</u>
Change in net position					(1,693,778)	93,340
Net position - beginning, as previously stated					54,887,956	55,886,615
Change in accounting principle					-	(1,091,999)
Net position - beginning, as restated					<u>54,887,956</u>	<u>54,794,616</u>
Net position - ending					<u>\$ 53,194,178</u>	<u>\$ 54,887,956</u>





**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Balance Sheet - Governmental Funds**  
**December 31, 2016**  
**(With Comparative Totals for December 31, 2015)**

	General	<u>Capital Projects</u>	
	Fund	Capital and	SWS
		Equipment	Development
			Capital
<b>Assets</b>			
Cash and investments	\$ 4,188,202	\$ 1,891,489	\$ 2,340,533
Cash with fiscal agent	-	-	-
Accounts receivable	32,736	-	-
Interest receivable	12,177	571	633
Intergovernmental receivable	705,382	-	-
Contract for deed receivable	-	-	3,930,368
Inventory	484,463	-	-
Land held for resale	-	-	507,964
Prepaid items	133,855	-	-
Total assets	<u>\$ 5,556,815</u>	<u>\$ 1,892,060</u>	<u>\$ 6,779,498</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 843,302	\$ -	\$ -
Retainage payable	-	-	-
Salaries and benefits payable	51,627	-	-
Total liabilities	<u>894,929</u>	<u>-</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - contract for deed	-	-	3,930,368
<b>Fund Balances</b>			
Nonspendable	618,318	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	1,892,060	2,849,130
Unassigned	4,043,568	-	-
Total fund balances	<u>4,661,886</u>	<u>1,892,060</u>	<u>2,849,130</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,556,815</u>	<u>\$ 1,892,060</u>	<u>\$ 6,779,498</u>

Nonmajor Governmental Funds	Total Governmental Funds	
	2016	2015
\$ 381,756	\$ 8,801,980	\$ 9,392,514
-	-	205,810
-	32,736	2,692
-	13,381	28,050
-	705,382	770,853
-	3,930,368	4,073,010
-	484,463	418,699
-	507,964	-
-	133,855	139,633
<u>\$ 381,756</u>	<u>\$ 14,610,129</u>	<u>\$ 15,031,261</u>
\$ 47,635	\$ 890,937	\$ 962,590
-	-	169,049
-	51,627	49,895
<u>47,635</u>	<u>942,564</u>	<u>1,181,534</u>
-	3,930,368	4,073,010
-	618,318	558,332
-	-	205,810
310,313	310,313	207,137
23,808	4,764,998	4,651,602
-	4,043,568	4,153,836
<u>334,121</u>	<u>9,737,197</u>	<u>9,776,717</u>
<u>\$ 381,756</u>	<u>\$ 14,610,129</u>	<u>\$ 15,031,261</u>



**SouthWest Transit  
Eden Prairie, Minnesota  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
December 31, 2016  
(With Comparative Totals for December 31, 2015)**

	<u>2016</u>	<u>2015</u>
Total fund balances - governmental funds	\$ 9,737,197	\$ 9,776,717
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	62,324,870	62,007,586
Less accumulated depreciation	(17,539,697)	(15,575,465)
Long-term liabilities, including leases payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Leases/certificates of participation payable	(3,731,773)	(4,103,452)
Compensated absences payable	(146,660)	(121,566)
Net pension liability	(2,216,625)	(1,243,805)
Deferred outflows or 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	(181,364)	(73,278)
Deferred Outflows of Resources Related to Pensions	1,042,744	175,031
Contract for deed receivable will be collected in the future years, but not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.		
	3,930,368	4,073,010
Governmental funds do not report a liability for accrued interest until due and payable.		
	<u>(24,882)</u>	<u>(26,822)</u>
Total net position - governmental activities	<u>\$ 53,194,178</u>	<u>\$ 54,887,956</u>

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended December 31, 2016**  
**(With Comparative Totals for the Year Ended December 31, 2015)**

	General Fund	Capital Projects	
		Capital and Equipment	SWS Development Capital
<b>Revenues</b>			
Intergovernmental - state	\$ 7,581,586	\$ -	\$ -
Intergovernmental - other	192,189	-	-
Passenger fares	2,745,131	-	-
Charges for services	386,812	-	35,000
Investment income	38,020	12,819	16,949
Other interest income	-	-	169,680
Loan repayment	-	-	142,643
Other local revenue	335,593	-	-
Total revenues	<u>11,279,331</u>	<u>12,819</u>	<u>364,272</u>
<b>Expenditures</b>			
Current			
General government	1,335,762	-	-
Buildings and grounds	1,238,803	-	58,475
Operations and vehicle maintenance	8,062,484	-	-
Debt service			
Principal retirement	15,411	-	-
Interest and agency fees	5,855	-	-
Capital outlay			
Buildings and grounds	282,508	-	44,419
Operations and vehicle maintenance	366,311	82,310	-
Total expenditures	<u>11,307,134</u>	<u>82,310</u>	<u>102,894</u>
Excess of revenues over (under) expenditures	(27,803)	(69,491)	261,378
<b>Other Financing Sources (Uses)</b>			
Issuance of capital lease	-	-	-
Insurance recoveries	39,993	-	-
Transfers in	-	-	-
Transfers out	(191,377)	-	(308,109)
Total other financing sources (uses)	<u>(151,384)</u>	<u>-</u>	<u>(308,109)</u>
<b>Special Item - Note 11</b>			
Net revenue from special services	128,905	-	-
Net change in fund balances	(50,282)	(69,491)	(46,731)
<b>Fund Balances</b>			
Beginning of year	4,712,168	1,961,551	2,895,861
End of year	<u>\$ 4,661,886</u>	<u>\$ 1,892,060</u>	<u>\$ 2,849,130</u>

Nonmajor Governmental Funds	Total Governmental Funds	
	2016	2015
\$ 363,910	\$ 7,945,496	\$ 10,232,199
-	192,189	165,699
-	2,745,131	2,653,727
-	421,812	297,047
141	67,929	52,429
-	169,680	191,288
-	142,643	136,208
-	335,593	234,955
<u>364,051</u>	<u>12,020,473</u>	<u>13,963,552</u>
-	1,335,762	1,111,870
151,192	1,448,470	1,185,920
-	8,062,484	7,769,069
356,268	371,679	261,995
108,192	114,047	73,386
-	326,927	2,833,728
120,901	569,522	1,536,017
<u>736,553</u>	<u>12,228,891</u>	<u>14,771,985</u>
(372,502)	(208,418)	(808,433)
-	-	2,419,401
-	39,993	-
499,486	499,486	228,757
-	(499,486)	(228,757)
<u>499,486</u>	<u>39,993</u>	<u>2,419,401</u>
-	128,905	-
126,984	(39,520)	1,610,968
207,137	9,776,717	8,165,749
<u>\$ 334,121</u>	<u>\$ 9,737,197</u>	<u>\$ 9,776,717</u>

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**Year Ended December 31, 2016**  
**(With Comparative Totals for the Year Ended December 31, 2015)**

	2016	2015
Net change in fund balances - governmental funds	\$ (39,520)	\$ 1,610,968
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures	317,284	2,736,138
Depreciation expense	(1,964,232)	(1,870,168)
Loss on disposal	-	(23,745)
<p>Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.</p>		
	(25,094)	(2,605)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This repayment is reflected as an expenditure in the governmental funds. In the Statement of Net Position, this is reflected as a reduction of debt principal payable.</p>		
Principal repayment	371,679	261,995
New debt issued	-	(2,419,401)
<p>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 governmental funds when it is due, and thus requires the 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.</p>		
	1,940	(13,581)
<p>Governmental Funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in differences between actual and expected contributions and earnings on plan investments as well as changes in proportion.</p>		
Pension expense	(213,193)	(50,053)
<p>Governmental funds recognize repayment of the contract for deed as revenue at the time payment is received whereas the Statement of Activities recognized this revenue when the contract for deed originated.</p>		
	(142,642)	(136,208)
Change in net position - governmental activities	\$ (1,693,778)	\$ 93,340

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual -**  
**General Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental - state	\$ 7,963,000	\$ 7,509,000	\$ 7,581,586	\$ 72,586
Intergovernmental - other	170,115	110,115	192,189	82,074
Passenger fares	2,639,241	2,761,885	2,745,131	(16,754)
Charges for services	125,000	335,000	386,812	51,812
Investment income	10,000	10,000	38,020	28,020
Other local revenue	5,000	105,000	335,593	230,593
Total revenues	<u>10,912,356</u>	<u>10,831,000</u>	<u>11,279,331</u>	<u>448,331</u>
<b>Expenditures</b>				
Current				
General government	1,243,415	1,282,615	1,335,762	53,147
Buildings and grounds	1,112,500	1,265,100	1,238,803	(26,297)
Operations and vehicle maintenance	8,625,923	8,230,194	8,062,484	(167,710)
Debt service				
Principal retirement	-	15,400	15,411	11
Interest and agency fees	-	5,800	5,855	55
Capital outlay				
Buildings and grounds	172,000	278,938	282,508	3,570
Operations and vehicle maintenance	301,000	470,000	366,311	(103,689)
Total expenditures	<u>11,454,838</u>	<u>11,548,047</u>	<u>11,307,134</u>	<u>(240,913)</u>
Excess of revenues over (under) expenditures	(542,482)	(717,047)	(27,803)	689,244
<b>Other Financing Sources (Uses)</b>				
Insurance recoveries	-	-	39,993	39,993
Transfers out	(191,377)	(191,377)	(191,377)	-
Total other financing uses	<u>(191,377)</u>	<u>(191,377)</u>	<u>(151,384)</u>	<u>39,993</u>
<b>Special Item - Note 11</b>				
Net revenue from special services	<u>-</u>	<u>-</u>	<u>128,905</u>	<u>128,905</u>
Net change in fund balances	<u>\$ (733,859)</u>	<u>\$ (908,424)</u>	<u>(50,282)</u>	<u>\$ 858,142</u>
<b>Fund Balances</b>				
Beginning of year			<u>4,712,168</u>	
End of year			<u>\$ 4,661,886</u>	

See notes to financial statements.



**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

SouthWest Transit (SWT) is a replacement transit agency, operated under a joint powers agreement by and for the Cities of Chanhassen, Chaska, and Eden Prairie, Minnesota. These Cities are located in the SouthWestern Twin Cities metropolitan area. SWT was organized in July, 1986 for the purpose of providing public transit services to the participating Cities, which cover 81 square miles and are located in Carver and Hennepin Counties. SWT provides fixed route express, reverse commute, local fixed route, and local on-demand services.

For financial reporting purposes, SWT's financial statements include all funds over which SWT exercises financial accountability. SWT does not have any component units.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of SWT. SWT has only governmental activities, which normally are supported by intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenue and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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. Motor Vehicle Sales Tax (MVST) funds are the major source of revenue and are recognized in the year the taxes are collected by the State of Minnesota. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, SWT considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MVST, farebox revenue, interest, and grant funding associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by SWT.

**Description of Funds:**

Major Governmental Funds:

General Fund – This Fund is the general operating fund of SWT. It is used to account for all financial resources and transit operations except those required to be accounted for in another fund.

Capital and Equipment Capital Projects Fund – This Fund is used to account for financial resources dedicated to the capital and equipment purchases that are locally funded.

SWS Development Capital Projects Fund – This Fund is used to account for the accumulation of resources to be used for capital construction and maintenance on SWT's property, or future development activities.

SWT receives a significant percentage of its revenue from MVST.

In 2001, the Minnesota Legislature amended the statutes providing for transit funding by eliminating property tax as the source of funding for transit systems operations and by dedicating a portion of the MVST to transit funding. These statutes dedicated 20.5% of the MVST to transit operations in the Twin Cities area effective July 1, 2002. Effective July 1, 2003, this increased to 21.5% of MVST. These funds are appropriated to the Metropolitan Council (MC). The formula for distributing the funds to each transit system is contained in the statute.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)**

In 2006, the Minnesota voters passed a constitutional amendment that changed the Constitution so that 100% of the sales tax revenues on motor vehicles are dedicated to state-wide transportation improvement. The amendment called for a phased-in transfer of the revenues over five years, with up to 60% of the dedicated funds going to state highways and local roads and at least 40% to public transit. This revenue is now referred to as regional allocated MVST, often referred to as RAMVST.

The amendment provided that beginning in 2008 63.75% of MVST revenues would be dedicated to transportation, with the remainder going to the General Fund. The transportation percentage would rise 10% each year until reaching 100% in 2012. These percentages are in addition to the allocation of MVST revenues in current law. The distribution of the incremental increase (RAMVST) is controlled through criteria set by the MC.

Capital funding contracts between the federal government, Mn/DOT, the MC, and SWT are designated for specific capital projects. These monies are available until the projects for which the funds were allocated are completed, or until the end of the grant term, whichever occurs first.

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

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance**

**1. Cash and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

SWT's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*Minnesota Statutes* requires that all deposits be protected by federal depository insurance, corporate surety 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.

*Minnesota Statutes* authorizes SWT to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, commercial paper of the highest quality with a maturity of no longer than 270 days, and in the Minnesota Municipal Investment Pool.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance  
(Continued)**

**2. Receivables/Payables**

Receivables include amounts due from the State of Minnesota through the MC for MVST collected but not received, the MC for farebox revenues, and various capital grants and other local receivables. No allowance for doubtful accounts has been deemed necessary.

A contract for deed was executed in May 2014, as part of the financing of the sale of SWT property. The balance is due in monthly installments of \$27,335 together with interest at 4.625% over 20 years and is recorded in the SWS Development Capital Projects Fund.

Amounts included in accounts payable include expenses incurred in 2016 but not paid until 2017 for subcontracted transit services and other operating expenses.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The treatment accorded prepaid expenditures in the governmental funds is the consumption method.

**4. Inventory and Land Held for Resale**

Vehicle parts inventory totaled \$484,463 at December 31, 2016, and is valued at cost using the first in, first out (FIFO) method, and is accounted for using the consumption method.

Land held for resale was acquired by SWT for the purpose of subsequent resale. Land held for resale is reported as an asset at the lower of cost or estimated fair value.

**5. Capital Assets**

Capital assets, which include property, facilities, equipment, and intangible assets, are reported in the government-wide financial statements. Capital assets are defined by SWT as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The capitalization threshold established for assets by category are as listed on the following page.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance  
(Continued)**

**5. Capital Assets (Continued)**

<u>Asset Category</u>	<u>Threshold</u>
Land/land improvements	\$ 10,000
Other improvements	25,000
Buildings and building improvements	25,000
Machinery and equipment	5,000
Vehicles	5,000
Infrastructure	100,000
Construction in progress (when completed)	100,000
Intangible assets	5,000
Other assets	5,000

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Building Improvements	7-40
Infrastructure	15-40
Other Improvements	10-20
Equipment, Machinery and Vehicles	3-15

**6. 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. SWT has one item that qualifies for reporting in this category. SWT presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance  
(Continued)**

**6. Deferred Outflows/Inflows of Resources (Continued)**

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. SWT has two items that qualify for reporting in this category. SWT presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenue from one source: contract for deed receivable. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. SWT presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

**7. Compensated Absences**

SWT compensates its employees for unused personal leave benefits in the event of separation. Compensated absences are recorded as expenditures in governmental funds only when obligations are expected to be liquidated with available expendable financial resources, reflected as a liability in governmental funds for employees that have retired but have yet to receive their entire compensated absence balances. Compensated absences are recorded as expenses in governmental activities when earned.

**8. 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 Statement of Net Position.

In the fund financial statements, governmental funds recognize debt issuance costs in the year the debt is issued. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**9. 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.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance  
(Continued)**

**10. Fund Balance**

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

- Nonspendable Fund Balances – Amounts that are not in a spendable form or are required to be maintained intact. Examples include prepaid items, inventory, land held for resale, and long-term receivables that are not otherwise restricted, committed, assigned, or offset by unearned revenue.
- Restricted Fund Balances – Amounts are subject to externally enforceable legal restrictions. Examples include fund balance related to unspent bond proceeds and debt service fund balances if the fund balance is the result of revenue received from a third party that restricted the use to debt service payments.
- Committed Fund Balances – Amounts that are constrained by SWT Commission resolution for a specific purpose. Fund balance commitment resolutions must be completed before December 31, to be effective for that year and remain in effect until the commitment is changed or eliminated by Commission resolution.
- Assigned Fund Balances – Amounts a government intends to use for a specific purpose; intent can be expressed by the government body or by an official or body to which the governing body delegates the authority. The SWT Commission has approved a fund balance policy that designates SWT's CEO or his/her designee as the official that has authority to assign fund balance.
- Unassigned Fund Balances – Residual amounts that are available for any purpose in the General Fund. Unassigned fund balance will occur only in the General Fund or in other funds when there is a negative fund balance that can't be eliminated by reducing restricted, committed or assigned fund balances.

When both restricted and unrestricted resources are available for use, it is SWT's policy to first use restricted resources, and then use unrestricted resources as they are needed.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance  
(Continued)**

**10. Fund Balance (Continued)**

When committed, assigned, or unassigned resources are available for use, it is SWT's policy to use resources in the following order: 1) Committed, 2) Assigned, and 3) Unassigned.

SWT has adopted a fund balance policy for the General Fund and is summarized as follows:

- SWT will maintain an unassigned General Fund balance between 25-35% of budgeted operating expenditures; however, this need could fluctuate with each year's budget objectives. (For purposes of fund balance, the Metropolitan Council's regional operating reserves policy does not distinguish between the various components of fund balance).
- Annual proposed budgets shall include this benchmark policy. The Commission shall review the amounts in fund balance in conjunction with the annual budget approval, and make adjustments as necessary to meet expected cash-flow needs.
- In the event the unassigned General Fund balance will be calculated to be less than the minimum requirement at the completion of any fiscal year, SWT shall plan to adjust budget resources in the subsequent fiscal years to bring the fund balance into compliance with this policy and define the conditions that required a lower fund balance in their Comprehensive Annual Financial Report.

The unassigned General Fund balance at December 31, 2016 is approximately 37% of the 2016 budgeted operating expenditures. (For purposes of this computation of the General Fund balance, operating expenditures do not include the capital costs).

SWT's target General Fund balance is a minimum of 25% to 35% of the annual operating budget.

**11. Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 if there are limitations on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance  
(Continued)**

**12. Comparative Data/Reclassifications**

Comparative total data for the prior year has been presented by fund types and in total in the fund financial statements and in the government-wide statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with this year's presentation.

**13. Other Post-Employment Benefits (OPEB) Liabilities**

The Commission continues to evaluate OPEB in accordance with GASB Statement No. 45. The annual required contribution (ARC) liability calculated was determined to be immaterial; therefore, no liability for OPEB has been recorded in the financial statements.

**E. Use of Estimates**

The preparation of the 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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**F. Budgetary Information**

SWT annually prepares, and the SWT Commission adopts, an operating budget for the funds listed below. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America. *Minnesota Statutes* defines the source, method, and allocation of a major portion of its funding. The level at which management cannot overspend the budget without the approval of the SWT Commission is at the fund level for all funds. All budget amendments are reviewed and approved by the SWT Commission. Budgeted amounts in the financial statements are as amended.

Capital projects budgets are prepared for existing and potential capital assets for a five year period through the Capital Improvement Program (CIP). Funding sources along with the timing of funding agreements (appropriations), revenue recognition and project expenditures are budgeted for each project.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgetary Information (Continued)**

In 2016, the SWT Commission adopted annual budgets for the following funds:

- General Fund
- Capital and Equipment Capital Projects Fund
- SWS Development Capital Projects Fund
- SouthWest Village Debt Service Fund
- Eden Prairie Garage Remodel Debt Service Fund
- Energy Savings Debt Service Fund
- SWS Relocation Capital Projects Fund

The original 2016 budget was adopted by the SWT Commission on December 8, 2015. A final budget amendment was completed on December 8, 2016.

The Commission was updated throughout the year on the General Fund activity. Expenditures were contained below the amended budget primarily due to the internal budget monitoring procedures that have been established.

The net decrease to the General Fund balance in 2016 was \$27,803, before insurance recoveries, a transfer out in the amount of \$191,377 for debt service as noted in Note 3 on page 52 of this report, and a special item related to net revenue from Ryder Cup service as noted in Note 11 on page 63.

Appropriation control is managed for all SWT annual adopted budgets.

The Capital and Equipment, SWS Development, and SWS Relocation Capital Projects Funds are local financing sources managed through the budgetary controls of the SWT Commission.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash balances of SWT's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as cash and investments. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows.

**Custodial Credit Risk – Deposits:** For deposits, this is the risk that in the event of bank failure, SWT's deposits may not be returned to them. SWT retains federal securities as collateral for all bank deposits. As of December 31, 2016, SWT's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with pledged federal securities held by the pledging financial institution's trust department or agent and in SWT's name.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Checking	\$ (428,413)
Savings	2,603,890
Certificates of deposit	<u>6,626,103</u>
 Total deposits	 <u><u>\$ 8,801,580</u></u>

SWT has an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk and custodial credit risk as follows:

**Interest Rate Risk:** Managing exposure to fair value arising from changes in interest rates. SWT's investment policy does include specific limits on investment maturities as a means of managing its exposure to fair value arising from changes in interest rates. Investments will primarily be in shorter-term investments. The investment policy also states the portfolio must be structured so that securities mature concurrent with cash needs to meet anticipated demands.

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SWT's investment policy addresses credit risk by limiting investments to the safest type of securities and using prequalifying brokers/financial institutions. SWT's investment policy refers to *Minnesota Statutes 118A*. State statutes limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations.

**Concentration of Credit Risk:** Limits the amount SWT may invest in any one issuer. SWT's investment policy does place a limit on the amount SWT may invest in any one issuer. With the exception of U.S. Treasury Securities and authorized pools, no more than 20% of SWT's total investment portfolio will be invested with a single financial institution unless SWT deposits in that institution are backed by U.S. guaranteed investments.

**Custodial Credit Risk – Investments:** For an investment, this is the risk that in the event of the failure of the counterparty, SWT will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The following is a summary of total deposits and investments:

Deposits	\$ 8,801,580
Petty cash	<u>400</u>
 Total deposits and investments	 <u><u>\$ 8,801,980</u></u>

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Deposits and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u>\$ 8,801,980</u>

**NOTE 3 – INTERFUND TRANSFERS**

The composition of interfund transfers as of December 31, 2016, follows:

	<u>Transfer In</u> Nonmajor Governmental Funds
Transfer out	
General Fund	\$ 191,377
SWS Development - Capital Projects Fund	<u>308,109</u>
Total transfers	<u>\$ 499,486</u>

\$315,920 of the transfers was approved by the Commission to provide financing for debt service expenditures in 2016. \$175,000 of the transfers was to cover costs related to the SWS relocation. The remaining \$8,566 moved the remaining balance in the garage project to the related debt service fund to be used for future debt service payments.

**NOTE 4 – CONTRACT FOR DEED RECEIVABLE**

SWT sold land together with the approximate 95,000 square foot building and all fixtures or equipment used in connection with the operation of the building in May 2014, for \$4,750,000. SWT received \$475,000 as a down payment and will receive the remaining balance over a 20 year period. The monthly payment of \$27,335 began July 1, 2014, and includes interest computed at 4.625% per annum. On the twentieth anniversary of the contract the entire unpaid balance of principal and accrued interest, if any, are due and payable in full. The amount outstanding at December 31, 2016, was \$3,930,368. The amount due in 2017 totals \$149,381.

The purchaser has the right to fully or partially prepay the contract without penalty at any time.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,270,717	\$ -	\$ -	\$ 2,270,717
Capital assets being depreciated				
Land improvements	1,507,829	-	-	1,507,829
Buildings and facilities	15,139,246	91,626	-	15,230,872
Transit hub facilities	1,635,636	-	-	1,635,636
Bus equipment	430,553	-	-	430,553
Park and ride facilities	38,808,968	-	-	38,808,968
Equipment and software	1,836,455	225,658	-	2,062,113
Vehicles	329,842	-	-	329,842
Furniture	48,340	-	-	48,340
Total capital assets being depreciated	<u>59,736,869</u>	<u>317,284</u>	<u>-</u>	<u>60,054,153</u>
Total capital assets, cost	62,007,586	317,284	-	62,324,870
Less accumulated depreciation for				
Land improvements	767,069	84,953	-	852,022
Buildings and facilities	4,985,250	448,980	-	5,434,230
Transit hub facilities	1,181,240	74,191	-	1,255,431
Bus equipment	129,485	30,699	-	160,184
Park and ride facilities	7,510,474	1,105,095	-	8,615,569
Equipment and software	847,051	177,417	-	1,024,468
Vehicles	128,849	41,305	-	170,154
Furniture	26,047	1,592	-	27,639
Total accumulated depreciation	<u>15,575,465</u>	<u>1,964,232</u>	<u>-</u>	<u>17,539,697</u>
Total capital assets being depreciated, net	<u>44,161,404</u>	<u>(1,646,948)</u>	<u>-</u>	<u>42,514,456</u>
Governmental activities capital assets, net	<u>\$ 46,432,121</u>	<u>\$ (1,646,948)</u>	<u>\$ -</u>	<u>\$ 44,785,173</u>

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of SWT as follows:

Governmental activities	
Buildings and grounds	\$ 1,763,743
Operations and vehicle maintenance	186,937
General government	<u>13,552</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 1,964,232</u></u>

Capital Asset Activity by program/function for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, cost				
Buildings and grounds	\$ 59,868,993	\$ 173,661	\$ -	\$ 60,042,654
Operations and vehicle maintenance	1,975,929	143,623	-	2,119,552
General government	162,664	-	-	162,664
Total capital assets, cost	<u>62,007,586</u>	<u>317,284</u>	<u>-</u>	<u>62,324,870</u>
Less accumulated depreciation for				
Buildings and grounds	14,806,788	1,763,743	-	16,570,531
Operations and vehicle maintenance	701,014	186,937	-	887,951
General government	67,663	13,552	-	81,215
Total accumulated depreciation	<u>15,575,465</u>	<u>1,964,232</u>	<u>-</u>	<u>17,539,697</u>
 Governmental activities, capital assets, net	 <u><u>\$ 46,432,121</u></u>	 <u><u>\$ (1,646,948)</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 44,785,173</u></u>

SWT's 85 transit service buses, as well as 16 retired buses being held for contingency, are owned by the MC and thus are not reflected in SWT's assets. SWT owns one cutaway that was purchased in 2015 to meet its SW Prime service demand.

**NOTE 6 – FUND BALANCE/NET POSITION**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 6 – FUND BALANCE/NET POSITION (CONTINUED)**

**A. Fund Balance**

Fund equity balances are classified below to reflect the limitations and restrictions of the respective funds.

	General Fund	Capital and Equipment	SWS Development Capital	Nonmajor Funds	Total
Nonspendable					
Inventory	\$ 484,463	\$ -	\$ -	\$ -	\$ 484,463
Prepaid items	133,855	-	-	-	133,855
Total nonspendable	<u>618,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>618,318</u>
Committed for					
Debt service	-	-	-	310,313	310,313
Assigned to					
Capital and equipment purchases	-	1,892,060	-	-	1,892,060
Development capital expenditures	-	-	2,849,130	-	2,849,130
Sws relocation	-	-	-	23,808	23,808
Total assigned	<u>-</u>	<u>1,892,060</u>	<u>2,849,130</u>	<u>23,808</u>	<u>4,764,998</u>
Unassigned	<u>4,043,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,043,568</u>
Total fund balance	<u>\$ 4,661,886</u>	<u>\$ 1,892,060</u>	<u>\$ 2,849,130</u>	<u>\$ 334,121</u>	<u>\$ 9,737,197</u>

**NOTE 7 – LONG-TERM DEBT**

**A. Certificates of Participation and Lease/Purchase Debt**

In 2013, SWT refinanced the outstanding capital lease balance of \$1,819,847 related to the construction of the SouthWest Village parking ramp and passenger waiting station with \$1,120,000 Refunding Certificates of Participation (COP), Series 2013, together with \$826,824 from the SWS Development Capital Projects Fund. The annual principal payments increase from \$80,000 in 2016 to \$110,000 in 2025 together with interest from 1.15% to 4.00%.

In 2013, SWT approved lease purchase financing totaling \$1,000,000 to provide financing for an energy savings performance project. The annual principal payments increase from \$59,212 in 2016 to \$77,997 in 2028 together with interest at 2.55%.

In 2015, SWT approved lease purchase financing totaling \$2,332,000 to provide financing for an expansion on the Eden Prairie garage. The annual principal payments increase from \$217,056 in 2016 to \$256,149 in 2025 together with interest at 2.59%.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

**A. Certificates of Participation and Lease/Purchase Debt (Continued)**

In 2015, SWT approved a capital lease totaling \$87,401 to provide financing for the purchase of a turtle top bus. The annual principal payments increase from \$15,411 in 2016 to \$19,576 in 2020.

Certificates of Participation and Lease/Purchase debt currently outstanding is as follows:

Purpose	Date Issued	Final Maturity	Interest Rate	Amount Outstanding
SouthWest Village Parking Ramp (COP)	12/1/2013	10/1/2025	1.15 - 4.00%	\$ 870,000
Energy Savings Lease Purchase	4/11/2013	4/11/2028	2.55%	799,087
Eden Prairie Garage Lease Purchase	7/1/2015	4/1/2025	2.59%	1,997,953
Turtle Top Bus Capital Lease	7/1/2015	7/1/2020	8.00%	64,733
Total				<u>\$ 3,731,773</u>

The future minimum lease obligations and net present value of these minimum lease payments as of December 31, 2016, were as shown below.

Year Ended December 31,	COP	Lease/Purchase		Capital Lease	Total Governmental Activities
	SouthWest Village	Energy Savings	Eden Prairie Garage Expansion	Turtle Top Bus	
2017	\$ 114,500	\$ 80,477	\$ 264,517	\$ 21,266	\$ 480,760
2018	117,462	80,478	264,517	21,266	483,723
2019	115,213	80,477	264,517	21,266	481,473
2020	112,456	80,477	264,518	10,634	468,085
2021	114,531	80,478	264,517	-	459,526
2022-2026	458,600	402,388	915,152	-	1,776,140
2027-2028	-	120,716	-	-	120,716
Total minimum lease payments	1,032,762	925,491	2,237,738	74,432	4,270,423
Less interest	<u>(162,762)</u>	<u>(126,404)</u>	<u>(239,785)</u>	<u>(9,699)</u>	<u>(538,650)</u>
Present value of minimum lease payments	<u>\$ 870,000</u>	<u>\$ 799,087</u>	<u>\$ 1,997,953</u>	<u>\$ 64,733</u>	<u>\$ 3,731,773</u>

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

**B. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of participation and lease/purchase debt					
Southwest village parking ramp	\$ 950,000	\$ -	\$ 80,000	\$ 870,000	\$ 85,000
Energy savings lease purchase	858,299	-	59,212	799,087	60,714
Eden prairie garage lease purchase	2,215,009	-	217,056	1,997,953	214,147
Turtle top bus capital lease	80,144	-	15,411	64,733	16,691
Total certificates of participation and lease/purchase debt	4,103,452	-	371,679	3,731,773	376,552
Compensated absences	121,566	144,626	119,532	146,660	124,661
Governmental activities long-term liabilities	<u>\$ 4,225,018</u>	<u>\$ 144,626</u>	<u>\$ 491,211</u>	<u>\$ 3,878,433</u>	<u>\$ 501,213</u>

The General Fund typically liquidates the liability related to compensated absences. The Debt Service Funds typically liquidate the liability related to the long-term debt.

**NOTE 8 – RISK MANAGEMENT**

SWT is exposed to various risk of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. In order to protect against these risks of loss, SWT purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool currently operating as a common risk management and insurance program. SWT pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. SWT is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

SWT's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers' compensation rates, and salaries for the year are known. The final premium adjustment is in the year the adjustment is made.

During the year ended December 31, 2016, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded SWT's coverage in any of the past three years.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 9 – PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

SWT participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 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 (account for in the General Employees Fund))

All full-time and certain part-time employees of SWT 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.

**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 ten 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.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**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 6.50%, respectively, of their annual covered salary in calendar year 2016. SWT was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. SWT's contributions to the General Employees Fund for the year ended December 31, 2016, were \$143,756. SWT's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2016, SWT reported a liability of \$2,216,625 for its proportionate share of the General Employees Fund's net pension liability. SWT's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 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 SWT totaled \$28,995. 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. SWT's proportion of the net pension liability was based on SWT'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, SWT's proportionate share was 0.0273%, which was an increase of 0.0033% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, SWT recognized pension expense of \$365,596 for its proportionate share of General Employees Plan's pension expense. In addition, SWT recognized an additional \$8,646 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

At December 31, 2016, SWT reported its proportionate share of the 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 174,319
Changes in actuarial assumptions	434,017	-
Difference between projected and actual investment earnings	408,581	-
Changes in proportion	128,268	7,045
Contributions paid to PERA subsequent to the measurement date	<u>71,878</u>	<u>-</u>
	<u><u>\$ 1,042,744</u></u>	<u><u>\$ 181,364</u></u>

\$71,878 reported as deferred outflows of resources related to pensions resulting from SWT contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 228,337
2018	228,336
2019	252,762
2020	<u>80,067</u>
Total	<u><u>\$ 789,502</u></u>

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**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:

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.

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.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
	<hr/>	
Total	<u><u>100%</u></u>	

**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 the 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.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following table presents SWT'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 SWT'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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
SWT's proportionate share of the General Employees Fund net pension liability	\$ 3,148,264	\$ 2,216,625	\$ 1,449,207

**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](http://www.mnpera.org).

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

SWT participates in the Replacement Service Program and Capital Funding Agreement administered by the MC. To the extent that program expenditures may be disallowed as a result of a program compliance audit, a liability to the MC would result.

SWT entered into a transit service contract with a service provider for purposes of delivering bus services in connection with its express and local route service. Payments to the transit provider are contingent upon the actual level of services rendered, using rates established in the contract's agreement. The current contract is with First Transit, Inc. and will expire December 31, 2019. The average annual cost of the contract is \$4,000,000.

**NOTE 11 – SPECIAL ITEM**

The Professional Golf Association's (PGA) Ryder Cup tournament was held in Chaska, Minnesota, during September and October 2016. SWT's management and Commission opted to provide transportation services to attendees of the tournament. As a result, SWT had significant one-time revenue and expenditure activity. SWT received revenue totaling \$277,553 related to passenger fares, as well as charges for services from the PGA and the City of Chaska, while they incurred expenditures totaling \$148,648 to provide the service. As a result, SWT reported net revenue related to providing this service of \$128,905 in the fund financial statements and governmental activities.

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Financial Statements  
December 31, 2016**

**NOTE 12 – NEW 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. A review of your actuarial study should 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. This statement is effective for financial statements for fiscal years beginning after June 15, 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SouthWest Transit  
Eden Prairie, Minnesota  
Schedule of SWT's Proportionate Share  
of Net Pension Liability - General Employees Retirement Fund  
Last Ten Years\***

Fiscal Year Ending June 30,	SWT's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	SWT's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with SWT	SWT's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with SWT	SWT's Covered- Employee Payroll	SWT'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
2016	0.0273%	\$ 2,216,625	\$ 28,995	\$ 2,245,620	\$ 1,695,107	132.48%	68.91%
2015	0.0240%	1,243,805	-	1,243,805	1,384,373	89.85%	78.19%

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

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

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	SWT's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 143,756	\$ 143,756	\$ -	\$ 1,916,747	7.50%
2015	114,573	114,573	-	1,527,640	7.50%

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

**SouthWest Transit  
Eden Prairie, Minnesota  
Notes to Required Supplementary Information  
December 31, 2016**

**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.



**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**SouthWest Transit  
Eden Prairie, Minnesota  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2016  
(With Comparative Totals for December 31, 2015)**

	SW Village Debt Service	Energy Savings Debt Service	Debt Service Eden Prairie Garage Remodel Debt Service	Total	
				2016	2015
<b>Assets</b>					
Cash and investments	\$ 228,120	\$ 59,158	\$ 23,035	\$ 310,313	\$ 207,137
Intergovernmental receivable	-	-	-	-	-
Total assets	<u>\$ 228,120</u>	<u>\$ 59,158</u>	<u>\$ 23,035</u>	<u>\$ 310,313</u>	<u>\$ 207,137</u>
<b>Liabilities</b>					
Accounts and contracts payable	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fund Balances</b>					
Committed	228,120	59,158	23,035	310,313	207,137
Assigned	-	-	-	-	-
Total fund balances	<u>228,120</u>	<u>59,158</u>	<u>23,035</u>	<u>310,313</u>	<u>207,137</u>
Total liabilities and fund balances	<u>\$ 228,120</u>	<u>\$ 59,158</u>	<u>\$ 23,035</u>	<u>\$ 310,313</u>	<u>\$ 207,137</u>

Capital Projects			Total Nonmajor Governmental Funds	
SWS Relocation	Total		2016	2015
	2016	2015		
\$ 71,443	\$ 71,443	\$ -	\$ 381,756	\$ 207,137
-	-	30,225	-	30,225
<u>\$ 71,443</u>	<u>\$ 71,443</u>	<u>\$ 30,225</u>	<u>\$ 381,756</u>	<u>\$ 237,362</u>
<u>\$ 47,635</u>	<u>\$ 47,635</u>	<u>\$ 30,225</u>	<u>\$ 47,635</u>	<u>\$ 30,225</u>
-	-	-	310,313	207,137
23,808	23,808	-	23,808	-
<u>23,808</u>	<u>23,808</u>	<u>-</u>	<u>334,121</u>	<u>207,137</u>
<u>\$ 71,443</u>	<u>\$ 71,443</u>	<u>\$ 30,225</u>	<u>\$ 381,756</u>	<u>\$ 237,362</u>

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2016**  
**(With Comparative Totals for the Year Ended December 31, 2015)**

			Debt Service			
	SW Village	Energy	Eden Prairie	Total		
	Debt Service	Savings Debt Service	Garage Remodel Debt Service	2016	2015	
<b>Revenues</b>						
Intergovernmental - state	\$ 80,000	\$ -	\$ 163,009	\$ 243,009	\$ 206,991	
Investment income	141	-	-	141	209	
Other local revenue	-	-	-	-	36,114	
Total revenues	80,141	-	163,009	243,150	243,314	
<b>Expenditures</b>						
Current						
Buildings and grounds	-	-	-	-	-	
Debt service						
Principal retirement	80,000	59,212	217,056	356,268	254,738	
Interest and agency fees	30,900	21,265	56,027	108,192	70,010	
Capital outlay						
Operations and vehicle maintenance	-	-	-	-	-	
Total expenditures	110,900	80,477	273,083	464,460	324,748	
Excess of revenues under expenditures	(30,759)	(80,477)	(110,074)	(221,310)	(81,434)	
<b>Other Financing Sources</b>						
Transfers in	110,900	80,477	133,109	324,486	228,757	
Transfers out	-	-	-	-	-	
Total other financing sources (uses)	110,900	80,477	133,109	324,486	228,757	
Net change in fund balances	80,141	-	23,035	103,176	147,323	
<b>Fund Balances</b>						
Beginning of year	147,979	59,158	-	207,137	59,814	
End of year	\$ 228,120	\$ 59,158	\$ 23,035	\$ 310,313	\$ 207,137	

Capital Projects				Total Nonmajor Governmental Funds	
SWS Relocation	SWT Buses	Total		2016	2015
		2016	2015		
\$ -	\$ 120,901	\$ 120,901	\$ 868,165	\$ 363,910	\$ 1,075,156
-	-	-	-	141	209
-	-	-	-	-	36,114
-	120,901	120,901	868,165	364,051	1,111,479
151,192	-	151,192	-	151,192	-
-	-	-	-	356,268	254,738
-	-	-	-	108,192	70,010
-	120,901	120,901	868,165	120,901	868,165
151,192	120,901	272,093	868,165	736,553	1,192,913
(151,192)	-	(151,192)	-	(372,502)	(81,434)
175,000	-	175,000	-	499,486	228,757
-	-	-	(21,000)	-	(21,000)
175,000	-	175,000	(21,000)	499,486	207,757
23,808	-	23,808	(21,000)	126,984	126,323
-	-	-	21,000	207,137	80,814
\$ 23,808	\$ -	\$ 23,808	\$ -	\$ 334,121	\$ 207,137

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual -**  
**Capital and Equipment Capital Projects Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget - Over (under)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment income	<u>\$ 12,000</u>	<u>\$ 12,000</u>	<u>\$ 12,819</u>	<u>\$ 819</u>
<b>Expenditures</b>				
Capital outlay				
Operations and vehicle maintenance	<u>90,000</u>	<u>90,000</u>	<u>82,310</u>	<u>7,690</u>
Excess of revenues over (under) expenditures	<u><u>\$ (78,000)</u></u>	<u><u>\$ (78,000)</u></u>	(69,491)	<u><u>\$ 8,509</u></u>
<b>Fund Balances</b>				
Beginning of year			<u>1,961,551</u>	
End of year			<u><u>\$ 1,892,060</u></u>	

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual -**  
**SWS Development Capital Projects Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for services	\$ -	\$ -	\$ 35,000	\$ 35,000
Investment income	15,000	15,000	16,949	1,949
Other interest income	191,288	191,288	169,680	(21,608)
Loan repayment	136,733	136,733	142,643	5,910
Total revenues	<u>343,021</u>	<u>343,021</u>	<u>364,272</u>	<u>21,251</u>
<b>Expenditures</b>				
Current				
Buildings and grounds	85,000	85,000	58,475	(26,525)
Capital outlay				
Buildings and grounds	-	500,000	44,419	(455,581)
Total expenditures	<u>85,000</u>	<u>585,000</u>	<u>102,894</u>	<u>(482,106)</u>
Excess of revenues over (under) expenditures	258,021	(241,979)	261,378	503,357
<b>Other Financing Uses</b>				
Transfers out	<u>(124,543)</u>	<u>(308,108)</u>	<u>(308,109)</u>	<u>(1)</u>
Net change in fund balances	<u>\$ 133,478</u>	<u>\$ (550,087)</u>	(46,731)	<u>\$ 503,356</u>
<b>Fund Balances</b>				
Beginning of year			<u>2,895,861</u>	
End of year			<u>\$2,849,130</u>	

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual -**  
**SouthWest Village Debt Service Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental - state	\$ -	\$ -	\$ 80,000	\$ 80,000
Investment income	-	-	141	141
Total revenues	<u>-</u>	<u>-</u>	<u>80,141</u>	<u>80,141</u>
<b>Expenditures</b>				
Debt service				
Principal retirement	80,000	80,000	80,000	-
Interest and agency fees	30,900	30,900	30,900	-
Total expenditures	<u>110,900</u>	<u>110,900</u>	<u>110,900</u>	<u>-</u>
Excess of revenues over (under) expenditures	(110,900)	(110,900)	(30,759)	80,141
<b>Other Financing Sources</b>				
Transfers in	<u>110,900</u>	<u>110,900</u>	<u>110,900</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	80,141	<u>\$ 80,141</u>
<b>Fund Balances</b>				
Beginning of year			<u>147,979</u>	
End of year			<u>\$ 228,120</u>	

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual -**  
**Energy Savings Debt Service Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
Debt service				
Principal retirement	\$ 59,212	\$ 59,212	\$ 59,212	\$ -
Interest and agency fees	<u>21,265</u>	<u>21,265</u>	<u>21,265</u>	<u>-</u>
Total expenditures	<u>80,477</u>	<u>80,477</u>	<u>80,477</u>	<u>-</u>
<b>Other Financing Sources</b>				
Transfers in	<u>80,477</u>	<u>80,477</u>	<u>80,477</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
<b>Fund Balances</b>				
Beginning of year			<u>59,158</u>	
End of year			<u>\$ 59,158</u>	

**SouthWest Transit  
Eden Prairie, Minnesota  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balances - Budget and Actual -  
Eden Prairie Garage Remodel Debt Service Fund  
Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental - state	<u>\$ 140,000</u>	<u>\$ 103,574</u>	<u>\$ 163,009</u>	<u>\$ 59,435</u>
<b>Expenditures</b>				
Debt service				
Principal retirement	208,516	208,516	217,056	8,540
Interest and agency fees	<u>56,027</u>	<u>56,027</u>	<u>56,027</u>	<u>-</u>
Total expenditures	<u>264,543</u>	<u>264,543</u>	<u>273,083</u>	<u>8,540</u>
Excess of revenues over (under) expenditures	(124,543)	(160,969)	(110,074)	50,895
<b>Other Financing Sources</b>				
Transfers in	<u>124,543</u>	<u>133,109</u>	<u>133,109</u>	<u>-</u>
Net change in fund balances	<u><u>\$ -</u></u>	<u><u>\$ (27,860)</u></u>	23,035	<u><u>\$ 50,895</u></u>
<b>Fund Balances</b>				
Beginning of year			<u>-</u>	
End of year			<u><u>\$ 23,035</u></u>	

**SouthWest Transit**  
**Eden Prairie, Minnesota**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual -**  
**SWS Relocation Capital Projects Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Over (Under)</u>
<b>Expenditures</b>				
Current				
Buildings and grounds	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 151,192</u>	<u>\$ (23,808)</u>
<b>Other Financing Sources</b>				
Transfers in	<u>-</u>	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Net change in fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>23,808</u>	<u><u>\$ 23,808</u></u>
<b>Fund Balances</b>				
Beginning of year			<u>-</u>	
End of year			<u><u>\$ 23,808</u></u>	

**SouthWest Transit  
Eden Prairie, Minnesota  
Schedule of Capital Projects -  
Budget and Actual  
(Unaudited)  
Year Ended December 31, 2016**

<u>Project</u>	<u>Status</u>	<u>Budget/Grant Award</u>	<u>Expenditures</u>		<u>Amount Remaining</u>
			<u>2016</u>	<u>Cumulative</u>	
SWT EPG Remodel Lease Financing	Complete	\$ 280,000	\$ 163,009	\$ 280,000	\$ -
SWT Midlife Bus Rehabilitations	Incomplete	213,340	120,901	151,126	62,214
Carver County TMA Grant	Incomplete	200,000	-	-	200,000
SWT SW Village Debt Principal only	Complete	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Total		<u>\$ 773,340</u>	<u>\$ 363,910</u>	<u>\$ 511,126</u>	<u>\$ 262,214</u>

**STATISTICAL SECTION**



**SouthWest Transit  
Eden Prairie, Minnesota  
Statistical Section  
December 31, 2016  
(Unaudited)**

This part of SWT's CAFR presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about SWT's overall financial health. The following are the categories of the various schedules that are included in this section.

**Financial Trends** – These schedules contain trend information to help the reader understand how SWT's financial performance and well being have changed over time.

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

**Revenue Capacity** – These schedules contain information to help the reader assess SWT's most significant local revenue source Motor Vehicle Sales Tax (MVST) and passenger fares. In 2002, the main source of revenue shifted from property tax to MVST. The agency does not control the amount of MVST it receives. The allocation is both controlled through state statute and a portion is controlled through the Metropolitan Council. SWT no longer receives any property tax. Passenger fares are controlled through a regional fare policy.

**Debt Capacity** – These schedules present information to help the reader assess the affordability of SWT's current level of outstanding debt and SWT's ability to issue additional debt in the future.

- Ratios of Outstanding Debt by Type

**Demographic and Economic Information** – These schedules offer demographic and economic indicators to help the reader understand the environment within which SWT's financial activities take place.

- Demographic and Economic Statistics
- Principal Employers

**Operating Information** – These schedules contain service and infrastructure data to help the reader understand how the information in SWT's financial report relates to the services the government provides and the activities it performs.

- Full-Time Equivalent SWT Employees by Function
- Operating Statistics
- Capital Assets Statistics by Function/Program
- Farebox Recovery Percentage and Fare Structure

Sources: Unless otherwise noted, the information in these schedules is derived from the CAFR for the relevant year.



**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 1**

**Net Position By Component  
Last Ten Fiscal Years  
(unaudited)**

	Fiscal year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Governmental Activities:</b>										
Net investment in capital assets	\$ 35,260,145	\$ 34,508,142	\$ 38,725,890	\$ 37,899,258	\$ 42,259,409	\$ 42,839,924	\$ 48,752,629	\$ 43,664,850	\$ 42,534,479	\$ 41,053,400
Restricted	411,802	272,373	-	-	-	-	-	-	-	-
Unrestricted	12,484,598	13,678,490	8,976,146	7,451,754	6,390,003	7,206,773	6,927,320	12,221,765	12,353,477	12,140,778
Total governmental activities Net position	<u>\$ 48,156,545</u>	<u>\$ 48,459,005</u>	<u>\$ 47,702,036</u>	<u>\$ 45,351,012</u>	<u>\$ 48,649,412</u>	<u>\$ 50,046,697</u>	<u>\$ 55,679,949</u>	<u>\$ 55,886,615</u>	<u>\$ 54,887,956</u>	<u>\$ 53,194,178</u>

Source: SouthWest Transit financial records

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 2**

**Changes in Net Position  
Last Ten Fiscal Years  
(Unaudited)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses:</b>										
Governmental activities										
General government	\$ 1,051,001	\$ 923,387	\$ 965,247	\$ 942,499	\$ 915,019	\$ 907,404	\$ 914,906	\$ 1,029,036	\$ 1,142,604	\$ 1,389,838
Buildings and grounds	1,578,148	1,896,460	1,813,461	2,266,249	2,578,591	3,532,084	3,030,101	3,357,869	3,820,148	3,384,282
Operations and vehicle maintenance	10,524,049	7,914,744	7,214,505	5,663,462	5,695,536	6,338,270	6,448,144	7,809,487	8,684,285	8,814,286
Interest on long-term debt	93,607	146,473	182,213	147,225	95,793	92,435	214,235	55,437	86,967	112,107
Total governmental activities	<u>\$ 13,246,805</u>	<u>\$ 10,881,064</u>	<u>\$ 10,175,426</u>	<u>\$ 9,019,435</u>	<u>\$ 9,284,939</u>	<u>\$ 10,870,193</u>	<u>\$ 10,607,386</u>	<u>\$ 12,251,829</u>	<u>\$ 13,734,004</u>	<u>\$ 13,700,513</u>
<b>Program Revenues:</b>										
Governmental activities										
Charges for services										
Passenger fares	\$ 2,225,885	\$ 2,608,964	\$ 2,478,158	\$ 2,435,034	\$ 2,456,452	\$ 2,528,315	\$ 2,517,920	\$ 2,658,560	\$ 2,653,727	\$ 2,745,131
Other	-	-	-	-	54,910	125,625	923,434	186,279	311,288	386,281
Operating grants and contributions	431,883	-	-	-	-	-	-	-	165,699	192,189
Capital grants and contributions	10,175,073	1,473,028	1,583,048	2,918,338	4,977,911	4,346,355	6,482,340	323,279	1,075,156	363,910
Total governmental activities program revenues	<u>\$ 12,832,841</u>	<u>\$ 4,081,992</u>	<u>\$ 4,061,206</u>	<u>\$ 5,353,372</u>	<u>\$ 7,489,273</u>	<u>\$ 7,000,295</u>	<u>\$ 9,923,694</u>	<u>\$ 3,168,118</u>	<u>\$ 4,205,870</u>	<u>\$ 3,687,511</u>
<b>Net Expense:</b>										
Governmental activities	<u>\$ (413,964)</u>	<u>\$ (6,799,072)</u>	<u>\$ (6,114,220)</u>	<u>\$ (3,666,063)</u>	<u>\$ (1,795,666)</u>	<u>\$ (3,869,898)</u>	<u>\$ (683,692)</u>	<u>\$ (9,083,711)</u>	<u>\$ (9,528,134)</u>	<u>\$ (10,013,002)</u>
<b>General Revenue and Other</b>										
<b>Changes in Net Position:</b>										
Governmental activities										
Unrestricted intergovernmental revenue	6,163,065	6,243,951	\$ 5,164,815	\$ 5,248,837	\$ 4,885,269	\$ 5,042,264	\$ 5,979,464	\$ 8,917,732	\$ 9,157,043	\$ 7,572,940
Unrestricted investment earnings	577,021	419,026	180,141	123,298	66,291	31,661	31,680	37,439	52,429	67,929
Other local revenue	57,081	438,555	12,295	45,923	142,506	193,258	288,300	335,206	412,002	549,450
Gain on sale of assets	-	-	-	-	-	-	17,500	-	-	-
Special item <sup>1</sup>	-	-	-	(4,103,019)	-	-	-	-	-	-
Special item <sup>2</sup>	-	-	-	-	-	-	-	-	-	128,905
Total governmental activities	<u>\$ 6,797,167</u>	<u>\$ 7,101,532</u>	<u>\$ 5,357,251</u>	<u>\$ 1,315,039</u>	<u>\$ 5,094,066</u>	<u>\$ 5,267,183</u>	<u>\$ 6,316,944</u>	<u>\$ 9,290,377</u>	<u>\$ 9,621,474</u>	<u>\$ 8,319,224</u>
Changes in net position governmental activities	<u>\$ 6,383,203</u>	<u>\$ 302,460</u>	<u>\$ (756,969)</u>	<u>\$ (2,351,024)</u>	<u>\$ 3,298,400</u>	<u>\$ 1,397,285</u>	<u>\$ 5,633,252</u>	<u>\$ 206,666</u>	<u>\$ 93,340</u>	<u>\$ (1,693,778)</u>

<sup>1</sup> SWT purchased transit service vehicles until 2010 with federal, state, and local grants. The issue of where the title was held was not addressed in all grants. However, some of the more recent grants indicated the title should remain with the regional transit planning agency, the MC. In 2010, the MC enacted a new fleet management procedure to provide clarification and consistency on regional fleet replacement capital cost and maintenance responsibilities.

Management recommended and the SWT Commission approved a transfer of title of 32 revenue service vehicles to the MC on February 25, 2010. The vehicles were then incorporated into the current master lease agreement and leased back to SWT for transit operations at no cost. The Commission believed the transfer was in the best interest of the agency to ensure future major repairs on all current transit vehicles was a regional cost and not a cost of SWT transit operations. As a result, these 32 buses and related equipment were disposed from capital asset records of SWT, causing a loss of \$ 4,103,019.

<sup>2</sup> The Professional Golf Association's (PGA) Ryder Cup tournament was held in Chaska, Minnesota, during September and October 2016. SWT's management and Commission opted to provide transportation services to attendees of the tournament. As a result, SWT had significant one-time revenue and expenditure activity. SWT received revenue totaling \$ 277,553 related to passenger fares, as well as charges for services from the PGA and the City of Chaska, while they incurred expenditures totaling \$ 148,648 to provide the service. As a result, SWT reported a net revenue related to providing this service of \$ 128,905 in the fund financial statements and governmental activities.

Source: Southwest Transit financial records

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 3**

**Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(unaudited)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General Fund:</b>										
Reserved	\$ -	\$ -	\$ 130,828	\$ 134,017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	7,722,335	8,226,388	4,714,182	3,705,601	-	-	-	-	-	-
Nonspendable	-	-	-	-	435,133	477,717	522,960	545,375	558,332	618,318
Unassigned	-	-	-	-	1,975,935	2,812,949	2,707,349	2,893,152	4,153,836	4,043,568
Total general fund	<u>\$ 7,722,335</u>	<u>\$ 8,226,388</u>	<u>\$ 4,845,010</u>	<u>\$ 3,839,618</u>	<u>\$ 2,411,068</u>	<u>\$ 3,290,666</u>	<u>\$ 3,230,309</u>	<u>\$ 3,438,527</u>	<u>\$ 4,712,168</u>	<u>\$ 4,661,886</u>
<b>All Other Governmental Funds:</b>										
Reserved	\$ -	\$ -	\$ 5,075	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in										
Debt service funds	396,710	326,573	503,371	204,874	-	-	-	-	-	-
Capital projects funds	4,795,274	5,493,384	3,678,010	3,439,427	-	-	-	-	-	-
Nonspendable	-	-	-	-	2,516	-	-	-	-	-
Restricted	-	-	-	-	-	-	140,718	21,000	205,810	-
Committed	-	-	-	-	108,359	14,279	2,687	59,814	207,137	310,313
Assigned	-	-	-	-	3,917,642	3,967,396	3,804,791	4,646,408	4,651,602	4,764,998
Total all other governmental funds	<u>\$ 5,191,984</u>	<u>\$ 5,819,957</u>	<u>\$ 4,186,456</u>	<u>\$ 3,644,301</u>	<u>\$ 4,028,517</u>	<u>\$ 3,981,675</u>	<u>\$ 3,948,196</u>	<u>\$ 4,727,222</u>	<u>\$ 5,064,549</u>	<u>\$ 5,075,311</u>

Source: Southwest Transit financial records

Note: SWT implemented GASB statement No. 54 in 2011, resulting in a change in fund balance classifications.

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 4**

**Changes in Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(unaudited)**

	Fiscal Year		
	2007	2008	2009
<b>Revenues:</b>			
Intergovernmental - federal	\$ 4,298,741	\$ 782,649	\$ 277,413
Intergovernmental - state	12,471,280	6,934,330	6,470,450
Intergovernmental - other	-	-	-
Passenger fares	2,225,885	2,608,964	2,478,158
Charges for services	-	-	-
Investment income	577,021	419,026	180,141
Special assessments	4,460	4,460	4,460
Other interest income	-	-	-
Loan repayment	-	-	-
Other local revenue	8,248	438,555	12,295
Total revenues	<u>19,585,635</u>	<u>11,187,984</u>	<u>9,422,917</u>
<b>Expenditures:</b>			
General government	1,039,377	917,899	932,506
Buildings and grounds	1,247,072	1,096,339	913,956
Operations and vehicle maintenance	6,062,575	6,713,839	5,888,367
Capital outlay	9,812,821	4,060,393	5,673,400
Debt service			
Principal	540,122	690,307	786,672
Interest and agency fees	59,866	77,181	242,895
Total expenditures	<u>18,761,833</u>	<u>13,555,958</u>	<u>14,437,796</u>
Excess of revenues over (under) expenditures	823,802	(2,367,974)	(5,014,879)
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,600,000	246,206	4,976,218
Transfers out	(1,600,000)	(246,206)	(4,976,218)
Sale of property	-	-	-
Insurance recoveries	-	-	-
Issuance of capital lease	-	3,500,000	-
Proceeds from certificate of participation	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>3,500,000</u>	<u>-</u>
<b>Special Item - Net Revenue From Special Services</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ 823,802</u>	<u>\$ 1,132,026</u>	<u>\$ (5,014,879)</u>
Debt service as a percent of noncapital expenditures	5.0%	7.8%	11.2%

Source: SouthWest Transit financial records

**Table 4  
(Continued)**

Fiscal Year						
2010	2011	2012	2013	2014	2015	2016
\$ 2,010,236	\$ 3,691,904	\$ 1,624,452	\$ 4,742,482	\$ 44,644	\$ -	\$ -
6,156,939	6,171,276	7,764,167	7,719,320	9,196,367	10,232,199	7,945,496
-	-	-	-	-	165,699	192,189
2,435,034	2,456,452	2,528,315	2,517,920	2,658,560	2,653,727	2,745,131
-	-	-	-	219,420	297,047	421,812
123,298	66,291	31,661	31,681	37,439	52,429	67,929
4,460	4,460	4,460	4,460	-	-	-
-	-	-	-	121,494	191,288	169,680
-	-	-	-	65,782	136,208	142,643
45,923	197,416	318,883	1,088,061	180,571	234,955	335,593
<u>10,775,890</u>	<u>12,587,799</u>	<u>12,271,938</u>	<u>16,103,924</u>	<u>12,524,277</u>	<u>13,963,552</u>	<u>12,020,473</u>
899,429	909,005	845,869	959,894	1,062,048	1,111,870	1,335,762
935,521	1,046,154	1,142,476	1,143,735	1,611,040	1,185,920	1,448,470
5,674,292	5,615,668	5,836,559	6,238,357	7,330,382	7,769,069	8,062,484
3,129,796	5,890,221	3,443,192	8,007,632	1,812,267	4,369,745	896,449
1,519,243	74,280	77,855	1,929,084	146,319	261,995	371,679
165,156	96,805	93,231	229,065	49,977	73,386	114,047
<u>12,323,437</u>	<u>13,632,133</u>	<u>11,439,182</u>	<u>18,507,767</u>	<u>12,012,033</u>	<u>14,771,985</u>	<u>12,228,891</u>
(1,547,547)	(1,044,334)	832,756	(2,403,843)	512,244	(808,433)	(208,418)
2,212,464	3,100,000	1,112,454	2,299,368	146,319	228,757	499,486
(2,212,464)	(3,100,000)	(1,112,454)	(2,299,368)	(146,319)	(228,757)	(499,486)
-	-	-	17,500	475,000	-	-
-	-	-	172,507	-	-	39,993
-	-	-	1,000,000	-	2,419,401	-
-	-	-	1,120,000	-	-	-
-	-	-	<u>2,310,007</u>	<u>475,000</u>	<u>2,419,401</u>	<u>39,993</u>
-	-	-	-	-	-	128,905
<u><u>\$(1,547,547)</u></u>	<u><u>\$(1,044,334)</u></u>	<u><u>\$ 832,756</u></u>	<u><u>\$(93,836)</u></u>	<u><u>\$ 987,244</u></u>	<u><u>\$ 1,610,968</u></u>	<u><u>\$(39,520)</u></u>
18.0%	2.1%	2.0%	19.5%	1.8%	2.8%	4.1%

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 5**

**Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years  
(unaudited)**

Year	Governmental Activities			Total Primary Government	Percentage Of Personal Income (2)	Per Capita ( 1)
	General Obligation Bonds	Special Assessment Bonds	Capital Leases			
2007	\$ -	\$ -	\$ 1,549,806	\$ 1,549,806	*	\$ 14
2008	-	-	4,359,498	4,359,498	*	39
2009	-	-	3,572,826	3,572,826	*	33
2010	-	-	2,053,583	2,053,583	*	18
2011	-	-	1,979,303	1,979,303	*	18
2012	-	-	1,901,449	1,901,449	*	17
2013	-	-	2,092,365	2,092,365	*	19
2014	-	-	1,946,046	1,946,046	*	18
2015	-	-	4,103,452	4,103,452	*	37
2016	-	-	3,731,773	3,731,773	*	33

\* Data is not available

<sup>(1)</sup> See demographic and economic statistics population

<sup>(2)</sup> See demographic and economic statistics personal income

Source: SouthWest Transit financial records

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 6**

**Demographic and Economic Statistics  
Last Ten Fiscal Years  
(unaudited)**

Year	Population	Personal Income	Per Capita Personal Income	K-12 Enrollment	Unemployment Rate
2007	112,794	*	*	17,301	4.1%
2008	110,466	*	*	17,185	5.3%
2009	109,248	*	*	16,566	7.5%
2010	112,061	*	*	17,580	6.1%
2011	107,832	*	*	17,626	6.8%
2012	108,637	*	*	18,585	4.2%
2013	110,769	*	*	15,354	4.5%
2014	111,928	*	*	14,814	4.5%
2015	112,518	*	*	14,711	2.9%
2016	112,518 <sup>(1)</sup>	*	*	14,711	2.9%

\* Data is not available

Data Sources: Website from the Cities of Eden Prairie, Chanhassen, and Chaska, Minnesota.  
Combined all three cities.

(1) 2016 Data not available, using 2015 data (estimate)

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 7**

**Principal Employers  
Current Year and Nine Years Ago  
(Unaudited)**

Employer	2016			2007		
	Employees	Rank	Percentage Of Total Area Employment	Employees	Rank	Percentage Of Total Area Employment
Optum	6,375	1	9.7%			
Rosemount-Emerson	1,900	2	2.9%	1,200	3	11.9%
CH Robinson	1,706	3	2.6%	1,076	4	10.7%
Starkey Lab	1,700	4	2.6%			
Eden Prairie School District No. 272	1,580	5	2.4%	1,400	1	13.9%
Instant Web Companies	1,236	6	1.9%			
Super Valu Stores Inc.	1,200	7	1.8%	900	7	9.0%
Lifetime Fitness	1,166	8	1.8%			
Chaska School District No. 112	1,100	9	1.7%	925	6	9.2%
Cigna	954	10	1.5%			
GE Capital Fleet Services				1,200	2	11.9%
Entegris, Inc.				960	5	9.6%
Deli Express				842	8	8.4%
MTS Systems Corp.				791	9	7.9%
Lake Region Mfg. Co. Inc.				750	10	7.5%
<b>Total Principal Employees</b>	<b>18,917</b>		<b>28.8%</b>	<b>10,044</b>		<b>100.0%</b>
<b>Total Employees</b>	<b>65,720</b>		<b>100.0%</b>	N/a		N/a

Note: 2016 estimated and includes the most recent information available from the three cities in the SWT service area.

Source: 2015 CAFR of the member Cities of Eden Prairie, Chanhassen, and Chaska.

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 8**

**Full-time Equivalent SWT Employees by Function  
Last Ten Fiscal Years  
(Unaudited)**

<b>Function</b>	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government										
Administration	6	5	5	5	5	5	4	4	5	3
Marketing	-	-	-	-	-	-	-	-	-	1
Customer service	2	2	2	2	2	2	1	1	1	2
Operations and vehicle										
Maintenance										
Operations	3	6	6	5	5	5	4	4	4	5
Vehicle maintenance	11	11	11	10	10	10	9	10	11	13
First Transit Service	69	66	59	44	44	56	64	77	84	87
Buildings and grounds										
Facilities	3	4	2	2	2	2	3	3	2	2
Total	<u>94</u>	<u>94</u>	<u>85</u>	<u>68</u>	<u>68</u>	<u>80</u>	<u>85</u>	<u>99</u>	<u>107</u>	<u>113</u>

\* Does not include part-time or seasonal

Source: Southwest Transit budget record

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 9**

**Operating Statistics  
Last Ten Fiscal Years  
(Unaudited)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>System ridership</b>										
Fixed route	944,295	1,070,327	950,615	931,162	961,862	927,117	961,717	1,023,322	1,023,396	988,304
Special events	68,243	76,502	61,359	71,220	68,156	71,862	71,172	84,528	89,937	204,255
Demand response	-	-	-	-	-	-	-	-	12,490	53,531
<b>Vehicle revenue hours</b>										
Fixed route	46,311	46,545	33,028	29,995	35,364	35,952	38,597	48,593	49,591	47,151
Special events	1,636	1,294	1,298	2,016	1,199	1,136	1,222	1,363	1,681	2,349
Demand response	-	-	-	-	-	-	-	-	4,237	16,725
<b>Vehicle revenue miles</b>										
Fixed route	1,013,149	1,104,246	808,779	753,235	778,742	802,656	863,726	1,163,101	1,204,023	1,128,174
Special events	47,316	30,470	34,085	48,065	49,740	49,895	50,750	56,915	71,613	95,589
Demand response	-	-	-	-	-	-	-	-	68,492	256,719

*Source: SouthWest Transit ridership data  
Demand response service started July 2015.*

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 10**

**Capital Asset Statistics By Function/Program  
Last Ten Fiscal Years  
(Unaudited)**

Function/program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Facilities										
Transit park and rides (spaces)										
SWT capital assets	976	1,226	1,739	1,739	2,159	2,159	2,859	2,859	2,859	2,859
SWT noncapital assets	285	285	285	285	285	285	285	285	255	255
Construction in progress	763	513	420	420	-	700	-	-	-	-
Transit passenger stations:										
SWT capital assets	1	1	2	2	3	3	4	4	4	4
Construction in progress	1	1	1	1	-	1	-	-	-	-
Transit buses										
SWT capital assets-DR PT**	33	33	33	-	-	-	-	-	1	1
SWT noncapital assets-MB PT*	40	41	41	60	60	60	61	65	74	74
SWT noncapital assets-DR PT**	-	-	-	-	-	-	-	-	-	11

Note: No capital asset indicators are available for general government function. Total capital assets are shown regardless of ownership to identify the entire operations.

National Transit Database (NTD) Bus Modes:

MB PT\*- Motor Bus Purchase Transit

DR PT\*\*- Demand Response Purchase Transit

Source: SouthWest Transit facilities records

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 11**

**Farebox Recovery Percentage and Fare Structure  
(Unaudited)**

**Farebox Recovery Percentage  
Last Ten Fiscal Years**

Year	Percentage
2007.....	28.02%
2008.....	30.66%
2009.....	32.61%
2010.....	32.54%
2011.....	32.79%
2012.....	32.48%
2013.....	30.28%
2014.....	27.10%
2015.....	28.34%
2016.....	29.57%

Definition: Service revenues divided by operating expenditures.

**Fare Structures  
As of December 31, 2016**

Fares	Adults Ages 13-64	Youth Ages 6-12 Seniors Ages 65+	Youth Ages 5 & Under	Persons with Disabilities
<b>Express</b>				
Peak*	\$ 3.00	\$ 3.00	Free*	\$ 0.75
Non-Peak	\$ 2.25	\$ 0.75	Free*	\$ 0.75
<b>Local</b>				
Peak*	\$ 2.25	\$ 2.25	Free*	\$ 0.75
Non-Peak	\$ 1.75	\$ 0.75	Free*	\$ 0.75
<b>SW Prime – Demand Response</b>				
Peak*	\$ 3.00	\$ 1.00	Free*	\$ 3.00
Non-Peak	\$ 3.00	\$ 1.00	Free*	\$ 3.00

\* When accompanied by paying adult (limit 3)

\*Peak Hours: Monday through Friday 6:00-9:00 a.m. and 3:00-6:30 p.m.

**Transfers** let you use an unlimited number of buses in any direction for 2 ½ hours for express and local service. \$ 1.00 transfers to and from SW transit express service for the SW Prime Demand Response service.

**SouthWest Transit  
Eden Prairie, Minnesota**

**Table 12**

**Miscellaneous Statistics  
December 31, 2016  
(Unaudited)**

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Date Founded	1986
Date of Incorporation	July 21, 1986
Form of Government	Joint Powers by three Cities City of Eden Prairie City of Chanhassen City of Chaska
Service Area	81 Square Miles
Population in Service Area	112,518
Type of Tax Support	Motor Vehicle Sales Tax
Sales Tax Rate	7.28%
Number of Routes	28
Number of Transfer Stations	4
Number of Park & Ride Lots	4
Number of Bus Stops	249
Number of Motor Buses in Peak Service	59
Number of Demand Response Buses in Peak Service	7
Average Speed in Miles Per Hour	21
Employees:	
Full-Time	26
Part-Time and Seasonal	35

