

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED DECEMBER 31,
2008 AND 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

Tax Increment Financing - 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 Employees 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 Office of the State Auditor's web site: www.auditor.state.mn.us.

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

For the Years Ended December 31, 2008 and 2007



**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

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
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
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 6	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		35
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		38
Schedule of Expenditures of Federal Awards	Schedule 7	41

This page was left blank intentionally.

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2008

Term of Office Ends

Board

Directors

District No. 1

Melanie Hendrickson

June 30, 2009

District No. 2

Aaron Bransky

June 30, 2010

District No. 3

Richard Towey

June 30, 2010

District No. 4

Dennis Birchland

June 30, 2011

District No. 5

Yvonne Harvey

June 30, 2011

At Large

Walter Kramer

June 30, 2009

Alexis Livadaros

June 30, 2010

Sarah Chambers

June 30, 2009

Appointed by Mayor, City of Superior, Wisconsin

Lewis Martin

June 30, 2009

Officers

President

Aaron Bransky

Vice President

Dennis Birchland

Management

ATE Management of Duluth, Inc.

Dennis Jensen, General Manager

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

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)

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, 2008 and 2007. 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, 2008 and 2007, 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 basic 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 required 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 basic 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 June 12, 2009, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2008. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The Authority continued in its multi-year contracts for the U-PASS college transportation program.
- The Authority introduced two new regular bus routes in the fall of 2007. These new routes were added with a new program called JARC (Job Access Reverse Commute).
- In 2007 and continuing into 2008, the Duluth Transit Authority upgraded the interior of the Transit Center East and improved all the downtown bus stops with new locations and shelters. The main facilities' electrical system was also upgraded.
- The Authority's net assets increased from 2007 by 1.4 percent.

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 invested in capital assets, net assets restricted for transit operations, and the unrestricted net 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 financing 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 the City 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 seven days a week. The routes increased by two in the fall of 2007. These were added with the new JARC program. The Authority operated 1,890,810 miles and carried 3,219,758 regular route passengers and 24,519 Para-transit riders during 2008. 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.

From the condensed statement of net assets shown below, total net assets increased by 1.4 percent in 2008 over 2007 and 12.6 percent in 2007 over 2006. The increase in total net assets for 2008 was due to the capital contributions for the acquisition of six vehicles for STRIDE and two buses for regular routes. Other acquisitions included an electrical upgrade for the facility, new bus shelters, and constructing and remodeling of the downtown transit centers. The increase in total net assets for 2007 included the capital contributions for the acquisition of ten buses for regular routes, of which two were hybrids and two were service vehicles.

Condensed Statements of Net Assets (000s)

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Assets			
Current assets	\$ 6,326	\$ 5,377	\$ 4,750
Capital assets	\$ 42,681	\$ 40,242	\$ 41,326
Less: depreciation	(26,167)	(23,277)	(26,184)
Capital assets, net	\$ 16,514	\$ 16,965	\$ 15,142
Total Assets	\$ 22,840	\$ 22,342	\$ 19,892
Current Liabilities	\$ 1,408	\$ 1,214	\$ 1,124
Net Assets			
Invested in capital assets	\$ 16,514	\$ 16,965	\$ 15,142
Restricted for transit operations and capital improvement	4,164	3,409	2,872
Unrestricted	754	754	754
Total Net Assets	\$ 21,432	\$ 21,128	\$ 18,768

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

	Fiscal Year 2008 Actual	Fiscal Year 2008 Budget	Fiscal Year 2007 Actual	Fiscal Year 2006 Actual
Operating revenues	\$ 2,293	\$ 2,232	\$ 2,227	\$ 2,120
Nonoperating revenues	10,778	9,726	10,043	9,714
Total Revenues	\$ 13,071	\$ 11,958	\$ 12,270	\$ 11,834
Operating expenses	14,718	14,579	13,431	12,754
Income (Loss) Before Capital Contributions	\$ (1,647)	\$ (2,621)	\$ (1,161)	\$ (920)
Capital contributions	1,951	2,341	3,521	2,916
Change in Net Assets	\$ 304	\$ (280)	\$ 2,360	\$ 1,996
Net Assets - January 1	21,128	21,128	18,768	16,772
Net Assets - December 31	<u>\$ 21,432</u>	<u>\$ 20,848</u>	<u>\$ 21,128</u>	<u>\$ 18,768</u>

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 increased by \$65,465 to \$2.29 million in 2008, up from \$2.23 million in 2007. The main factor in this increase is an increase in passengers from 2007. Nonoperating revenues increased from \$10.04 million in 2007 to \$10.78 million in 2008. This was an increase of 7.32 percent.

Expenses

The Authority's 2008 operating expenses increased 9.58 percent, or \$1,286,470, over 2007 operating expenses of \$13.43 million, which is primarily due to increases of the price of diesel fuel, gasoline, utilities, and also increased depreciation expense.

BUDGETARY HIGHLIGHTS

The Authority creates an annual operating budget, which includes proposed expenses and the 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's 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.

Future state, federal, and local budget constraints 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 2008, the Duluth Transit Authority had invested \$42.68 million in capital assets. The \$2.4 million increase is primarily due to the addition of six STRIDE vehicles and two buses for regular route. Upgrades were done on the facilities and bus stops.

The Authority's five-year capital plan includes the replacement of approximately 28 full-size buses and three 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 2008 budget. The Authority continues to promote its U-PASS collegiate pass program. The U-PASS program has increased regular route ridership every year from the start. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 19 transit routes in Duluth and Superior at that time. This information was used to adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2008 budget reflects the 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.

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, 2008 AND 2007**

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 4,787,309	\$ 4,712,155
Accounts receivable	57,946	49,130
Due from federal government	80,180	-
Due from State of Minnesota	886,863	90,350
Taxes receivable	79,204	71,500
Due from other governments	225,034	219,018
Inventory	197,913	226,559
Prepaid items	11,100	8,850
	\$ 6,325,549	\$ 5,377,562
Noncurrent assets		
Capital assets	\$ 42,681,496	\$ 40,242,334
Less: allowance for depreciation	(26,167,498)	(23,277,652)
	\$ 16,513,998	\$ 16,964,682
Total Assets	\$ 22,839,547	\$ 22,342,244
Liabilities		
Current liabilities		
Accounts payable	\$ 574,739	\$ 430,842
Accrued salaries payable	272,539	215,092
Accrued vacation payable	487,178	500,557
Claims and judgments payable	4,988	4,988
Deferred revenue	68,340	63,020
	\$ 1,407,784	\$ 1,214,499
Net Assets		
Invested in capital assets	\$ 16,513,998	\$ 16,964,682
Restricted for transit operations and capital improvements	4,163,591	3,408,889
Unrestricted	754,174	754,174
	\$ 21,431,763	\$ 21,127,745

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Operating Revenues		
Charges for services	\$ 2,292,569	\$ 2,227,104
Operating Expenses		
Personal services	\$ 8,414,983	\$ 7,739,827
Supplies	2,023,333	1,606,624
Utilities	318,838	312,624
Other services and charges	1,070,776	1,155,818
Depreciation and amortization	2,889,846	2,616,413
Total Operating Expenses	\$ 14,717,776	\$ 13,431,306
Operating Income (Loss)	\$ (12,425,207)	\$ (11,204,202)
Nonoperating Revenues		
Investment earnings	\$ 125,777	\$ 161,964
Property taxes	1,316,898	1,316,898
Property tax replacement aid - state	1,707,862	1,229,919
Operating grants		
Federal	1,305,216	1,115,325
State	5,237,412	5,209,190
City of Superior, Wisconsin	1,084,815	1,009,082
Total Nonoperating Revenues	\$ 10,777,980	\$ 10,042,378
Net Income (Loss) Before Capital Contributions	\$ (1,647,227)	\$ (1,161,824)
Capital Contributions		
Federal	\$ 1,951,245	\$ 4,301,259
Other - transit hub	-	(780,000)
Total Capital Contributions	\$ 1,951,245	\$ 3,521,259
Change in Net Assets	\$ 304,018	\$ 2,359,435
Net Assets - January 1	21,127,745	18,768,310
Net Assets - December 31	\$ 21,431,763	\$ 21,127,745

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,293,737	\$ 2,213,492
Cash paid to suppliers	(3,343,079)	(2,763,411)
Cash paid to employees	(8,370,915)	(7,697,773)
Net cash provided by (used for) operating activities	\$ (9,420,257)	\$ (8,247,692)
Cash Flows from Noncapital Financing Activities		
Property taxes and aids	\$ 1,309,194	\$ 1,315,115
Property tax replacement aid - state	1,707,862	1,229,919
Federal operating grants	1,305,216	1,115,325
State operating grants	4,440,899	5,571,351
City of Superior, Wisconsin, operating funds	1,074,135	928,925
Net cash provided by (used for) noncapital financing activities	\$ 9,837,306	\$ 10,160,635
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 1,871,065	\$ 4,301,259
Contributions paid to the City of Duluth	-	(780,000)
Acquisition of capital assets	(2,338,737)	(4,438,926)
Net cash provided by (used for) capital and related financing activities	\$ (467,672)	\$ (917,667)
Cash Flows from Investing Activities		
Investment earnings	\$ 125,777	\$ 161,964
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 75,154	\$ 1,157,240
Cash and Cash Equivalents - January 1	4,712,155	3,554,915
Cash and Cash Equivalents - December 31	\$ 4,787,309	\$ 4,712,155
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Net operating income (loss)	\$ (12,425,207)	\$ (11,204,202)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	2,889,846	2,616,413
Decrease (increase) in receivables	(4,152)	(18,873)
Decrease (increase) in inventory	28,646	(44,012)
Decrease (increase) in prepaids	(2,250)	312,714
Increase (decrease) in payables	87,540	85,007
Increase (decrease) in deferred revenue	5,320	5,261
Net Cash Provided by (Used for) Operating Activities	\$ (9,420,257)	\$ (8,247,692)

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, 2008 AND 2007

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 Duluth's 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, 2006, 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 diesel fuel and gasoline inventories are based on perpetual records and priced using the moving average method. The materials and supplies 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 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 ride tickets and tokens are reported as deferred revenue until they are earned.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

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.

6. Capital Contributions

Capital grants received for the acquisition and construction of capital assets are reported as capital contributions. Also reported in this category for 2007 are capital contributions expenses. The Authority constructed a transit hub in conjunction with a City of Duluth construction project, using a federal capital grant. The entire project cost is shown as a capital asset of the City of Duluth. The Duluth Transit Authority's share of \$780,000 is reported as a capital contributions expense on the Authority's 2007 financial statements.

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, 2008, net assets restricted for transit operations and capital improvements were \$4,163,591.

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.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2008 and 2007 Budget to Actual

Minn. Laws 1969, ch. 720, requires an annual budget approved by the City Council of Duluth. Following is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2008 and 2007.

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,231,540	\$ 2,292,569	\$ 61,029
Operating Expenses			
Personal services	\$ 8,356,915	\$ 8,414,983	\$ (58,068)
Supplies	1,813,138	2,023,333	(210,195)
Utilities	287,500	318,838	(31,338)
Other services and charges	1,231,400	1,070,776	160,624
Depreciation and amortization	2,889,846	2,889,846	-
Total Operating Expenses	\$ 14,578,799	\$ 14,717,776	\$ (138,977)
Operating Income (Loss)	\$ (12,347,259)	\$ (12,425,207)	\$ (77,948)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 125,777	\$ 125,777
Property taxes	1,316,900	1,316,898	(2)
Property tax replacement aid - state	1,707,861	1,707,862	1
Operating grants			
Federal	1,105,000	1,305,216	200,216
State	4,584,392	5,237,412	653,020
City of Superior, Wisconsin	1,012,016	1,084,815	72,799
Total Nonoperating Revenues	\$ 9,726,169	\$ 10,777,980	\$ 1,051,811
Net Income (Loss)	\$ (2,621,090)	\$ (1,647,227)	\$ 973,863
Capital contributions			
Federal	2,340,800	1,951,245	(389,555)
Change in Net Assets	\$ (280,290)	\$ 304,018	\$ 584,308

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2008 and 2007 Budget to Actual (Continued)

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,019,577	\$ 2,227,104	\$ 207,527
Operating Expenses			
Personal services	\$ 8,028,244	\$ 7,739,827	\$ 288,417
Supplies	1,928,480	1,606,624	321,856
Utilities	280,000	312,624	(32,624)
Other services and charges	1,191,418	1,155,818	35,600
Depreciation and amortization	2,616,413	2,616,413	-
Total Operating Expenses	\$ 14,044,555	\$ 13,431,306	\$ 613,249
Operating Income (Loss)	\$ (12,024,978)	\$ (11,204,202)	\$ 820,776
Nonoperating Revenues			
Investment earnings	\$ -	\$ 161,964	\$ 161,964
Property taxes	1,316,900	1,316,898	(2)
Property tax replacement aid - state	1,529,919	1,229,919	(300,000)
Operating grants			
Federal	1,105,000	1,115,325	10,325
State	4,807,334	5,209,190	401,856
City of Superior, Wisconsin	1,162,718	1,009,082	(153,636)
Total Nonoperating Revenues	\$ 9,921,871	\$ 10,042,378	\$ 120,507
Net Income (Loss)	\$ (2,103,107)	\$ (1,161,824)	\$ 941,283
Capital contributions			
Federal	\$ 4,301,259	\$ 4,301,259	\$ -
Other - transit hub	(780,000)	(780,000)	-
Total capital contributions	\$ 3,521,259	\$ 3,521,259	\$ -
Change in Net Assets	\$ 1,418,152	\$ 2,359,435	\$ 941,283

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

B. Deposits and Investments

The City of Duluth Treasurer is Treasurer of the Authority as designated by 1969 Minn. Laws, ch. 720. 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. 40, *Deposit and Investment Risk Disclosures*, 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.

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

	December 31	
	2008	2007
City Treasurer - savings account	\$ -	\$ 3,591,813
City Treasurer - checking account	4,748,200	1,075,944
ATE Management - checking account	13,914	20,036
Petty cash fund and change funds	14,960	15,460
Medical flex account	10,235	8,902
	<hr/>	<hr/>
Total Cash and Cash Equivalents	\$ 4,787,309	\$ 4,712,155

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2008 and 2007, follows:

	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	15,114,420	1,180,518	-	16,294,938
Revenue equipment	20,696,903	1,135,248	-	21,832,151
Shop and garage equipment	1,033,636	-	-	1,033,636
Office furniture and equipment	3,021,519	123,396	-	3,144,915
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 40,019,967	\$ 2,439,162	\$ -	\$ 42,459,129
Less: accumulated depreciation for				
Land improvements	\$ 39,955	\$ 9,989	\$ -	\$ 49,944
Buildings and structures	9,920,461	524,165	-	10,444,626
Revenue equipment	10,682,202	1,958,763	-	12,640,965
Shop and garage equipment	775,566	59,511	-	835,077
Office furniture and equipment	1,805,864	337,418	-	2,143,282
Other	53,604	-	-	53,604
Total accumulated depreciation	\$ 23,277,652	\$ 2,889,846	\$ -	\$ 26,167,498
Total capital assets depreciated, net	\$ 16,742,315	\$ (450,684)	\$ -	\$ 16,291,631
Capital Assets, Net	\$ 16,964,682	\$ (450,684)	\$ -	\$ 16,513,998

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2007	Increase	Decrease	Balance December 31, 2007
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	14,698,554	415,866	-	15,114,420
Revenue equipment	22,605,129	3,614,283	5,522,509	20,696,903
Shop and garage equipment	981,380	52,256	-	1,033,636
Office furniture and equipment	2,664,998	356,521	-	3,021,519
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 41,103,550	\$ 4,438,926	\$ 5,522,509	\$ 40,019,967
Less: accumulated depreciation for				
Land improvements	\$ 29,966	\$ 9,989	\$ -	\$ 39,955
Buildings and structures	9,492,617	427,844	-	9,920,461
Revenue equipment	14,407,148	1,797,563	5,522,509	10,682,202
Shop and garage equipment	713,817	61,749	-	775,566
Office furniture and equipment	1,492,597	313,267	-	1,805,864
Other	47,603	6,001	-	53,604
Total accumulated depreciation	\$ 26,183,748	\$ 2,616,413	\$ 5,522,509	\$ 23,277,652
Total capital assets depreciated, net	\$ 14,919,802	\$ 1,822,513	\$ -	\$ 16,742,315
Capital Assets, Net	\$ 15,142,169	\$ 1,822,513	\$ -	\$ 16,964,682

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 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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

D. Risk Management (Continued)

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 \$0 to \$61,000. Changes in the balances of the claims and judgments liability for the years ended December 31, 2008 and 2007, were as follows:

	Liability January 1	Claims and Changes in Estimates	Claim Payments	Liability December 31
2008	\$ 4,988	\$ -	\$ -	\$ 4,988
2007	4,988	-	-	4,988

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 \$1,215,609 for the year ended December 31, 2008, and \$1,141,732 for the year ended December 31, 2007. After deduction of the revenue collected in Superior of \$130,793 in 2008 and \$132,650 in 2007, the amounts actually billed were \$1,084,816 in 2008 and \$1,009,082 in 2007, 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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement (Continued)

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:

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 \$487,178 and \$500,557 at December 31, 2008 and 2007, 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 was \$179.30 per full-time employee per week in 2008.

ATE's contributions for the years ending December 31, 2008, 2007, and 2006, were \$910,844, \$850,048, and \$836,442, 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 Plan

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>2008</u>	<u>2007</u>
Employer	\$ 139,628	\$ 129,092
Employee	23,272	21,516

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,544,545	\$ 1,426,099
Senior citizen fares	207,495	211,134
Student fares	306,700	300,200
Disability fares	10,921	11,112
Total passenger fares for transit service	\$ 2,069,661	\$ 1,948,545
Charter service revenues	\$ 12,244	\$ 10,900
Auxiliary transportation revenues		
Advertising services	\$ 143,276	\$ 110,316
STRIDE	36,394	38,514
Other	30,994	118,829
Total auxiliary transportation revenues	\$ 210,664	\$ 267,659
Total charges for services	\$ 2,292,569	\$ 2,227,104
Nonoperating and Other Revenues		
Investment earnings	\$ 125,777	\$ 161,964
Property taxes	1,316,898	1,316,898
Property tax replacement aid - state	1,707,862	1,229,919
Operating grants		
Federal - Section 5307	1,105,000	1,105,000
Federal - Job Access Reverse Commute	196,240	-
Federal - other	3,976	10,325
State - regular route	4,906,993	4,905,549
State - disability service	330,419	303,641
City of Superior, Wisconsin - regular route	1,000,166	931,628
City of Superior, Wisconsin - disability service	84,649	77,454
Capital grants		
Federal	1,951,245	4,301,259
Total nonoperating and other revenues	\$ 12,729,225	\$ 14,343,637
Total Revenues	\$ 15,021,794	\$ 16,570,741

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008		
	Vehicle Operations	Vehicle Maintenance	General Administration
Personal services			
Labor			
Operations - salaries and wages	\$ 3,262,166	\$ -	\$ -
Other salaries and wages	-	860,348	637,101
Fringe benefits	2,506,364	659,898	489,106
Total personal services	\$ 5,768,530	\$ 1,520,246	\$ 1,126,207
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,465,047	\$ 21,218	\$ -
Tires and tubes	59,000	-	-
Other materials and supplies	2,022	324,731	151,315
Total supplies	\$ 1,526,069	\$ 345,949	\$ 151,315
Utilities	\$ -	\$ -	\$ 318,838
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 205,814
Professional and technical services	5,719	15,316	105,819
Temporary help	-	-	660
Other services	-	21,405	45,690
Casualty and liability costs	-	-	174,569
Taxes and fees	1,431	378	11,476
Miscellaneous			
Dues and subscriptions	-	-	7,305
Travel and meetings	-	4,258	22,614
Advertising and promotional media	-	-	40,747
Purchased transportation service	-	-	401,928
Other	495	1,172	3,980
Lease and rental expense	-	-	-
Total other services and charges	\$ 7,645	\$ 42,529	\$ 1,020,602
Depreciation and amortization	\$ 2,317,427	\$ 94,096	\$ 478,323
Total Expenses*	\$ 9,619,671	\$ 2,002,820	\$ 3,095,285

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$655,882 for 2008 and \$616,679 for 2007.

Schedule 2

2007				
Total	Vehicle Operations	Vehicle Maintenance	General Administration	Total
\$ 3,262,166	\$ 3,004,353	\$ -	\$ -	\$ 3,004,353
1,497,449	-	783,377	609,437	1,392,814
3,655,368	2,283,088	595,540	464,032	3,342,660
\$ 8,414,983	\$ 5,287,441	\$ 1,378,917	\$ 1,073,469	\$ 7,739,827
\$ 1,486,265	\$ 1,049,599	\$ 16,016	\$ -	\$ 1,065,615
59,000	52,610	1,062	-	53,672
478,068	503	328,670	158,164	487,337
\$ 2,023,333	\$ 1,102,712	\$ 345,748	\$ 158,164	\$ 1,606,624
\$ 318,838	\$ -	\$ -	\$ 312,624	\$ 312,624
\$ 205,814	\$ -	\$ -	\$ 200,800	\$ 200,800
126,854	10,287	35,054	146,099	191,440
660	-	-	2,274	2,274
67,095	-	14,496	46,202	60,698
174,569	-	-	202,780	202,780
13,285	894	175	18,008	19,077
7,305	-	-	4,888	4,888
26,872	980	3,969	21,493	26,442
40,747	-	-	44,622	44,622
401,928	-	-	392,012	392,012
5,647	129	488	10,018	10,635
-	150	-	-	150
\$ 1,070,776	\$ 12,440	\$ 54,182	\$ 1,089,196	\$ 1,155,818
\$ 2,889,846	\$ 2,076,811	\$ 95,255	\$ 444,347	\$ 2,616,413
\$ 14,717,776	\$ 8,479,404	\$ 1,874,102	\$ 3,077,800	\$ 13,431,306

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

Month	Total Hours Operating in Superior	Operating Charge Per Hour	2008	
			Total Charge	Income from Runs in Superior
Regular Route				
January	1,195	\$ 86.60	\$ 103,522	\$ 11,620
February	1,150	76.17	87,573	11,454
March	1,197	76.82	91,969	8,836
April	1,195	84.47	97,115 *	10,753
May	1,177	77.84	91,633	11,350
June	1,170	83.79	98,009	11,764
July	1,196	75.43	91,225 *	10,552
August	1,197	79.56	95,249	9,998
September	1,150	78.83	90,631	9,901
October	1,241	80.99	100,517	9,046
November	1,106	74.11	81,951	9,357
December	1,195	80.57	95,427 *	10,023
Total Regular Route	14,169		\$ 1,124,821	\$ 124,654
Disability Service				
January	185	\$ 30.15	\$ 5,977	\$ 517
February	177	40.43	7,573	544
March	186	36.86	7,281	497
April	170	38.46	6,955	369
May	181	38.91	7,430	507
June	140	38.15	5,758	414
July	180	39.82	7,555	491
August	198	39.92	8,311	537
September	232	38.71	9,368	622
October	251	37.55	9,832	721
November	192	38.03	7,728	484
December	169	39.13	7,020	436
Total Disability Service	2,261		\$ 90,788	*** \$ 6,139

*Monthly charges in 2008 include adjusted services of 45.70 hours for April, 14 hours for July, and 11 hours for December not applied to the operating charge per hour.

**Monthly charges for 2007 include direct charter service of 20.00 hours for February, 45.70 hours for March, and 16.70 hours for July not applied to 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

2007					
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
\$ 91,902	1,195	\$ 77.72	\$ 92,906	\$ 9,218	\$ 83,688
76,119	1,104	75.19	81,506 **	12,717	68,789
83,133	1,223	76.18	89,679 **	10,519	79,160
86,362	1,170	80.56	94,231	9,289	84,942
80,283	1,195	74.97	89,619	9,611	80,008
86,245	1,177	73.56	86,595	10,105	76,490
80,673	1,170	70.35	83,463 **	9,516	73,947
85,251	1,241	73.55	91,283	11,034	80,249
80,730	1,106	69.81	77,196	9,469	67,727
91,471	1,241	79.33	98,456	12,676	85,780
72,594	1,150	68.03	78,214	11,559	66,655
85,404	1,152	82.50	94,998	10,805	84,193
\$ 1,000,167	14,124		\$ 1,058,146	\$ 126,518	\$ 931,628
\$ 5,460	186	\$ 37.76	\$ 7,440	\$ 548	\$ 6,892
7,029	159	37.86	6,408	468	5,940
6,784	149	39.60	6,297	447	5,850
6,586	188	39.09	7,746	538	7,208
6,923	186	38.11	7,505	487	7,018
5,344	158	37.59	6,356	528	5,828
7,064	183	38.78	7,494	520	6,974
7,774	172	38.93	7,113	531	6,582
8,746	182	37.69	7,266	489	6,777
9,111	207	40.00	8,707	619	8,088
7,244	146	39.26	6,139	527	5,612
6,584	150	31.49	5,115	430	4,685
\$ 84,649	2,066		\$ 83,586 ***	\$ 6,132	\$ 77,454

**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, 2008 AND 2007**

	2008	2007
Deficit recognized for the City of Superior		
Regular route	\$ 1,000,167	\$ 931,628
Disability service	84,649	77,454
Total	\$ 1,084,816	\$ 1,009,082
Federal funding - lower of the following		
Percentage limit - 50% of regular route deficit	\$ 500,084	\$ 465,814
Maximum federal share per grant agreement	367,442 (367,442)	399,262 (399,262)
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,084,816	\$ 1,009,082
Less: maximum federal share	(367,442)	(399,262)
Non-Federal Share	\$ 717,374	\$ 609,820
Wisconsin Department of Transportation funding - lower of the following		
Non-federal share	\$ 717,374	\$ 609,820
Percentage limit for 2008 - 27.38% of operating expenses	332,834	N/A
Percentage limit for 2007 - 25.80% of operating expenses	N/A	294,567
Maximum Wisconsin Department of Transportation share per grant agreement	336,346 (332,834)	320,581 (294,567)
Local Funds Required - City of Superior, Wisconsin	\$ 384,540	\$ 315,253

**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, 2008 AND 2007**

	2008	2007
Regular Route		
Operating revenues in the City of Superior	\$ 124,654	\$ 126,518
Operating expenses in the City of Superior	(1,124,821)	(1,058,146)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,000,167)	\$ (931,628)
 Disability Service		
Operating revenues in the City of Superior	\$ 6,139	\$ 6,132
Operating expenses in the City of Superior	(90,788)	(83,586)
Disability Service Deficit Recognized for State Operating Funds	\$ (84,649)	\$ (77,454)

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, 2008

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Duluth Transit Authority.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Duluth Transit Authority and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The significant deficiency was 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 programs 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 programs for the Duluth Transit Authority expresses an unqualified opinion.
- F. A finding relative to a major federal award program for the Duluth Transit Authority was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major program cluster is:
 - Federal Transit Cluster
 - Federal Transit Capital Investment 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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Duluth Transit Authority and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Duluth Transit Authority. This decision was based on the availability of the Authority's staff and the cost benefit of using our expertise. During our audit, we formatted information from the Authority's financial records to the financial statements as reported.

We recommend the Authority Board be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Authority Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

We are aware of the limited personnel and continue to monitor duties. Oversight procedures are in place to ensure that our internal control policies and procedures are being followed.

PREVIOUSLY REPORTED ITEMS RESOLVED

Cancellation of Invoices (07-1)

In our prior audit testing of controls over disbursements, we noted that 5 of the 40 sample items tested had invoices not marked as canceled.

Resolution

In our current year testing, all items reviewed were properly canceled upon payment.

Bus Pass Sales Reconciliation (07-2)

Our review of bus pass sales showed that the Authority's staff was not reconciling bus pass sales and the cash collections on the sales to the information recorded by the Printing and Encoding Machines (PEM).

Resolution

During the current year, procedures were implemented to prepare more detailed PEM batch reports and cash sales reports. These reports are turned in monthly to the Authority's Finance Department to compare with the PEM reports.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

COMPLIANCE

ITEM ARISING THIS YEAR

08-1 Federal Transit Capital Investment Grant, CFDA #20.500, and Federal Transit Formula Grants, CFDA #20.507 – Davis-Bacon Act Monitoring

The Duluth Transit Authority does not have adequate monitoring procedures in place to determine that its contractors are in compliance with the Davis-Bacon Act regarding the payment of prevailing wage rates.

Under the Davis-Bacon Act compliance guidelines, it is required for the contractor or subcontractor to submit to the non-federal entity, for each week in which any contract work is performed, a copy of their payroll and a statement of compliance. The Authority believed its contracted engineers were performing this monitoring, but neither party was obtaining the contractor payrolls or statements of compliance and reviewing them for payment of proper wage rates.

We recommend that Authority personnel implement procedures to ensure that for contractors being paid with federal funding, the Davis-Bacon Act requirements are being met, and adequate monitoring is being done to substantiate proper wages are being paid.

Corrective Action Plan:

Contact:

James Heilig - Director of Administration

Action Plan:

The DTA will internally monitor Davis Bacon with the assistance of the City of Duluth. At least one payroll sheet with job classifications per month of service will be collected from contractors. The City of Duluth will then assist the DTA to insure that the rates paid meet the prevailing wage as per Davis Bacon.

Anticipated Date of Completion:

Immediately.



REBECCA OTTO
STATE AUDITOR

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)

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

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

We have audited the basic financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 12, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 04-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described 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.

The Duluth Transit Authority's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and Mayor and City Council of Duluth, management, others within the Duluth Transit Authority, 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/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 12, 2009

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

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)

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, a component unit of the City of Duluth, 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, 2008. 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 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 its major federal programs for the year ended December 31, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 08-1.

Internal Control Over Compliance

The management of 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Duluth Transit Authority's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2008, and have issued our report thereon dated June 12, 2009. 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.

The Duluth Transit Authority's corrective action plan to the federal compliance finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and Mayor and City Council of Duluth, management, and others within the Duluth Transit Authority, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 12, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Direct		
Federal Transit Cluster		
Federal Transit Capital Investment Grant	20.500	\$ 1,070,552
Federal Transit Capital Assistance Formula Grant	20.507	880,693
Federal Transit Operating Assistance Formula Grant	20.507	1,105,000
Passed Through Minnesota Department of Transportation		
Public Transportation for Nonurbanized Areas	20.509	3,976
Job Access Reverse Commute	20.516	196,240
Total Federal Awards		<u>\$ 3,256,461</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 2008, the Authority did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agency.