

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

FOR THE YEARS ENDED DECEMBER 31,  
2010 AND 2009

## **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.

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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](http://www.auditor.state.mn.us).

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

**For the Years Ended December 31,  
2010 and 2009**



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

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2010

Term of  
Office Ends

Board

Directors

District No. 1

Melanie Hendrickson

June 30, 2012

District No. 2

Aaron Bransky

December 31, 2010

District No. 3

Richard Towey

December 31, 2010

District No. 4

Dennis Birchland

June 30, 2011

District No. 5

Open

At Large

Walter Kramer

June 30, 2012

Alexis Livadaros

December 31, 2010

John Brostrom

June 30, 2012

Appointed by Mayor, City of Superior, Wisconsin

Leslie Evans

June 30, 2012

Officers

President

Aaron Bransky

Vice President

Dennis Birchland

Management

ATE Management of Duluth, Inc.

Dennis Jensen, General Manager

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### 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 as listed in the table of contents of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2010 and 2009. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. 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, 2010 and 2009, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the Duluth Transit Authority's basic financial statements taken as a whole. The supplemental information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 11, 2011, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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

May 11, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010  
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2010. This information should be read in conjunction with the financial statements.

**FINANCIAL AND OPERATIONAL 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). The JARC program has been funded through fiscal year 2011.
- The Authority entered into a contract with MNDOT for the I-35 construction project. This contract includes increased service on the western corridor of Duluth to help with traffic mitigation. The construction dates are from May - October 2010 and April - October 2011.
- The Authority purchased ten 40-foot buses in 2010. Facility improvements included replacing the HVAC units both at the operating center and Transit Center East, garage floor repair, replacing the bus hoists in the shop, a computer server and software.

The Authority's net assets increased from 2009 by 8.7 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 capital improvements, 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 fixed route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 20 fixed routes and provides service seven days a week. The Authority operated 1,918,073 miles and carried 3,171,086 fixed route passengers and 25,590 Para-transit riders during 2010. 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 8.7 percent in 2010 over 2009 and 14.3 percent in 2009 over 2008. The increase in total net assets for 2010 was due to the capital contributions for the acquisition of ten diesel buses for fixed route service. The increase in total net assets for 2009 was due to the capital contributions for the acquisition of four diesel buses and four diesel/electric hybrid buses for fixed route service. Other acquisitions included facility improvements and operation software for both 2009 and 2010.

### Condensed Statements of Net Assets (000s)

	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
	<u>          </u>	<u>          </u>	<u>          </u>
Assets			
Current assets	\$ 8,264	\$ 7,141	\$ 6,326
Capital assets	\$ 49,748	\$ 47,679	\$ 42,681
Less: depreciation	<u>(29,977)</u>	<u>(29,222)</u>	<u>(26,167)</u>
Capital assets, net	<u>\$ 19,771</u>	<u>\$ 18,457</u>	<u>\$ 16,514</u>
Total Assets	<u>\$ 28,035</u>	<u>\$ 25,598</u>	<u>\$ 22,840</u>
Current Liabilities	<u>\$ 1,390</u>	<u>\$ 1,094</u>	<u>\$ 1,408</u>
Net Assets			
Invested in capital assets	\$ 19,771	\$ 18,457	\$ 16,514
Restricted for transit operations and capital improvement	6,120	5,293	4,164
Unrestricted	<u>754</u>	<u>754</u>	<u>754</u>
Total Net Assets	<u><u>\$ 26,645</u></u>	<u><u>\$ 24,504</u></u>	<u><u>\$ 21,432</u></u>

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

	Fiscal Year 2010 Actual	Fiscal Year 2010 Budget	Fiscal Year 2009 Actual	Fiscal Year 2008 Actual
Operating revenues	\$ 2,206	\$ 2,269	\$ 2,237	\$ 2,293
Nonoperating revenues	11,384	11,364	11,234	10,778
Total Revenues	\$ 13,590	\$ 13,633	\$ 13,471	\$ 13,071
Operating expenses	15,571	16,164	14,571	14,718
Income (Loss) Before Capital Contributions	\$ (1,981)	\$ (2,531)	\$ (1,100)	\$ (1,647)
Capital contributions	4,122	2,341	4,172	1,951
Change in Net Assets	\$ 2,141	\$ (190)	\$ 3,072	\$ 304
Net Assets - January 1	24,504	24,504	21,432	21,128
Net Assets - December 31	<u>\$ 26,645</u>	<u>\$ 24,314</u>	<u>\$ 24,504</u>	<u>\$ 21,432</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 decreased by 1.4 percent to \$2.21 million in 2010, down from \$2.24 million in 2009. Passengers also decreased in 2010 from 2009 by 0.1 percent. Non-operating revenues increased from \$11.23 million in 2009 to \$11.38 million in 2010. This was an increase of 1.33 percent.

## Expenses

The Authority's 2010 operating expenses increased 6.90 percent, or \$999,852, over 2009 operating expenses of \$14.57 million. The 2010 fuel prices were higher when compared with 2009 fuel prices. Services were also increased due to the I-35 construction project and traffic mitigation services.

## 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'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 50 percent of the State's subsidy comes from the Motor Vehicle Sales Tax. This money is constitutionally dedicated to transportation. However, it has not increased in recent years as it did in the 1990's. The remaining State share comes from the General Fund and is at the discretion of the Legislature and Governor.

## **CAPITAL ASSETS**

By the end of fiscal year 2010, the Duluth Transit Authority had invested \$49.75 million in capital assets. The \$2.07 million increase is primarily due to the addition of ten 40-foot diesel buses. Upgrades were done on the facilities and shop equipment. A computer server was added along with some computer software upgrades.

The Authority's five-year capital plan includes the replacement of approximately 25 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 2010 budget. The Authority continues to promote its U-PASS collegiate pass program. The U-PASS program has increased fixed route ridership nearly 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 2010 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE expenses. The cost of fuel is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2010 budget.

## **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.

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## **BASIC FINANCIAL STATEMENTS**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT 1*

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,539,440	\$ 6,524,278
Accounts receivable	40,323	41,496
Due from State of Minnesota	215,877	175,738
Taxes receivable	51,711	53,980
Due from other governments	122,125	126,701
Inventory	201,777	209,624
Prepaid items	92,145	8,972
<b>Total current assets</b>	<b>\$ 8,263,398</b>	<b>\$ 7,140,789</b>
Noncurrent assets		
Capital assets	\$ 49,748,460	\$ 47,678,753
Less: allowance for depreciation	(29,976,998)	(29,221,848)
<b>Noncurrent assets - net</b>	<b>\$ 19,771,462</b>	<b>\$ 18,456,905</b>
<b>Total Assets</b>	<b>\$ 28,034,860</b>	<b>\$ 25,597,694</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 419,187	\$ 197,178
Accrued salaries payable	347,407	302,832
Accrued vacation payable	541,977	519,195
Deferred revenue	81,208	74,592
<b>Total Liabilities</b>	<b>\$ 1,389,779</b>	<b>\$ 1,093,797</b>
<b>Net Assets</b>		
Invested in capital assets	\$ 19,771,462	\$ 18,456,905
Restricted for transit operations and capital improvements	6,119,445	5,292,818
Unrestricted	754,174	754,174
<b>Total Net Assets</b>	<b>\$ 26,645,081</b>	<b>\$ 24,503,897</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 2**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>		
Charges for services	\$ 2,205,569	\$ 2,236,580
<b>Operating Expenses</b>		
Personal services	\$ 9,033,869	\$ 8,698,370
Supplies	1,591,876	1,345,310
Utilities	240,597	285,547
Other services and charges	1,179,402	1,187,226
Depreciation and amortization	3,524,912	3,054,351
<b>Total Operating Expenses</b>	<b>\$ 15,570,656</b>	<b>\$ 14,570,804</b>
<b>Operating Income (Loss)</b>	<b>\$ (13,365,087)</b>	<b>\$ (12,334,224)</b>
<b>Nonoperating Revenues</b>		
Investment earnings	\$ 70,462	\$ 71,048
Property taxes	1,316,900	1,316,922
Property tax replacement aid - state	3,419,100	3,426,300
Operating grants		
Federal	1,290,600	1,489,465
State	4,192,574	3,879,030
City of Superior, Wisconsin	1,093,914	1,051,560
<b>Total Nonoperating Revenues</b>	<b>\$ 11,383,550</b>	<b>\$ 11,234,325</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ (1,981,537)</b>	<b>\$ (1,099,899)</b>
<b>Capital Contributions</b>		
Federal	4,122,721	4,172,033
<b>Change in Net Assets</b>	<b>\$ 2,141,184</b>	<b>\$ 3,072,134</b>
<b>Net Assets - January 1</b>	<b>24,503,897</b>	<b>21,431,763</b>
<b>Net Assets - December 31</b>	<b>\$ 26,645,081</b>	<b>\$ 24,503,897</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 3**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,221,728	\$ 2,276,126
Payments to suppliers	(2,865,192)	(3,109,790)
Payments to employees	(8,966,512)	(8,636,060)
	<b>\$ (9,609,976)</b>	<b>\$ (9,469,724)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes and aids	\$ 1,319,169	\$ 1,342,146
Property tax replacement aid - state	3,419,100	3,426,300
Federal operating grants	1,290,600	1,458,636
State operating grants	4,152,435	4,620,984
City of Superior, Wisconsin, operating funds	1,090,120	1,133,049
	<b>\$ 11,271,424</b>	<b>\$ 11,981,115</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants and contributions	\$ 4,122,721	\$ 4,252,213
Acquisition or construction of capital assets	(4,839,469)	(5,097,683)
	<b>\$ (716,748)</b>	<b>\$ (845,470)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	\$ 70,462	\$ 71,048
	<b>\$ 1,015,162</b>	<b>\$ 1,736,969</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 1,015,162</b>	<b>\$ 1,736,969</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>6,524,278</b>	<b>4,787,309</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 7,539,440</b>	<b>\$ 6,524,278</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
<b>Operating income (loss)</b>	<b>\$ (13,365,087)</b>	<b>\$ (12,334,224)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>		
Depreciation and amortization	3,524,912	3,054,351
(Increase) decrease in receivables	9,543	33,294
(Increase) decrease in inventories	7,847	(11,711)
(Increase) decrease in prepaid items	(83,173)	2,128
Increase (decrease) in payables	289,366	(219,814)
Increase (decrease) in deferred revenue	6,616	6,252
	<b>\$ (9,609,976)</b>	<b>\$ (9,469,724)</b>

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

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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.

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

4. Deferred Revenue

Unredeemed ride 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 three times a year--in January, June, and October. 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.

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, 2010, net assets restricted for transit operations and capital improvements were \$6,119,445.

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. 2010 and 2009 Budget to Actual

As required by 1969 Minn. Laws, ch. 720, the Authority's annual budget is 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, 2010 and 2009.

	2010		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,269,014	\$ 2,205,569	\$ (63,445)
Operating Expenses			
Personal services	\$ 9,196,696	\$ 9,033,869	\$ 162,827
Supplies	1,825,484	1,591,876	233,608
Utilities	350,000	240,597	109,403
Other services and charges	1,266,875	1,179,402	87,473
Depreciation and amortization	3,524,912	3,524,912	-
Total Operating Expenses	\$ 16,163,967	\$ 15,570,656	\$ 593,311
Operating Income (Loss)	\$ (13,894,953)	\$ (13,365,087)	\$ 529,866
Nonoperating Revenues			
Investment earnings	\$ -	\$ 70,462	\$ 70,462
Property taxes	1,316,900	1,316,900	-
Property tax replacement aid - state	3,419,100	3,419,100	-
Operating grants			
Federal	1,105,000	1,290,600	185,600
State	4,493,100	4,192,574	(300,526)
City of Superior, Wisconsin	1,029,889	1,093,914	64,025
Total Nonoperating Revenues	\$ 11,363,989	\$ 11,383,550	\$ 19,561
Net Income (Loss)	\$ (2,530,964)	\$ (1,981,537)	\$ 549,427
Capital Contributions			
Federal	2,340,800	4,122,721	1,781,921
Change in Net Assets	\$ (190,164)	\$ 2,141,184	\$ 2,331,348

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2010 and 2009 Budget to Actual (Continued)

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,289,480	\$ 2,236,580	\$ (52,900)
Operating Expenses			
Personal services	\$ 9,199,693	\$ 8,698,370	\$ 501,323
Supplies	2,794,202	1,345,310	1,448,892
Utilities	315,000	285,547	29,453
Other services and charges	1,230,229	1,187,226	43,003
Depreciation and amortization	3,054,351	3,054,351	-
Total Operating Expenses	\$ 16,593,475	\$ 14,570,804	\$ 2,022,671
Operating Income (Loss)	\$ (14,303,995)	\$ (12,334,224)	\$ 1,969,771
Nonoperating Revenues			
Investment earnings	\$ -	\$ 71,048	\$ 71,048
Property taxes	1,316,900	1,316,922	22
Property tax replacement aid - state	3,426,300	3,426,300	-
Operating grants			
Federal	1,105,000	1,489,465	384,465
State	4,485,900	3,879,030	(606,870)
City of Superior, Wisconsin	1,145,412	1,051,560	(93,852)
Total Nonoperating Revenues	\$ 11,479,512	\$ 11,234,325	\$ (245,187)
Net Income (Loss)	\$ (2,824,483)	\$ (1,099,899)	\$ 1,724,584
Capital Contributions			
Federal	2,340,800	4,172,033	1,831,233
Change in Net Assets	\$ (483,683)	\$ 3,072,134	\$ 3,555,817

B. Deposits and Investments

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

B. Deposits and Investments (Continued)

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

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	
	2010	2009
City Treasurer - checking account	\$ 7,492,623	\$ 6,493,198
ATE Management - checking account	15,953	4,600
Petty cash fund and change funds	14,960	14,960
Medical flex account	15,904	11,520
Total Cash and Cash Equivalents	\$ 7,539,440	\$ 6,524,278

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2010 and 2009 follows:

	Balance January 1, 2010	Increase	Decrease	Reclassification	Balance December 31, 2010
Capital assets not depreciated					
Land	\$ 222,367	\$ -	\$ -	\$ -	\$ 222,367
Capital assets depreciated					
Land improvements	\$ 99,886	\$ -	\$ -	\$ -	\$ 99,886
Buildings and structures	17,153,215	566,177	50,606	101,206	17,769,992
Revenue equipment	25,392,158	3,815,519	2,665,553	-	26,542,124
Shop and garage equipment	1,162,401	338,717	-	-	1,501,118
Office furniture and equipment	3,595,123	119,056	-	(101,206)	3,612,973
Other	53,603	-	53,603	-	-
Total capital assets depreciated	\$ 47,456,386	\$ 4,839,469	\$ 2,769,762	\$ -	\$ 49,526,093

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2010	Increase	Decrease	Reclassification	Balance December 31, 2010
Less: accumulated depreciation for					
Land improvements	\$ 59,933	\$ 9,988	\$ -	\$ -	\$ 69,921
Buildings and structures	11,030,988	676,731	50,606	60,726	11,717,839
Revenue equipment	14,616,429	2,323,244	2,665,552	-	14,274,121
Shop and garage equipment	899,025	94,580	-	-	993,605
Office furniture and equipment	2,561,869	420,369	-	(60,726)	2,921,512
Other	53,604	-	53,604	-	-
Total accumulated depreciation	<u>\$ 29,221,848</u>	<u>\$ 3,524,912</u>	<u>\$ 2,769,762</u>	<u>\$ -</u>	<u>\$ 29,976,998</u>
Total capital assets depreciated, net	<u>\$ 18,234,538</u>	<u>\$ 1,314,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,549,095</u>
Capital Assets, Net	<u>\$ 18,456,905</u>	<u>\$ 1,314,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,771,462</u>

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	16,294,938	858,277	-	17,153,215
Revenue equipment	21,832,151	3,560,007	-	25,392,158
Shop and garage equipment	1,033,636	128,765	-	1,162,401
Office furniture and equipment	3,144,915	450,208	-	3,595,123
Other	53,603	-	-	53,603
Total capital assets depreciated	<u>\$ 42,459,129</u>	<u>\$ 4,997,257</u>	<u>\$ -</u>	<u>\$ 47,456,386</u>
Less: accumulated depreciation for				
Land improvements	\$ 49,944	\$ 9,989	\$ -	\$ 59,933
Buildings and structures	10,444,626	586,362	-	11,030,988
Revenue equipment	12,640,965	1,975,464	-	14,616,429
Shop and garage equipment	835,077	63,948	-	899,025
Office furniture and equipment	2,143,282	418,587	-	2,561,869
Other	53,604	-	-	53,604
Total accumulated depreciation	<u>\$ 26,167,498</u>	<u>\$ 3,054,350</u>	<u>\$ -</u>	<u>\$ 29,221,848</u>
Total capital assets depreciated, net	<u>\$ 16,291,631</u>	<u>\$ 1,942,907</u>	<u>\$ -</u>	<u>\$ 18,234,538</u>
Capital Assets, Net	<u>\$ 16,513,998</u>	<u>\$ 1,942,907</u>	<u>\$ -</u>	<u>\$ 18,456,905</u>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts (Continued)

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 amount of that loss can be reasonably estimated. In addition, several incidents have occurred in the Authority's bus operations 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 \$153,000. Changes in the balances of the claims and judgments liability for the years ended December 31, 2010 and 2009 were as follows:

	Liability January 1	Claims and Changes in Estimates	Claim Payments	Liability December 31
2010	\$ -	\$ -	\$ -	\$ -
2009	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 the City of 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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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3. Operations in the City of Superior, Wisconsin (Continued)

Charges to the City of Superior totaled \$1,212,898 for the year ended December 31, 2010, and \$1,170,393 for the year ended December 31, 2009. After deduction of the revenue collected in Superior of \$118,984 in 2010 and \$118,833 in 2009, the amounts actually billed were \$1,093,914 in 2010 and \$1,051,560 in 2009, 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:

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 \$541,977 and \$519,195 at December 31, 2010 and 2009, 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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement (Continued)

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.

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 \$209.10 per full-time employee per week in 2010.

ATE's contributions for the years ending December 31, 2010, 2009, and 2008, were \$1,098,974, \$999,869, and \$910,844, 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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement

B. Retirement Plans (Continued)

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>2010</u>	<u>2009</u>
Employer	\$ 144,349	\$ 143,669
Employee	24,058	23,945



**SUPPLEMENTAL INFORMATION**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT A-1*

**COMPARATIVE STATEMENT OF REVENUES  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Charges for Services</b>		
Passenger fares for transit service		
Adult fares	\$ 1,471,417	\$ 1,553,906
Senior citizen fares	134,612	138,090
Student fares	331,438	320,350
Disability fares	14,957	15,362
	<b>\$ 1,952,424</b>	<b>\$ 2,027,708</b>
<b>Total passenger fares for transit service</b>	<b>\$ 1,952,424</b>	<b>\$ 2,027,708</b>
<b>Charter service revenues</b>	<b>\$ 16,844</b>	<b>\$ 15,094</b>
<b>Auxiliary transportation revenues</b>		
Advertising services	\$ 99,574	\$ 122,130
STRIDE	39,974	37,908
Other	96,753	33,740
	<b>\$ 236,301</b>	<b>\$ 193,778</b>
<b>Total auxiliary transportation revenues</b>	<b>\$ 236,301</b>	<b>\$ 193,778</b>
<b>Total charges for services</b>	<b>\$ 2,205,569</b>	<b>\$ 2,236,580</b>
<b>Nonoperating and Other Revenues</b>		
Investment earnings	\$ 70,462	\$ 71,048
Property taxes	1,316,900	1,316,922
Property tax replacement aid - state	3,419,100	3,426,300
Operating grants		
Federal - Section 5307	1,105,000	1,300,000
Federal - Job Access Reverse Commute	182,046	188,028
Federal - other	3,554	1,437
State - regular route	3,944,674	3,642,700
State - disability service	247,900	236,330
City of Superior, Wisconsin - regular route	1,015,578	975,224
City of Superior, Wisconsin - disability service	78,336	76,336
Capital grants		
Federal	4,122,721	4,172,033
	<b>\$ 15,506,271</b>	<b>\$ 15,406,358</b>
<b>Total nonoperating and other revenues</b>	<b>\$ 15,506,271</b>	<b>\$ 15,406,358</b>
<b>Total Revenues</b>	<b>\$ 17,711,840</b>	<b>\$ 17,642,938</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
<b>Personal services</b>			
Labor			
Operations - salaries and wages	\$ 3,417,198	\$ -	\$ -
Other salaries and wages	-	911,241	639,667
Fringe benefits	2,797,117	745,135	523,511
<b>Total personal services</b>	<b>\$ 6,214,315</b>	<b>\$ 1,656,376</b>	<b>\$ 1,163,178</b>
<b>Supplies</b>			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,056,260	\$ 15,570	\$ -
Tires and tubes	76,448	660	-
Other materials and supplies	22,715	317,850	102,373
<b>Total supplies</b>	<b>\$ 1,155,423</b>	<b>\$ 334,080</b>	<b>\$ 102,373</b>
<b>Utilities</b>	<b>\$ 26,990</b>	<b>\$ -</b>	<b>\$ 213,607</b>
<b>Other services and charges</b>			
Services			
Management service fee	\$ -	\$ -	\$ 215,340
Professional and technical services	113,713	38,406	150,968
Temporary help	-	-	2,460
Other services	664	60,745	5,349
Casualty and liability costs	-	-	206,031
Taxes and fees	1,063	170	14,098
Miscellaneous			
Dues and subscriptions	-	-	6,269
Travel and meetings	-	3,325	20,397
Advertising and promotional media	-	-	45,518
Purchased transportation service	-	-	290,388
Other	689	750	3,059
<b>Total other services and charges</b>	<b>\$ 116,129</b>	<b>\$ 103,396</b>	<b>\$ 959,877</b>
<b>Depreciation and amortization</b>	<b>\$ 2,774,042</b>	<b>\$ 140,108</b>	<b>\$ 610,762</b>
<b>Total Expenses*</b>	<b>\$ 10,286,899</b>	<b>\$ 2,233,960</b>	<b>\$ 3,049,797</b>

\*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$637,692 for 2010 and \$637,806 for 2009.

EXHIBIT A-2

2009				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 3,417,198	\$ 3,340,828	\$ -	\$ -	\$ 3,340,828
1,550,908	-	874,922	663,063	1,537,985
4,065,763	2,614,498	685,420	519,639	3,819,557
<b>\$ 9,033,869</b>	<b>\$ 5,955,326</b>	<b>\$ 1,560,342</b>	<b>\$ 1,182,702</b>	<b>\$ 8,698,370</b>
\$ 1,071,830	\$ 813,490	\$ 14,452	\$ -	\$ 827,942
77,108	70,642	152	-	70,794
442,938	19,338	330,678	96,558	446,574
<b>\$ 1,591,876</b>	<b>\$ 903,470</b>	<b>\$ 345,282</b>	<b>\$ 96,558</b>	<b>\$ 1,345,310</b>
<b>\$ 240,597</b>	<b>\$ 3,326</b>	<b>\$ -</b>	<b>\$ 282,221</b>	<b>\$ 285,547</b>
\$ 215,340	\$ -	\$ -	\$ 210,960	\$ 210,960
303,087	110,319	57,975	107,958	276,252
2,460	-	-	668	668
66,758	-	62,462	12,127	74,589
206,031	-	-	243,469	243,469
15,331	838	8,757	6,808	16,403
6,269	-	-	5,686	5,686
23,722	3,770	478	17,885	22,133
45,518	-	-	30,200	30,200
290,388	-	-	304,625	304,625
4,498	-	512	1,729	2,241
<b>\$ 1,179,402</b>	<b>\$ 114,927</b>	<b>\$ 130,184</b>	<b>\$ 942,115</b>	<b>\$ 1,187,226</b>
<b>\$ 3,524,912</b>	<b>\$ 2,393,967</b>	<b>\$ 101,075</b>	<b>\$ 559,309</b>	<b>\$ 3,054,351</b>
<b>\$ 15,570,656</b>	<b>\$ 9,371,016</b>	<b>\$ 2,136,883</b>	<b>\$ 3,062,905</b>	<b>\$ 14,570,804</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

<u>Month</u>	<u>2010</u>			
	<u>Total Hours Operating in Superior</u>	<u>Operating Charge Per Hour</u>	<u>Total Charge</u>	<u>Income from Runs in Superior</u>
<b>Regular Route</b>				
January	1,152	\$ 83.91	\$ 96,622	\$ 7,938
February	1,104	85.12	93,972	9,275
March	1,241	79.65	98,854	12,356
April	1,195	80.13	95,787	9,530
May	1,152	77.30	89,011	9,086
June	1,195	82.21	98,274	9,555
July	1,203	74.69	89,845	8,193
August	1,215	79.48	96,600	8,429
September	1,150	74.69	85,871	9,490
October	1,197	79.77	95,501	9,338
November	1,150	80.17	92,172	10,767
December	1,214	80.67	97,901	10,875
<b>Total Regular Route</b>	<b><u>14,168</u></b>		<b><u>\$ 1,130,410</u></b>	<b><u>\$ 114,832</u></b>
<b>Disability Service</b>				
January	157	\$ 37.60	\$ 6,320	\$ 372
February	148	37.81	5,984	293
March	176	39.57	7,381	327
April	117	40.05	5,083	267
May	156	41.28	6,857	331
June	158	41.43	6,974	341
July	163	41.49	7,180	348
August	178	40.78	7,666	371
September	160	40.62	6,886	370
October	172	41.21	7,505	388
November	173	39.33	7,201	397
December	175	40.31	7,451	347
<b>Total Disability Service</b>	<b><u>1,933</u></b>		<b><u>\$ 82,488</u></b> **	<b><u>\$ 4,152</u></b>

\*Monthly charges in 2009 include adjusted services of 11.20 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.

EXHIBIT A-3

2009						
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	
\$ 88,684	1,177	\$ 84.44	\$ 99,403	\$ 9,794	\$ 89,609	
84,697	1,104	83.23	91,886	10,083	81,803	
86,498	1,215	74.42	90,450	11,016	79,434	
86,257	1,195	74.95	89,595	8,903	80,692	
79,925	1,152	72.05	82,966	11,597	71,369	
88,719	1,195	83.01	99,230	7,807	91,423	
81,652	1,214	74.03	90,672 *	8,187	82,485	
88,171	1,197	72.87	87,240	8,723	78,517	
76,381	1,150	76.03	87,412	9,029	78,383	
86,163	1,223	75.07	91,803	9,270	82,533	
81,405	1,124	75.38	84,727	9,512	75,215	
87,026	1,195	77.82	93,026	9,264	83,762	
<b>\$ 1,015,578</b>	<b>14,141</b>		<b>\$ 1,088,410</b>	<b>\$ 113,185</b>	<b>\$ 975,225</b>	
\$ 5,948	195	\$ 37.11	\$ 7,634	\$ 496	\$ 7,138	
5,691	185	38.08	7,461	520	6,941	
7,054	196	37.74	7,795	480	7,315	
4,816	196	35.47	7,350	559	6,791	
6,526	172	35.82	6,559	535	6,024	
6,633	158	36.63	6,185	482	5,703	
6,832	176	37.13	6,942	488	6,454	
7,295	170	35.92	6,522	474	6,048	
6,516	156	39.08	6,494	481	6,013	
7,117	169	37.01	6,643	467	6,176	
6,804	132	38.51	5,471	313	5,158	
7,104	170	38.41	6,927	353	6,574	
<b>\$ 78,336</b>	<b>2,075</b>		<b>\$ 81,983 **</b>	<b>\$ 5,648</b>	<b>\$ 76,335</b>	

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT A-4*

**DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS  
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>Deficit recognized for the City of Superior</b>		
Regular route	\$ 1,015,578	\$ 975,225
Disability service	78,336	76,335
<b>Total</b>	<b>\$ 1,093,914</b>	<b>\$ 1,051,560</b>
<b>Federal funding - lower of the following</b>		
Percentage limit - 50% of regular route deficit	\$ 507,789	\$ 487,613
Maximum federal share per grant agreement	426,266	361,617
	(426,266)	(361,617)
<b>Deficit recognized by the Wisconsin Department of Transportation</b>		
Net charges to the City of Superior	\$ 1,093,914	\$ 1,051,560
Less: maximum federal share	(426,266)	(361,617)
<b>Non-Federal Share</b>	<b>\$ 667,648</b>	<b>\$ 689,943</b>
<b>Wisconsin Department of Transportation funding - lower of the following</b>		
Non-federal share	\$ 667,648	\$ 689,943
Percentage limit for 2010 - 26.10% of operating expenses	316,566	N/A
Percentage limit for 2009 - 25.35% of operating expenses	N/A	296,695
Maximum Wisconsin Department of Transportation share per grant agreement	342,930	276,928
	(316,566)	(276,928)
<b>Local Funds Required - City of Superior, Wisconsin</b>	<b>\$ 351,082</b>	<b>\$ 413,015</b>



**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT A-5*

**DEFICIT RECOGNIZED FOR FEDERAL AND STATE OPERATING FUNDS  
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Regular Route</b>		
Operating revenues in the City of Superior	\$ 114,832	\$ 113,185
Operating expenses in the City of Superior	(1,130,410)	(1,088,410)
<b>Regular Route Deficit Recognized for Federal and State Operating Funds</b>	<b>\$ (1,015,578)</b>	<b>\$ (975,225)</b>
 <b>Disability Service</b>		
Operating revenues in the City of Superior	\$ 4,152	\$ 5,648
Operating expenses in the City of Superior	(82,488)	(81,983)
<b>Disability Service Deficit Recognized for State Operating Funds</b>	<b>\$ (78,336)</b>	<b>\$ (76,335)</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT B-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>		
Direct		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	\$ 1,116,740
Federal Transit Capital Assistance Formula Grants	20.507	903,119
Federal Transit Capital Assistance Formula Grants - ARRA	20.507	2,102,862
Federal Transit Operating Assistance Formula Grants	20.507	1,105,000
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas	20.509	3,554
Job Access Reverse Commute	20.516	182,046
<b>Total Federal Awards</b>		<b>\$ 5,413,321</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities 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. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Transit Authority under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Duluth Transit Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Duluth Transit Authority.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Comparative Statement of Revenues, Expenses, and Changes in Net Assets

Nonoperating Revenues: Operating Grants – Federal	\$ 1,290,600
Capital Contributions - Federal	<u>4,122,721</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,413,321</u>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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5. Subrecipients

Of the expenditures presented in the schedule, the Duluth Transit Authority did not provide federal awards to any subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of “ARRA” to the program name.



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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**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 That Could Have a Direct and Material Effect on Each Major Program and on 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. 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 Cluster                   |              |
| Federal Transit Capital Investment Grants | 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 not 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 the Office of the State Auditor 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's 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's Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.



Client's Response:

*Oversight procedures are in place to ensure that our internal control policies and procedures are being followed. During 2010 the DTA added the position of Finance Assistant to allow for the further segregation of accounting duties. This individual is being trained to assume additional responsibilities and we will also request that First Transit conduct a review of the Finance Department to identify any areas requiring greater internal controls.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **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, 2010, and have issued our report thereon dated May 11, 2011. 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.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 04-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### 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 Political Subdivisions*, 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 Political Subdivisions* 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 internal control finding 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, the 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*

REBECCA OTTO  
STATE AUDITOR

May 11, 2011

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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, 2010.

#### Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the Board of Directors, the 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 11, 2011