

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

DULUTH TRANSIT AUTHORITY
(COMPONENT UNIT OF THE
CITY OF DULUTH, MINNESOTA)

FOR THE YEARS ENDED DECEMBER 31,
2004 AND 2003

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**DULUTH TRANSIT AUTHORITY
(COMPONENT UNIT OF THE
CITY OF DULUTH, MINNESOTA)**

For the Years Ended December 31, 2004 and 2003



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

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<u>Introduction</u>		
Organization		1
<u>Financial Section</u>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Comparative Statement of Net Assets	Exhibit A	9
Comparative Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit B	10
Comparative Statement of Cash Flows	Exhibit C	11
Notes to the Financial Statements		12
Supplemental Information		
Comparative Statement of Revenues	Schedule 1	24
Comparative Statement of Operating Expenses	Schedule 2	25
Allocation of Income and Expense to the City of Superior, Wisconsin	Schedule 3	27
Deficit Distribution Among the Subsidy Grantors for Operations in the City of Superior, Wisconsin	Schedule 4	29
Deficit Recognized for Federal and State Operating Funds for Operations in the City of Superior, Wisconsin	Schedule 5	30
<u>Management and Compliance Section</u>		
Schedule of Findings and Questioned Costs	Schedule 6	31
Other Required Reports		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		35

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<u>Management and Compliance Section</u>		
Other Required Reports (Continued)		
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		37
Schedule of Expenditures of Federal Awards	Schedule 7	39

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

Term of
Office Ends

Board

Directors

District No. 1 Guy Sederski*	June 30, 2003
District No. 2 Aaron Bransky	June 30, 2007
District No. 3 Richard Towey	August 31, 2006
District No. 4 Darryl Scott	June 30, 2005
District No. 5 Tari Rayala	June 30, 2007
At Large Walter Kramer	June 30, 2006
Rena Luck (fka, Switzer)	June 30, 2004
Isobel Rapaich	June 30, 2006

Appointed by Mayor, City of Superior, Wisconsin Lewis Martin	March 31, 2006
---	----------------

Officers

President
Rena Luck (fka, Switzer)
Vice President
Isobel Rapaich

Management

ATE Management of Duluth, Inc.
Dennis Jensen, General Manager

*Term expired. He is still serving pending action by the Mayor to re-appoint him.

This page was left blank intentionally.

This page was left blank intentionally.



STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

We have audited the accompanying basic financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2005, on our consideration of the Duluth Transit Authority'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2004. This information should be read in conjunction with the financial statements.

Financial Highlights

- The Authority continued in its multi-year, \$600,000, UPASS college transportation program and signed a new three-year contract with UMD and the College of St. Scholastica and Lake Superior State College.
- The Authority continued its installation of a three-year, \$2.3 million dollar ITS (Intelligent Transportation System) project.
- Effective on September 1, 2003, the Authority no longer has the Duluth Public School Contract which generated \$573,589 in revenues for 2002 and \$307,465 for 2003. The Duluth School District's financial position required them to reduce all non-classroom expenses. To do this within the transportation budget, the District staggered school starting and ending times to maximize the number of trips that each bus could make. The Authority could serve only secondary students and, therefore, could not be as competitive as the yellow school bus operators who were able to utilize buses for both secondary and elementary trips.
- The Authority reduced regular route service starting in July 2003 by five percent in hours and mileage to meet changes in state funding.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's operating budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using accrual accounting methods as used by similar public transit systems.

The financial statements include: a comparative statement of net assets; a comparative statement of revenues, expenses, and changes in net assets; a comparative statement of cash flows; notes to the financial statements; and supplemental information. The comparative statement of net assets presents assets, liabilities, and the net assets both invested in capital assets, net of related debt, net assets restricted for transit operations and capital improvements, and the unrestricted assets of the Authority. The comparative statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and also includes depreciation of capital assets acquired by contributions. The comparative statement of cash flows presents the cash flows from operating activities, noncapital financing activities, capital and related activities, investment activities, and the net cash provided by (used for) operating activities. The comparative statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The supplemental information section elaborates on the above-noted financial statements and also examines the transit services provided to the City of Superior, Wisconsin.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted during the independent external audit process.

Summary of Organization and Business

On May 24, 1969, the Minnesota State Legislature enacted the Laws, 1969, Chapter 720 ("An Act") creating the Authority. The mission of the Authority pursuant to this law is, ". . . to administer, promote, control, direct, manage, and operate a bus transportation system." The Authority was created to have the power and duty to manage the property of the Authority. The State Legislature itself conferred upon the Authority the power and responsibility for the operation and management of the transit system. The Mayor of Duluth appoints eight community members to serve on the Authority's Board of Directors that oversees the Authority, while the Mayor of the City of Superior appoints one voting Board member.

The Authority provides both regular route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 20 regular routes and provides service 7 days a week. The Authority's regular route peak bus fleet numbered 55 buses through June 2003. Effective July 2003, the regular route peak bus fleet was reduced to 41 buses due to a reduction in service and due to the loss of the Duluth Public School transportation contract. The Authority operated 1,799,881 miles and carried 2,647,051 regular route passengers and 26,740 disabled riders during 2004. The Authority also provided downtown circulator trolley service during the summer months.

The Authority has local taxing authority which is certified yearly by the Duluth City Council. Authority operations are funded from passenger revenues, nonoperating revenues, federal operating grants, Minnesota Department of Transportation operating grants, local tax pass-through monies, and local tax levies. City bonds and excess local operating monies are matched with federal and state capital grants to fund the acquisition and construction of capital assets. Bond debt service payments are deducted from the Authority's local share of tax levy proceeds.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

As can be seen from the table, total net assets increased \$1.89 million to \$16.70 million in 2004, up from \$14.81 million in 2003. The increase in total net assets was due to the acquisition of ten buses plus significant facility repairs including roof work, lot paving, and maintenance area rehabilitation.

Condensed Statement of Net Assets (000's)

	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Total % Change
Assets				
Current assets	\$ 3,111	\$ 1,826	\$ 1,285	41.3
Capital assets	\$ 37,466	\$ 36,287	\$ 1,179	3.1
Less: depreciation	(22,828)	(22,230)	(598)	(2.6)
Capital assets, net	\$ 14,638	\$ 14,057	\$ 581	4.0
Total Assets	\$ 17,749	\$ 15,883	\$ 1,866	10.5
Current Liabilities	\$ 1,051	\$ 1,072	\$ (21)	(2.0)
Net Assets				
Invested in capital assets, net of related debt	\$ 14,637	\$ 14,057	\$ 580	4.0
Restricted for Transit Operations and Capital Improvements	1,306	-	1,306	100.0
Unrestricted	754	754	-	-
Total Net Assets	\$ 16,697	\$ 14,811	\$ 1,886	11.3

(Unaudited)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(000's)

	Fiscal Year 2004 Actual	Fiscal Year 2004 Budget	Fiscal Year 2003 Actual	Budget Dollar Change	Budget % Change	Actual Dollar Change	Actual % Change
Operating Revenues	\$ 1,833	\$ 1,923	\$ 1,911	\$ (89)	(4.6)	\$ (78)	(4.2)
Nonoperating Revenues	8,953	7,722	7,978	1,231	16.0	975	10.9
Total Revenues	\$ 10,786	\$ 9,645	\$ 9,889	\$ 1,142	11.9	\$ 897	8.3
Operating Expenses	11,964	12,161	11,714	(197)	1.6	250	2.1
Income (Loss) Before Capital Contributions	\$ (1,178)	\$ (2,516)	\$ (1,825)	\$ 1,339	53.2	\$ 647	55.1
Capital Contributions	3,064	3,064	758	-	-	2,306	75.3
Change in Net Assets	\$ 1,886	\$ 548	\$ (1,067)	\$ 1,338	244.0	\$ 2,953	156.6
Net Assets - January 1	14,811	14,811	15,878	-	-	(1,067)	(7.2)
Net Assets - December 31	<u>\$ 16,697</u>	<u>\$ 15,359</u>	<u>\$ 14,811</u>	<u>\$ 1,338</u>	(3.0)	<u>\$ 1,886</u>	11.3

Revenues

The Authority's operating revenues are derived from various sources: passenger revenue, charter revenue, and other revenues such as transit advertising and subsidies. Operating revenues decreased by \$77,000 to \$1.83 million in 2004, down from \$1.91 million in 2003. One factor in this substantial decrease is the loss of the Duluth Public School transportation contract effective September 1, 2003. Nonoperating revenues, however, increased from \$7.98 million in 2003 to \$8.95 million in 2004. This was an increase of 10.9 percent.

Expenses

The Authority's 2004 operating expenses increased by \$250,000 over 2003 operating expenses of \$11.7 million, which is the increase in depreciation.

Budgetary Highlights

The Authority creates an annual operating budget, which includes proposed expenses and means of financing them. Once management and the Board of Directors approve the budget, it is presented to the Duluth City Council for final approval. The Minnesota Department of Transportation also reviews and approves the Authority's operating budget. The Authority's operating budget remains in effect the entire year and is not revised. Management and the Authority Board of Directors are presented detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Upon review of the financial statements of the Authority, it is the opinion of the Authority Finance Department that the Authority's financial position has improved somewhat. This is due to the addition of new, more efficient buses and the current maximization of the Authority's local tax levy.

Future state, federal, and local budget constraints, however, play a large part in the Authority's continued ability to serve the riding public. Nearly one-third of the State's subsidy comes from the Motor Vehicle Sales Tax, and this money is not guaranteed.

Capital Assets

By the end of fiscal year 2004, the Duluth Transit Authority had invested \$37.47 million in capital assets. The \$3.2 million of additional capital assets for this past fiscal year is primarily due to the purchase of ten buses, ITS components, facility rehabilitation, and shop equipment.

The Authority's five-year capital plan includes the replacement of approximately 20 full-size buses and 9 STRIDE vehicles. Additional capital improvements are also scheduled if adequate local, state, and federal funding is obtained.

Economic and Other Factors

The Authority considered many factors when setting the fiscal year 2004 budget. The Authority continues to promote its UPASS collegiate pass program. The UPASS program has increased regular route ridership by over 164,000 rides over calendar year 2000 levels. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 20 transit routes in Duluth and Superior. This information was used to adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2004 budget reflects the new state formula that funds up to 80 percent of regular route expenses and 85 percent of STRIDE expenses. This formula, however, also capped the Authority's total operating expenses, so some services will end up being paid for locally with no state participation. This will be a concern for future years, unless the state allocates sufficient funds to fully fund the new formulas. The growth in state funds has not kept pace with inflation and is expected to actually decrease in the upcoming biennium. Also of concern is cash flow. State General Fund monies come in January, July, and December. Money from the Motor Vehicle Sales Tax comes in July and December. That creates a cash flow deficit of about \$800,000 in June and early July.

Financial Contact

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Duluth Transit Authority, 2402 West Michigan Street, Duluth, Minnesota 55806.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 2,129,072	\$ 1,196,133
Accounts receivable	144,145	30,128
Due from federal government	105,926	80,262
Due from State of Minnesota	42,246	110,983
Taxes receivable	94,347	23,037
Due from the City of Duluth	307,579	97,135
Due from other governments	112,911	123,827
Inventory	159,788	159,077
Prepaid items	15,093	5,694
	\$ 3,111,107	\$ 1,826,276
Total current assets		
Capital assets	\$ 37,465,543	\$ 36,287,048
Less: allowance for depreciation	(22,827,955)	(22,230,292)
	\$ 14,637,588	\$ 14,056,756
Capital assets (net)		
Total Assets	\$ 17,748,695	\$ 15,883,032
Liabilities		
Current liabilities		
Accounts payable	\$ 360,240	\$ 380,698
Due to State of Minnesota	-	1,305
Accrued salaries payable	177,523	140,452
Accrued vacation payable	450,616	486,960
Claims and judgments payable	4,988	4,988
Deferred revenue	57,986	57,731
	\$ 1,051,353	\$ 1,072,134
Total Liabilities		
Net Assets		
Invested in capital assets, net of related debt	\$ 14,637,588	\$ 14,056,756
Restricted for transit operations and capital improvements	1,305,612	-
Unrestricted	754,142	754,142
	\$ 16,697,342	\$ 14,810,898
Total Net Assets		

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Operating Revenues		
Charges for services	\$ 1,833,538	\$ 1,911,397
Operating Expenses		
Personal services	\$ 7,255,576	\$ 7,318,359
Supplies	1,036,085	981,375
Utilities	238,203	242,460
Other services and charges	917,876	949,018
Depreciation and amortization	2,516,321	2,223,151
Total Operating Expenses	\$ 11,964,061	\$ 11,714,363
Operating Income (Loss)	\$ (10,130,523)	\$ (9,802,966)
Nonoperating Revenues		
Investment earnings	\$ 23,354	\$ 8,013
Property taxes	1,063,100	527,711
Property tax replacement aid - state	1,717,114	1,373,691
Operating grants		
Federal	1,007,223	954,959
State	4,239,404	4,215,860
City of Superior, Wisconsin	902,913	897,312
Total Nonoperating Revenues	\$ 8,953,108	\$ 7,977,546
Net Income (Loss) Before Capital Contributions	\$ (1,177,415)	\$ (1,825,420)
Capital Contributions		
Federal	\$ 3,345,837	\$ 614,742
State	133,917	64,315
City of Duluth	542,084	79,021
Other - Transit Hub	(957,979)	-
Total Capital Contributions	\$ 3,063,859	\$ 758,078
Change in Net Assets	\$ 1,886,444	\$ (1,067,342)
Net Assets - January 1	14,810,898	15,878,240
Net Assets - December 31	\$ 16,697,342	\$ 14,810,898

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,716,864	\$ 1,942,517
Cash paid to suppliers	(2,209,454)	(2,150,325)
Cash paid to employees	(7,268,127)	(7,306,807)
Net cash provided by (used for) operating activities	\$ (7,760,717)	\$ (7,514,615)
Cash Flows from Noncapital Financing Activities		
Property taxes and aids	\$ 991,790	\$ 547,393
Property tax replacement aid - state	1,717,114	1,373,691
Federal operating grants	1,063,159	871,497
State operating grants	4,306,835	4,165,866
City of Superior, Wisconsin, operating funds	916,741	887,636
City of Duluth operating funds	15,535	-
Net cash provided by (used for) noncapital financing activities	\$ 9,011,174	\$ 7,846,083
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 3,714,259	\$ 758,078
Acquisition of capital assets	(4,055,131)	(758,078)
Net cash provided by (used for) capital and related financing activities	\$ (340,872)	\$ -
Cash Flows from Investing Activities		
Investment earnings	\$ 23,354	\$ 8,013
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 932,939	\$ 339,481
Cash and Cash Equivalents - January 1	1,196,133	856,652
Cash and Cash Equivalents - December 31	\$ 2,129,072	\$ 1,196,133
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Net operating loss	\$ (10,130,523)	\$ (9,802,966)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	2,516,321	2,223,151
Decrease (increase) in receivables	(116,929)	26,002
Decrease (increase) in inventory	(711)	7,269
Decrease (increase) in prepaids	(9,399)	(192)
Increase (decrease) in payables	(19,731)	27,003
Increase (decrease) in deferred revenue	255	5,118
Net Cash Provided by (Used for) Operating Activities	\$ (7,760,717)	\$ (7,514,615)

The notes to the financial statements are an integral part of this statement.

Page 11

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. Summary of Significant Accounting Policies

The Duluth Transit Authority for the City of Duluth was established pursuant to 1969 Minn. Laws, ch. 720, as amended. Its function is to administer, promote, control, direct, manage, and operate a bus transportation system. The Authority is governed by a nine-member board of directors appointed by the Mayor and approved by the City Council. One member, whose name is submitted to the Mayor of Duluth by the City of Superior, Wisconsin, serves as a director during any time the City of Superior contracts with the Authority for bus service.

Under 1969 Minn. Laws, ch. 720, § 5, subd. 3, the Authority is granted the power to enter into a management contract with any person, firm, or corporation for the management of the transit system. Effective November 1, 2001, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period. ATE Management employs all personnel required to operate the Authority; the Authority has no employees.

The accounting policies of the Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

For financial reporting purposes, a reporting entity includes all funds, organizations, account groups, agencies, boards, commissions, and authorities for which it is financially accountable, and other organizations for which the nature and significance of their relationship with it are such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the reporting entity to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the reporting entity.

As required by generally accepted accounting principles, these financial statements present the Duluth Transit Authority, a component unit of the City of Duluth. The Authority is included in the City of Duluth's reporting entity because of the significance of its operational or financial relationships with the City.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting

The accounts of the Authority are presented as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprises--where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and net income is desired for purposes of facilitating management control and accountability.

Enterprise funds distinguish operating revenues from nonoperating items. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenues of the Authority are charges to customers for bus service. All revenues not meeting this definition are reported as nonoperating revenues.

C. Basis of Accounting

The Authority follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to GASB Statement 20, the Authority has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Significant Accounting Treatments

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Investments are reported at fair value.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

2. Inventories

The materials and supplies and the diesel fuel inventories are based on perpetual records and priced using the moving average method. The gasoline inventory is also based on perpetual records but priced at cost using the first-in, first-out method.

3. Capital Assets and Depreciation

The Authority defines capital assets as any item that is financed by a capital grant regardless of cost. All other capital assets are subject to an initial individual cost of \$5,000 or more. All purchased or constructed capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

<u>Classification Range</u>	<u>Range</u>
Buildings and structures	10 to 40 years
Furniture and equipment	5 to 10 years
Revenue vehicles	5 to 10 years
Shop and garage equipment	5 to 15 years

4. Deferred Revenue

Unredeemed student tickets and tokens are reported as deferred revenue until they are earned.

5. Property Tax Revenue

A property tax levy was established to finance operations. In Minnesota, counties act as collection agents for all property taxes. Tax settlements are received four times a year--in January, June, July, and December. Property taxes are recognized as revenue in the year of the levy.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

6. Capital Contributions

Capital grants received for the acquisition and construction of capital assets are reported as capital contributions. Also reported in this category are capital contributions expenses. The Authority constructed transit hubs at the Miller Hill Mall and the University of Duluth using capital grants. After construction, these assets were transferred to the mall and UMD; these transfers are reported as a capital contributions expense.

7. Net Assets Restricted for Transit Operations and Capital Improvements

The Authority received a Public Transit Participation Program grant that requires it to deposit in a reserve account any operating revenues it generates in excess of its local share amount, which is set by statute. This reserve account is to be used for approved operating expenses not covered by the grant or for part of the local share of capital expenses of the transit system. At December 31, 2004, net assets restricted for transit operations and capital improvements were \$1,305,612.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Authority's policy to use restricted resources first.

2. Detailed Notes on All Accounts

A. 2004 and 2003 Budget to Actual

Minn. Laws 1969, ch. 720, requires an annual budget approved by the City Council of Duluth. Below is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2004 and 2003.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2004 and 2003 Budget to Actual (Continued)

	2004		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 1,922,567	\$ 1,833,538	\$ (89,029)
Operating Expenses			
Personal services	\$ 7,424,036	\$ 7,255,567	\$ 168,460
Supplies	865,591	1,036,085	(170,494)
Utilities	254,850	238,203	16,647
Other services and charges	1,100,608	917,876	182,732
Depreciation and amortization	2,516,321	2,516,321	-
Total Operating Expenses	\$ 12,161,406	\$ 11,964,061	\$ 197,345
Operating Income (Loss)	\$ (10,238,839)	\$ (10,130,523)	\$ 108,316
Nonoperating Revenues			
Investment earnings	\$ -	\$ 23,354	\$ 23,354
Property taxes	171,726	1,063,100	891,374
Property tax replacement aid - state	1,373,691	1,717,114	343,423
Operating grants			
Federal	910,000	1,007,223	97,223
State	4,365,260	4,239,404	(125,856)
City of Superior, Wisconsin	901,841	902,913	1,072
Total Nonoperating Revenues (Expenses)	\$ 7,722,518	\$ 8,953,108	\$ 1,230,590
Net Income (Loss)	\$ (2,516,321)	\$ (1,177,415)	\$ 1,338,906
Capital Contributions			
Federal	\$ 3,345,837	\$ 3,345,837	\$ -
State	133,917	133,917	-
City of Duluth	542,084	542,084	-
Other - Transit Hub	(957,979)	(957,979)	-
Total Capital Contributions	\$ 3,063,859	\$ 3,063,859	\$ -
Change in Net Assets	\$ 547,538	\$ 1,886,444	\$ 1,338,906

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2004 and 2003 Budget to Actual (Continued)

	2003		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,331,607	\$ 1,911,397	\$ (420,210)
Operating Expenses			
Personal services	\$ 7,661,123	\$ 7,318,359	\$ 342,764
Supplies	886,251	981,375	(95,124)
Utilities	235,875	242,460	(6,585)
Other services and charges	1,021,972	949,018	72,954
Depreciation and amortization	2,223,151	2,223,151	-
Total Operating Expenses	\$ 12,028,372	\$ 11,714,363	\$ 314,009
Operating Income (Loss)	\$ (9,696,765)	\$ (9,802,966)	\$ (106,201)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 8,013	\$ 8,013
Property taxes	159,658	527,711	368,053
Property tax replacement aid - state	1,373,691	1,373,691	-
Operating grants			
Federal	770,000	954,959	184,959
State	4,371,675	4,215,860	(155,815)
City of Superior, Wisconsin	798,590	897,312	98,722
Total Nonoperating Revenues (Expenses)	\$ 7,473,614	\$ 7,977,546	\$ 503,932
Net Income (Loss)	\$ (2,223,151)	\$ (1,825,420)	\$ 397,731
Capital Contributions			
Federal	\$ 614,742	\$ 614,742	\$ -
State	64,315	64,315	-
City of Duluth	79,021	79,021	-
Total Capital Contributions	\$ 758,078	\$ 758,078	\$ -
Change in Net Assets	\$ (1,465,073)	\$ (1,067,342)	\$ 397,731

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

B. Deposits and Investments

1969 Minn. Laws, ch. 720, designates the City of Duluth Treasurer as Treasurer of the Authority. Minn. Stat. §§ 118A.02 and 118A.04 authorize the City Treasurer to deposit the Authority's cash and invest in certificates of deposit in financial institutions designated by the Duluth City Council.

Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of securities available to the City of Duluth Treasurer.

Additional disclosures required by GASB Statement No. 3, *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, are disclosed on an entity-wide basis in the City of Duluth Comprehensive Annual Financial Report. The Authority is a component unit of the City of Duluth.

All revenues generated by the Authority are deposited with the City Treasurer. ATE Management periodically requests funds from the City Treasurer as needed to pay operating expenses.

The following is a summary of the Authority's cash:

	December 31	
	2004	2003
City Treasurer - savings account	\$ 1,193,690	\$ 604,529
City Treasurer - checking account	748,598	526,827
ATE management - checking account	171,324	44,837
Petty cash fund and change funds	15,460	19,940
Total Cash and Cash Equivalents	\$ 2,129,072	\$ 1,196,133

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2004 and 2003, follows:

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Land	\$ 222,367	\$ 99,886	\$ -	\$ 322,253
Buildings and structures	14,155,756	168,107	(97,754)	14,226,109
Revenue equipment	18,118,492	2,757,538	(1,908,882)	18,967,148
Shop and garage equipment	921,206	60,686	-	981,892
Office furniture and equipment	2,815,624	98,914	-	2,914,538
Other	53,603	-	-	53,603
Total capital assets	\$ 36,287,048	\$ 3,185,131	\$ (2,006,636)	\$ 37,465,543
Less: accumulated depreciation	(22,230,292)	(2,516,321)	1,918,658	(22,827,955)
Net Capital Assets	\$ 14,056,756	\$ 668,810	\$ (87,978)	\$ 14,637,588

Included in the deductions is the transit hub at Miller Hill Mall. In prior years, this was reported as an asset of the Authority. It is owned by the mall and has been removed from the assets of the Authority. The net book value, \$87,978, is reported as a capital contribution expense on the Statement of Revenues, Expenses, and Changes in Net Assets.

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Buildings and structures	13,971,947	183,809	-	14,155,756
Revenue equipment	18,009,987	108,505	-	18,118,492
Shop and garage equipment	830,913	116,488	(26,195)	921,206
Office furniture and equipment	2,781,444	345,431	(311,251)	2,815,624
Other	49,758	3,845	-	53,603
Total capital assets	\$ 35,866,416	\$ 758,078	\$ (337,446)	\$ 36,287,048
Less: accumulated depreciation	(20,344,587)	(2,223,151)	337,446	(22,230,292)
Net Capital Assets	\$ 15,521,829	\$ (1,465,073)	\$ -	\$ 14,056,756

D. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss related to transit liability and property

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

D. Risk Management (Continued)

damage are retained. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Risk management activities for transit liability and property damage include the purchase of commercial insurance coverage for claims exceeding \$100,000. The Authority retains the risk of loss for the first \$100,000 per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. In addition, several incidents have occurred in the Authority's bus operation that are considered reasonably possible losses to the Authority. Reasonably possible losses are not reflected in the financial statements. The Authority has estimated that its exposure to reasonably possible losses range from \$2,000 to \$30,000. Changes in the balances of the claims and judgments liability for the years ended December 31, 2004 and 2003, were as follows:

	Liability January 1	Claims and Changes in Estimates	Claim Payments	Liability December 31
2004	\$ 4,988	\$ -	\$ -	\$ 4,988
2003	4,988	-	-	4,988

E. Lease Commitments

The Authority is committed under various operating leases for office equipment and communications equipment. All operating leases are expected to continue indefinitely or be replaced by similar leases. The following is a summary of the Authority's operating lease expense for 2004 and 2003.

Type of Property	2004	2003
Equipment	\$ 948	\$ 4,750

Future minimum payments under current operating leases, which are not reported as liabilities in the financial statements, consist of the following at December 31, 2004:

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

E. Lease Commitments (Continued)

Year Ended	Amount
2005	\$ 1,110
2006	1,110
2007	1,110
2008	1,110
2009	1,110
Total Future Minimum Rental Payments	\$ 5,550

3. Operations in the City of Superior, Wisconsin

The Authority provides regular and disability transit services to the City of Superior, Wisconsin, for which it charges Superior on a monthly basis. The monthly charge is determined by dividing the total operating expense for the month by the total hours operated in that month to determine an hourly cost. This rate was applied to the following month's hours operated in the City of Superior, reduced by revenues collected in Superior, to arrive at the monthly billing.

Charges to the City of Superior totaled \$1,015,881 for the year ended December 31, 2004, and \$1,005,055 for the year ended December 31, 2003. After deduction of the revenue collected in Superior of \$112,968 in 2004 and \$107,743 in 2003, the amounts actually billed were \$902,913 in 2004 and \$897,312 in 2003, which are included as nonoperating revenues.

4. Management Agreement

Though the Duluth Transit Authority has no employees, it has entered into a Management Agreement with ATE Management and Service Company, Inc., and its subsidiary ATE Management of Duluth, Inc., (collectively referred to as ATE). Under the terms of this agreement, the Authority is liable to ATE on a monthly basis for all employee compensation and benefits under the collective bargaining agreement between ATE and its employees. At the expiration or termination of this agreement, the Authority becomes directly liable to employees under the collective bargaining agreement. The contractual obligation of the Authority to employees of ATE is:

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement (Continued)

A. Vacation and Sick Leave

Employees of ATE are granted from 5 to 30 days of vacation time per year depending on their years of service and union bargaining unit. Vacation earned in one year must be used the following year or it is forfeited. The accrued vacation for all employees had an estimated value of \$450,616 and \$486,960 at December 31, 2004 and 2003, respectively, and is included as accrued vacation payable on the balance sheet.

Sick leave is earned at the rate of 30 days per year and may be accumulated to 60 days for employees with less than 10 years of service and to 120 days for those with over 10 years of service. Employees are not compensated for unused sick leave. Any liability for earned, unused sick leave is not recognized in the financial statements.

B. Retirement Plans

Defined Benefit Pension Plan

ATE's hourly paid employees participate in the Teamsters Central States, Southeast and Southwest Areas Pension Plan, a cost-sharing multiple-employer defined benefit plan. The plan is administered by the trustees of Central States, Southeast and Southwest Areas Pension Fund.

Plan trustees establish benefit provisions including monthly benefit amounts. Full-time hourly paid employees are eligible to participate in the plan. Employees who retire at or after age 60 with 20 years of credited service are entitled to a monthly retirement benefit. Benefits fully vest at age 65 with 5 years of participation or on reaching 10 years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

Funding requirements are established by the plan trustees. The plan is in compliance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution is \$150 per full-time employee per week.

ATE's contributions for the years ending December 31, 2004, 2003, and 2002, were \$743,434, \$714,477, and \$709,794, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

The trustees of Central States, Southeast and Southwest Areas Pension Fund issue a publicly available financial report. The report may be obtained by writing to Central States, Southeast and Southwest Areas Pension Fund, 9377 West Higgins Road, Rosemont, Illinois 60018-4938.

Defined Contribution Plans

ATE salaried employees participate in the Duluth Transit Authority Money Purchase Pension Plan, a defined contribution plan. The plan is administered by ATE.

ATE establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed for 120 days and are at least 20-1/2 years of age. ATE contributes 12 percent and the employee 2 percent of each participant's salary. ATE contributions fully vest after seven years of employment. Benefits depend solely on amounts contributed plus related investment earnings. Contributions were as follows:

	<u>2004</u>	<u>2003</u>
Employer	\$ 111,227	\$ 108,485
Employee	18,824	19,496

SUPPLEMENTAL INFORMATION

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,176,995	\$ 1,186,978
Senior citizen fares	67,250	69,352
Student fares	311,034	134,062
Disability fares	8,934	9,213
Total passenger fares for transit service	\$ 1,564,213	\$ 1,399,605
Special transit fares		
Other special contract transportation fares	\$ -	\$ 307,465
Charter service revenues	\$ 20,405	\$ 19,146
Auxiliary transportation revenues		
Advertising services	\$ 99,150	\$ 73,710
STRIDE	36,136	37,615
Other	113,634	73,856
Total auxiliary transportation revenues	\$ 248,920	\$ 185,181
Total charges for services	\$ 1,833,538	\$ 1,911,397
Nonoperating and Other Revenues		
Investment earnings	\$ 23,354	\$ 8,013
Property taxes	1,063,100	527,711
Property tax replacement aid - state	1,717,114	1,373,691
Operating grants		
Federal - Section 5307	1,004,513	792,762
Federal - college pass program	-	161,600
Federal - other	2,710	597
State - regular route	3,893,454	3,959,246
State - disability service	345,950	256,614
City of Superior, Wisconsin - regular route	831,017	806,955
City of Superior, Wisconsin - disability service	71,896	90,357
Capital grants		
Federal	3,345,837	614,742
State	133,917	64,315
City of Duluth	542,084	79,021
Total nonoperating and other revenues	\$ 12,974,946	\$ 8,735,624
Total Revenues	\$ 14,808,484	\$ 10,647,021

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004		
	Vehicle Operations	Vehicle Maintenance	General Administration
Personal services			
Labor			
Operations - salaries and wages	\$ 2,841,890	\$ -	\$ -
Other salaries and wages	-	767,863	508,694
Fringe benefits	2,165,048	594,851	377,230
Total personal services	\$ 5,006,938	\$ 1,362,714	\$ 885,924
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 541,469	\$ 9,558	\$ -
Tires and tubes	50,798	2,775	-
Other materials and supplies	2,983	312,552	115,950
Total supplies	\$ 595,250	\$ 324,885	\$ 115,950
Utilities	\$ -	\$ -	\$ 238,203
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 183,174
Professional and technical services	7,291	29,948	159,505
Temporary help	-	-	2,520
Other services	-	22,321	44,703
Casualty and liability costs	-	-	128,130
Taxes and fees	607	379	13,775
Miscellaneous			
Dues and subscriptions	-	-	16,739
Travel and meetings	-	1,378	16,924
Advertising and promotional media	-	-	29,381
Purchased transportation service	-	-	249,016
Other	854	415	9,868
Lease and rental expense	-	-	948
Total other services and charges	\$ 8,752	\$ 54,441	\$ 854,683
Depreciation and amortization	\$ 2,165,665	\$ 85,056	\$ 265,600
Total Expenses*	\$ 7,776,605	\$ 1,827,096	\$ 2,360,360

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$535,703 for 2004 and \$499,630 for 2003.

Schedule 2

2003				
Total	Vehicle Operations	Vehicle Maintenance	General Administration	Total
\$ 2,841,890	\$ 2,950,261	\$ -	\$ -	\$ 2,950,261
1,276,557	-	808,729	517,877	1,326,606
3,137,129	2,096,904	585,333	359,255	3,041,492
\$ 7,255,576	\$ 5,047,165	\$ 1,394,062	\$ 877,132	\$ 7,318,359
\$ 551,027	\$ 447,062	\$ 10,343	\$ -	\$ 457,405
53,573	48,129	3,573	-	51,702
431,485	1,888	356,736	113,644	472,268
\$ 1,036,085	\$ 497,079	\$ 370,652	\$ 113,644	\$ 981,375
\$ 238,203	\$ -	\$ -	\$ 242,460	\$ 242,460
\$ 183,174	\$ -	\$ -	\$ 176,982	\$ 176,982
196,744	5,710	12,935	162,412	181,057
2,520	-	-	-	-
67,024	18,510	1,745	75,807	96,062
128,130	-	-	173,290	173,290
14,761	395	349	15,211	15,955
16,739	-	-	15,603	15,603
18,302	656	4,477	6,163	11,296
29,381	-	-	30,989	30,989
249,016	-	-	236,443	236,443
11,137	338	795	5,458	6,591
948	-	-	4,750	4,750
\$ 917,876	\$ 25,609	\$ 20,301	\$ 903,108	\$ 949,018
\$ 2,516,321	\$ 1,887,824	\$ 80,875	\$ 254,452	\$ 2,223,151
\$ 11,964,061	\$ 7,457,677	\$ 1,865,890	\$ 2,390,796	\$ 11,714,363

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

Month	2004			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
Regular Route				
January	1,177	\$ 69.19	\$ 81,450	\$ 8,619
February	1,124	66.85	75,139	9,609
March	1,241	64.30	79,803	9,625
April	1,195	65.16	77,892	9,202
May	1,152	64.89	74,721	8,850
June	1,195	67.70	80,929	8,112
July	1,203	61.52	75,073 *	8,312
August	1,215	65.65	79,791	8,241
September	1,150	61.01	70,143	9,804
October	1,197	66.54	79,662	8,786
November	1,150	66.56	76,524	8,708
December	1,214	71.80	87,136	9,378
Total Regular Route	<u>14,213</u>		<u>\$ 938,263</u>	<u>\$ 107,246</u>
Disability Service				
January	203	\$ 24.05	\$ 5,283	\$ 410
February	208	30.65	6,790	492
March	223	30.64	7,225	552
April	216	31.69	7,260	538
May	174	34.69	6,443	455
June	202	30.20	6,515	521
July	161	30.98	5,387	416
August	190	31.31	6,364	466
September	174	35.12	6,500	405
October	190	32.28	6,540	509
November	200	33.17	7,041	487
December	205	28.67	6,270	471
Total Disability Service	<u>2,346</u>		<u>\$ 77,618</u> **	<u>\$ 5,722</u>

*Monthly charge includes direct charter service costs of \$17.40 not included in the operating charge per hour.

**Total charge includes \$4,884 of direct insurance costs (allocated monthly) not included in the operating charge per hour.

Schedule 3

2003					
Net Charges to the City of Superior	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior	Net Charges to the City of Superior
\$ 72,831	1,195	\$ 74.24	\$ 88,747	\$ 7,890	\$ 80,857
65,530	1,104	60.37	66,649	7,466	59,183
70,178	1,197	62.33	74,621	7,476	67,145
68,690	1,195	63.54	75,956	8,227	67,729
65,871	1,177	58.25	68,572	8,158	60,414
72,817	1,170	61.31	72,702 *	8,118	64,584
66,761	1,209	62.20	75,225	10,349	64,876
71,550	1,197	62.53	74,861	7,338	67,523
60,339	1,150	62.78	72,178	8,618	63,560
70,876	1,241	64.58	80,150	9,051	71,099
67,816	1,106	63.11	69,787	9,219	60,568
77,758	1,195	73.96	88,412	8,995	79,417
\$ 831,017	14,136		\$ 907,860	\$ 100,905	\$ 806,955
\$ 4,873	267	\$ 26.25	\$ 7,416	\$ 607	\$ 6,809
6,298	259	29.47	8,032	601	7,431
6,673	281	28.50	8,418	616	7,802
6,722	272	27.95	8,055	587	7,468
5,988	253	28.71	7,656	548	7,108
5,994	250	28.39	7,512	556	6,956
4,971	255	30.50	8,192	588	7,604
5,898	268	27.98	7,899	584	7,315
6,095	266	30.80	8,584	543	8,041
6,031	291	29.45	8,970	664	8,306
6,554	258	27.94	7,602	444	7,158
5,799	258	32.76	8,859	500	8,359
\$ 71,896	3,178		\$ 97,195 **	\$ 6,838	\$ 90,357

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 4

**DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004		2003
Deficit recognized for the City of Superior			
Regular route	\$ 831,017		\$ 806,955
Disability service	71,896		90,357
Total	\$ 902,913		\$ 897,312
Federal funding - lower of the following			
Percentage limit - 50% of regular route deficit	\$ 415,509		\$ 403,478
Maximum federal share per grant agreement	278,967	(278,967)	260,652
			(260,652)
Deficit recognized by the Wisconsin Department of Transportation			
Net charges to the City of Superior	\$ 902,913		\$ 897,312
Less: maximum federal share	(278,967)		(260,652)
Non-Federal Share	\$ 623,946		\$ 636,660
Wisconsin Department of Transportation funding - lower of the following			
Non-federal share	\$ 623,946		\$ 636,660
Percentage limit for 2004 - 32.3% of operating expenses, less maximum federal share	328,129		N/A
Percentage limit for 2003 - 31.4% of operating expenses	N/A		315,587
Maximum Wisconsin Department of Transportation share per grant agreement	325,279	(325,279)	285,491
			(285,491)
Local Funds Required - City of Superior, Wisconsin	\$ 298,667		\$ 351,169

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 5

**DEFICIT RECOGNIZED FOR FEDERAL AND STATE OPERATING FUNDS
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Regular Route		
Operating revenues in the City of Superior	\$ 107,246	\$ 100,905
Operating expenses in the City of Superior	(938,263)	(907,860)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (831,017)	\$ (806,955)
Disability Service		
Operating revenues in the City of Superior	\$ 5,722	\$ 6,838
Operating expenses in the City of Superior	(77,618)	(97,195)
Disability Service Deficit Recognized for State Operating Funds	\$ (71,896)	\$ (90,357)

This page was left blank intentionally.

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of the Duluth Transit Authority.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of the Duluth Transit Authority and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The reportable condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Duluth Transit Authority were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the Duluth Transit Authority expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program cluster is:

Federal Transit Capital Improvement Grant	CFDA #20.500
Federal Transit Formula Grants	CFDA #20.507
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Duluth Transit Authority was determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-1 Segregation of Duties

Due to the limited number of office personnel within the Duluth Transit Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the Duluth Transit Authority's management be aware of the lack of segregation of accounting functions and develop oversight procedures to ensure that the Authority's internal control policies and procedures are followed by staff.

Client's Response:

We do have oversight procedures in place to ensure that our internal control policies and procedures are being followed. We state that at least one of the two signatures on A/P Checks has to be an original and that person goes through the invoices as they are signing the checks. The DTA's Board of Directors also approves the monthly check register. We are aware of the limited personnel and continue to monitor duties.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-2 Alternative Bid Dissemination Requirements

The Duluth Transit Authority did not comply with Minn. Stat. § 331A.03 when it used an alternative dissemination process for soliciting bids for buses acquired in 2004.

Minn. Stat. § 331A.03, subd. 3, allows the Authority to use its website or a recognized industry trade journal for the dissemination of bids subject to certain requirements. The requirements include the publication, in its official newspaper, of a description of the bids so disseminated including the means by which the dissemination occurred. In addition, for the first six months after the Authority designates an alternative means of dissemination, it must continue to publish bids in its official newspaper in addition to the alternative method. The publication in the official newspaper must indicate where to find the designated alternative method.

We recommend the Board formally adopt an alternative bid dissemination policy and follow the dissemination procedures specified in Minn. Stat. § 331A.03, subd. 3.

Client's Response:

The DTA Board of Directors adopted an alternative bid dissemination policy at its March 2005 board meeting that meets legal requirements.

PREVIOUSLY REPORTED ITEMS RESOLVED

Payment Bond and Performance Bond Requirements (02-1)

The Authority contracted for bus shelter improvements without obtaining performance and payment bonds as required by Minn. Stat. § 574.26.

Resolution

Contracts reviewed for the current audit had performance and payments bonds on file as required by Minn. Stat. § 574.26.

Contracting (03-1)

We noted two contracts where final contract payments were made without obtaining evidence that the contractors had filed Minnesota Department of Revenue Form IC-134, "Withholding Affidavit for Contractors."

Resolution

Contracts reviewed for the current audit did have the required Minnesota Department of Revenue Form IC-134 on file.

OTHER REQUIRED REPORTS

This page was left blank intentionally.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

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

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

We have audited the financial statements of the Duluth Transit Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated February 15, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Duluth Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness, because the Duluth Transit Authority has no long-term debt.

The results of our tests indicate that, for the items tested, the Duluth Transit Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-2.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 15, 2005



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

Compliance

We have audited the compliance of the Duluth Transit Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2004. The Duluth Transit Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Duluth Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Duluth Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Duluth Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Duluth Transit Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated February 15, 2005. Our audit was performed for the purpose of forming an opinion on the Duluth Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 15, 2005

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Direct		
Federal Transit Capital Investment Grant	20.500	\$ <u>1,045,014</u>
Federal Transit Capital Assistance Formula Grant	20.507	\$ 2,300,823
Federal Transit Operating Assistance Formula Grant	20.507	<u>1,004,513</u>
Total CFDA 20.507		\$ <u>3,305,336</u>
Passed Through Minnesota Department of Transportation		
Public Transportation for Nonurbanized Areas	20.509	\$ <u>2,710</u>
Total Federal Awards		\$ <u>4,353,060</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Duluth Transit Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. During 2004, the Authority did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agency.