

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEARS ENDED DECEMBER 31, 2017 AND 2016

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 150 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 650 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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**DULUTH TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE
CITY OF DULUTH, MINNESOTA)**

Years Ended December 31, 2017 and 2016



**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, 2017**

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1 Julie Zaruba Fountaine	June 30, 2020
District No. 2 Aaron Bransky	June 30, 2019
District No. 3 Edmund Gleeson	June 30, 2019
District No. 4 Rondi Watson	June 30, 2018
District No. 5 Michael Casey	June 30, 2019
At Large Joshua Smerdon	June 30, 2020
Henry Banks	June 30, 2020
Wayne Nelson	June 30, 2018
Appointed by Mayor, City of Superior, Wisconsin Leslie Evans	Indefinite
Officers	
President Wayne Nelson	
Vice President Aaron Bransky	

Management

ATE Management of Duluth, Inc.
Ben Herr, Interim General Manager

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Transit Authority's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with

auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2018, 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* in considering the Duluth Transit Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 2, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2017. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Authority's net position decreased from 2016 by 5.63 percent.
- The Authority was awarded a Lo-No Grant to purchase six quick charge electric buses and two charging stations. This grant also included project planning and initiation, infrastructure procurement, design and build, public relations, data collection, analysis, and reporting. The project planning started in 2015 and was amended in 2016 to change from the limited range, quick charge batteries, to an extended range battery and one additional bus. After extensive research and modeling for cold weather operations, additional changes included the design and installation of auxiliary heaters. The cold weather research and battery changes resulted in a delay in the delivery date to the first quarter of 2018.
- The Authority completed a Transit Development Plan in 2017, which includes three phases over a five-year plan. The Duluth Transit Authority started implementation of Phase One, which included a 2-year Pilot Program of Routes. Five new routes were introduced along with expansion hours on some existing routes. This 2-year Pilot Program is funded by the Minnesota Department of Transportation's Greater Minnesota Transit Investment Plan. Included in this plan is funding for operations and capital equipment.
- The Authority had facility upgrades in 2017, which included LED lighting throughout the maintenance facility and replacement windows in the administration offices.

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 position; a comparative statement of revenues, expenses, and changes in net position; a comparative statement of cash flows; notes to the financial statements; and supplementary information. The comparative statement of net position presents assets, liabilities, and the net position invested in capital assets, net position restricted for transit operations and capital improvements, and the unrestricted net position of the Authority. The comparative statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and includes depreciation of capital assets. The comparative statement of cash flows presents the cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing 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 supplementary information section elaborates on the above-noted financial statements and 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 during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

On May 24, 1969, the Minnesota State Legislature enacted 1969 Minn. Laws, 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 paratransit transportation for disabled passengers. The Authority operates buses on 22 fixed routes, with 33 unique variations, and provides service seven days a week. The Authority operated 2,300,886 miles and carried 2,786,702 fixed route passengers and 30,327 paratransit riders during 2017. 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, of which the Authority has none.

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 position shown below, total net position decreased by 5.6 percent in 2017 from 2016 and increased 0.9 percent in 2016 from 2015. The design work and the construction for the new multimodal facility increased the net position in 2014 through 2016 along with the acquisition of fixed route buses, signal priority construction, and the project planning for the new electric bus acquisition. The decrease in 2017 from 2016 would be due to depreciation of capital assets.

Condensed Statement of Net Position (000s)

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Assets			
Current assets	\$ 7,082	\$ 5,913	\$ 10,586
Capital assets	\$ 88,608	\$ 87,787	\$ 83,221
Less: depreciation	(48,680)	(43,760)	(41,204)
Capital assets, net	\$ 39,928	\$ 44,027	\$ 42,017
Total Assets	\$ 47,010	\$ 49,940	\$ 52,603
Current Liabilities	\$ 1,713	\$ 1,940	\$ 5,036
Net Position			
Investment in capital assets	\$ 39,928	\$ 44,027	\$ 42,017
Restricted for transit operations and capital improvements	4,615	3,219	4,796
Unrestricted	754	754	754
Total Net Position	\$ 45,297	\$ 48,000	\$ 47,567

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
(000s)**

	Fiscal Year 2017 Actual	Fiscal Year 2017 Budget	Fiscal Year 2016 Actual	Fiscal Year 2015 Actual
Operating Revenues	\$ 2,834	\$ 2,817	\$ 2,787	\$ 2,814
Nonoperating Revenues	15,413	13,715	14,300	13,402
Total Revenues	\$ 18,247	\$ 16,532	\$ 17,087	\$ 16,216
Operating Expenses	21,525	21,031	20,162	18,942
Net Income (Loss) Before Capital Contributions	\$ (3,278)	\$ (4,499)	\$ (3,075)	\$ (2,726)
Capital Contributions	575	3,148	3,508	20,761
Change in Net Position	\$ (2,703)	\$ (1,351)	\$ 433	\$ 18,035
Net Position - January 1	48,000	48,000	47,567	29,532
Net Position - December 31	<u>\$ 45,297</u>	<u>\$ 46,649</u>	<u>\$ 48,000</u>	<u>\$ 47,567</u>

Revenues

The Authority's operating revenues are derived from various sources: passenger revenues, charter revenues, and other revenues such as transit advertising and subsidies. Operating revenues increased by 1.65 percent to \$2.83 million in 2017, up from \$2.79 million in 2016. Nonoperating revenues increased from \$14.3 million in 2016 to \$15.4 million in 2017. This was an increase of 7.8 percent. The number of passengers decreased from 2,804,354 in 2016 to 2,786,702 in 2017.

Expenses

The Authority's 2017 operating expenses increased 6.76 percent, or \$1.36 million, over 2016 operating expenses of \$20.2 million. One-half of the increase was due to the new routes that were added the last half of the year.

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.

CAPITAL ASSETS

By the end of fiscal year 2017, the Duluth Transit Authority had invested \$88.6 million in capital assets. The \$821,731 increase in capital assets is primarily due to the facility upgrades, which included new windows in the administrative offices and LED lights throughout the maintenance facility.

The Authority's five-year capital plan includes replacement of full-size diesel buses as well as seven electric buses for fixed route services and replacement buses for paratransit services. Additional capital improvements are also scheduled for facility updates, IT upgrades, and an updated fare collection system.

ECONOMIC AND OTHER FACTORS

The Authority considered many factors when setting the fiscal year 2017 budget. A fare increase was implemented on January 1, 2011, along with increased service hours and adding holiday service. The Authority continues to promote its U-PASS collegiate pass program along with general ridership for safe and affordable public transportation. The 2017 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE expenses. Although the cost of fuel for 2016 and 2017 was a reprieve, it is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2017 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 POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 5,737,309	\$ 5,131,098
Accounts receivable	66,657	164,751
Taxes receivable	12,543	12,237
Due from other governments	1,001,239	302,806
Inventory	193,611	171,308
Prepaid items	70,307	130,681
Total current assets	\$ 7,081,666	\$ 5,912,881
Noncurrent assets		
Capital assets		
Not depreciated	\$ 222,367	\$ 222,367
Depreciated	88,385,714	87,563,983
Less: accumulated depreciation	(48,680,078)	(43,759,562)
Noncurrent assets - net	\$ 39,928,003	\$ 44,026,788
Total Assets	\$ 47,009,669	\$ 49,939,669
Liabilities		
Current liabilities		
Accounts payable	\$ 721,153	\$ 973,616
Payable to ATE Management for employee services	885,423	828,565
Unearned revenue	106,492	137,879
Total Liabilities	\$ 1,713,068	\$ 1,940,060
Net Position		
Investment in capital assets	\$ 39,928,003	\$ 44,026,788
Restricted for transit operations and capital improvements	4,614,424	3,218,647
Unrestricted	754,174	754,174
Total Net Position	\$ 45,296,601	\$ 47,999,609

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Operating Revenues		
Charges for services	<u>\$ 2,834,021</u>	<u>\$ 2,787,220</u>
Operating Expenses		
Personal services	\$ 12,129,856	\$ 11,187,228
Supplies	1,813,262	1,498,422
Utilities	295,908	274,433
Other services and charges	2,366,000	1,889,783
Depreciation	<u>4,920,516</u>	<u>5,312,438</u>
Total Operating Expenses	<u>\$ 21,525,542</u>	<u>\$ 20,162,304</u>
Operating Income (Loss)	<u>\$ (18,691,521)</u>	<u>\$ (17,375,084)</u>
Nonoperating Revenues		
Investment earnings	\$ 59,802	\$ 50,598
Property taxes	1,491,900	1,491,900
Operating grants		
Federal	177,050	344,496
State	12,389,000	11,170,950
City of Superior, Wisconsin	<u>1,295,495</u>	<u>1,242,041</u>
Total Nonoperating Revenues	<u>\$ 15,413,247</u>	<u>\$ 14,299,985</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (3,278,274)</u>	<u>\$ (3,075,099)</u>
Capital Contributions		
Federal	\$ 105,951	\$ 2,535,767
State	<u>469,315</u>	<u>971,924</u>
Total Capital Contributions	<u>\$ 575,266</u>	<u>\$ 3,507,691</u>
Change in Net Position	<u>\$ (2,703,008)</u>	<u>\$ 432,592</u>
Net Position - January 1	<u>47,999,609</u>	<u>47,567,017</u>
Net Position - December 31	<u><u>\$ 45,296,601</u></u>	<u><u>\$ 47,999,609</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,781,409	\$ 2,842,643
Payments to suppliers	(4,689,562)	(3,277,577)
Payments to ATE Management for employee services	(12,072,998)	(11,133,966)
	\$ (13,981,151)	\$ (11,568,900)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 1,491,594	\$ 1,482,426
Federal operating grants	177,050	344,496
State operating grants	12,389,000	11,170,950
City of Superior, Wisconsin, operating grants	1,201,523	1,349,678
	\$ 15,259,167	\$ 14,347,550
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 90,124	\$ 8,455,807
Acquisition or construction of capital assets	(821,731)	(10,932,694)
	\$ (731,607)	\$ (2,476,887)
Cash Flows from Investing Activities		
Interest on investments	\$ 59,802	\$ 50,598
	\$ 606,211	\$ 352,361
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 606,211	\$ 352,361
Cash and Cash Equivalents - January 1	5,131,098	4,778,737
Cash and Cash Equivalents - December 31	\$ 5,737,309	\$ 5,131,098
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (18,691,521)	\$ (17,375,084)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	4,920,516	5,312,438
(Increase) decrease in receivables	(21,225)	7,139
(Increase) decrease in inventory	(22,303)	17,559
(Increase) decrease in prepaid items	60,374	(45,725)
Increase (decrease) in payables	(195,605)	466,489
Increase (decrease) in unearned revenue	(31,387)	48,284
	4,920,516	5,312,438
	\$ (13,981,151)	\$ (11,568,900)

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, 2017 AND 2016

1. Summary of Significant Accounting Policies

The Duluth Transit Authority for the City of Duluth, Minnesota, 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 December 1, 2016, 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 with accounting principles generally accepted in the United States of America (GAAP). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

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**

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, Minnesota. 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 revenues. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenue of the Authority is 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 full accrual, economic resource basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows.

D. Use of Estimates

The preparation of financial statements in conformity with GAAP 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**

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. Inventory

Inventory of the Authority consists of diesel fuel, gasoline, and materials and supplies. Balances are maintained using a perpetual system and priced using the moving average cost 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 acquisition value on 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 12 years
Shop and garage equipment	5 to 15 years

4. Unearned Revenue

Unredeemed ride tickets and tokens are reported as unearned 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 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. Classification of Net Position

Net position in the financial statements is classified in the following components:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced where applicable by outstanding debt attributed to the acquisition, construction, or improvement of the 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, 2017 and 2016, net position restricted for transit operations and capital improvements was \$4,614,424 and \$3,218,647, respectively.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or investment in capital assets.

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

8. Reclassifications

Certain items on the Comparative Statement of Revenues, Expenses, and Changes in Net Position have been reclassified from the previous years; however, total revenue, expenses, and net position were unchanged.

2. Detailed Notes on All Accounts

A. 2017 and 2016 Budget to Actual

As required by 1969 Minn. Laws, ch. 720, the Authority's annual budget is approved by the Duluth City Council. Following is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2017 and 2016.

	2017		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,817,852	\$ 2,834,021	\$ 16,169
Operating Expenses			
Personal services	\$ 12,447,860	\$ 12,129,856	\$ 318,004
Supplies	2,096,508	1,813,262	283,246
Utilities	300,000	295,908	4,092
Other services and charges	1,266,683	2,366,000	(1,099,317)
Depreciation	4,920,516	4,920,516	-
Total Operating Expenses	\$ 21,031,567	\$ 21,525,542	\$ (493,975)
Operating Income (Loss)	\$ (18,213,715)	\$ (18,691,521)	\$ (477,806)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 59,802	\$ 59,802
Property taxes	1,491,900	1,491,900	-
Operating grants			
Federal	-	177,050	177,050
State	10,960,000	12,389,000	1,429,000
City of Superior, Wisconsin	1,262,802	1,295,495	32,693
Total Nonoperating Revenues	\$ 13,714,702	\$ 15,413,247	\$ 1,698,545
Net Income (Loss) Before Capital Contributions	\$ (4,499,013)	\$ (3,278,274)	\$ 1,220,739

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2017 and 2016 Budget to Actual (Continued)

	2017		Variance Favorable (Unfavorable)
	Budget	Actual	
Capital Contributions			
Federal	\$ 3,147,802	\$ 105,951	\$ (3,041,851)
State	-	469,315	469,315
Total Capital Contributions	<u>\$ 3,147,802</u>	<u>\$ 575,266</u>	<u>\$ (2,572,536)</u>
Change in Net Position	<u>\$ (1,351,211)</u>	<u>\$ (2,703,008)</u>	<u>\$ (1,351,797)</u>
	2016		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	<u>\$ 2,466,900</u>	<u>\$ 2,787,220</u>	<u>\$ 320,320</u>
Operating Expenses			
Personal services	\$ 11,662,295	\$ 11,187,228	\$ 475,067
Supplies	2,142,574	1,498,422	644,152
Utilities	300,000	274,433	25,567
Other services and charges	1,199,817	1,889,783	(689,966)
Depreciation	<u>5,312,438</u>	<u>5,312,438</u>	<u>-</u>
Total Operating Expenses	<u>\$ 20,617,124</u>	<u>\$ 20,162,304</u>	<u>\$ 454,820</u>
Operating Income (Loss)	<u>\$ (18,150,224)</u>	<u>\$ (17,375,084)</u>	<u>\$ 775,140</u>
Nonoperating Revenues			
Investment earnings	\$ -	\$ 50,598	\$ 50,598
Property taxes	1,208,075	1,491,900	283,825
Operating grants			
Federal	1,300,000	344,496	(955,504)
State	10,400,000	11,170,950	770,950
City of Superior, Wisconsin	<u>1,295,335</u>	<u>1,242,041</u>	<u>(53,294)</u>
Total Nonoperating Revenues	<u>\$ 14,203,410</u>	<u>\$ 14,299,985</u>	<u>\$ 96,575</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (3,946,814)</u>	<u>\$ (3,075,099)</u>	<u>\$ 871,715</u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2017 and 2016 Budget to Actual (Continued)

	2016		Variance Favorable (Unfavorable)
	Budget	Actual	
Capital Contributions			
Federal	\$ 2,159,016	\$ 2,535,767	\$ 376,751
State	3,055,000	971,924	(2,083,076)
Total Capital Contributions	\$ 5,214,016	\$ 3,507,691	\$ (1,706,325)
Change in Net Position	\$ 1,267,202	\$ 432,592	\$ (834,610)

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.

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.

The Authority invests funds in the City of Duluth's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations.

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, Minnesota.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

B. Deposits and Investments (Continued)

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

	December 31	
	2017	2016
City Treasurer - accounts	\$ 5,621,972	\$ 4,982,719
ATE Management - checking account	79,530	112,582
Petty cash fund and change funds	14,960	14,960
Medical flex account	20,847	20,837
Total Cash and Cash Equivalents	\$ 5,737,309	\$ 5,131,098

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2017 and 2016, follows:

	Balance January 1, 2017	Increase	Decrease	Balance December 31, 2017
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	51,464,835	543,805	-	52,008,640
Revenue equipment	28,602,758	65,679	-	28,668,437
Shop and garage equipment	1,677,105	25,909	-	1,703,014
Office furniture and equipment	5,719,399	186,338	-	5,905,737
Total capital assets depreciated	\$ 87,563,983	\$ 821,731	\$ -	\$ 88,385,714
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	20,018,780	2,464,682	-	22,483,462
Revenue equipment	18,049,931	2,106,420	-	20,156,351
Shop and garage equipment	1,383,161	80,251	-	1,463,412
Office furniture and equipment	4,207,804	269,163	-	4,476,967
Total accumulated depreciation	\$ 43,759,562	\$ 4,920,516	\$ -	\$ 48,680,078
Total capital assets depreciated, net	\$ 43,804,421	\$ (4,098,785)	\$ -	\$ 39,705,636
Capital Assets, Net	\$ 44,026,788	\$ (4,098,785)	\$ -	\$ 39,928,003

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2016	Increase	Decrease	Balance December 31, 2016
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	47,256,482	4,208,353	-	51,464,835
Revenue equipment	28,693,385	2,666,416	2,757,043	28,602,758
Shop and garage equipment	1,627,868	49,237	-	1,677,105
Office furniture and equipment	5,321,342	398,057	-	5,719,399
Total capital assets depreciated	\$ 82,998,963	\$ 7,322,063	\$ 2,757,043	\$ 87,563,983
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	17,514,649	2,504,131	-	20,018,780
Revenue equipment	18,363,246	2,443,728	2,757,043	18,049,931
Shop and garage equipment	1,302,325	80,836	-	1,383,161
Office furniture and equipment	3,924,061	283,743	-	4,207,804
Total accumulated depreciation	\$ 41,204,167	\$ 5,312,438	\$ 2,757,043	\$ 43,759,562
Total capital assets depreciated, net	\$ 41,794,796	\$ 2,009,625	\$ -	\$ 43,804,421
Capital Assets, Net	\$ 42,017,163	\$ 2,009,625	\$ -	\$ 44,026,788

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

D. Risk Management (Continued)

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 ranges from \$0 to \$106,500. There were no balances for claims and judgments liability reported on the financial statements for the years ended December 31, 2017 or 2016.

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.

Charges to the City of Superior totaled \$1,426,936 for the year ended December 31, 2017, and \$1,362,860 for the year ended December 31, 2016. After deduction of the revenue collected in Superior of \$131,441 in 2017 and \$120,819 in 2016, the amounts actually billed were \$1,295,495 in 2017 and \$1,242,041 in 2016, 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. 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 \$578,396 and \$567,864 at December 31, 2017 and 2016,

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

A. Vacation and Sick Leave (Continued)

respectively, and is included with salaries payable of \$307,027 and \$260,701 for December 31, 2017 and 2016, respectively, and is reported as payable to ATE for employee services 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

1. Defined Benefit Pension Plan

ATE's hourly paid employees participate in the Central States, Southeast and Southwest Areas Pension Fund, a cost-sharing, multiple-employer defined benefit plan. The plan is administered by the trustees of the 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 \$302.20 per full-time employee per week in 2017.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

1. Defined Benefit Pension Plan (Continued)

ATE's contributions for the years ending December 31, 2017, 2016, and 2015, were \$1,719,820, \$1,553,286, and \$1,466,842, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

The trustees of the 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.

2. 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 7 years of employment. Benefits depend solely on amounts contributed plus related investment earnings. Contributions were as follows:

	<u>2017</u>	<u>2016</u>
Employer	\$ 174,728	\$ 187,746
Employee	29,271	31,077

SUPPLEMENTARY INFORMATION

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,759,704	\$ 1,904,425
Senior citizen fares	118,400	139,700
College student passes	534,945	410,908
Disability fares	20,894	24,654
	\$ 2,433,943	\$ 2,479,687
Total passenger fares for transit service		
	\$ 2,433,943	\$ 2,479,687
Charter service revenues	\$ 7,375	\$ 9,719
Auxiliary transportation revenues		
Advertising services	\$ 107,531	\$ 151,991
STRIDE	66,033	61,508
Other	219,139	84,315
	\$ 392,703	\$ 297,814
Total auxiliary transportation revenues		
	\$ 392,703	\$ 297,814
Total charges for services	\$ 2,834,021	\$ 2,787,220
Nonoperating and Other Revenues		
Investment earnings	\$ 59,802	\$ 50,598
Property taxes	1,491,900	1,491,900
Operating grants		
Federal - Section 5307	-	336,201
Federal - other	177,050	8,295
State - regular route	11,574,700	10,400,000
State - disability service	814,300	770,950
City of Superior, Wisconsin - regular route	1,188,269	1,159,431
City of Superior, Wisconsin - disability service	107,226	82,610
Capital contributions		
Federal	105,951	2,535,767
State	469,315	971,924
	\$ 15,988,513	\$ 17,807,676
Total nonoperating and other revenues		
	\$ 15,988,513	\$ 17,807,676
Total Revenues	\$ 18,822,534	\$ 20,594,896

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
Personal services			
Labor			
Operations - salaries and wages	\$ 4,463,755	\$ -	\$ -
Other salaries and wages	-	1,066,441	764,137
Fringe benefits	4,143,500	986,013	706,010
Total personal services	\$ 8,607,255	\$ 2,052,454	\$ 1,470,147
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 857,985	\$ 16,931	\$ -
Tires and tubes	81,423	-	-
Other materials and supplies	16,443	713,173	127,307
Total supplies	\$ 955,851	\$ 730,104	\$ 127,307
Utilities	\$ 71,801	\$ -	\$ 224,107
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 234,472
Professional and technical services	319,513	247,968	395,462
Other services	-	156,785	99,032
Casualty and liability costs	-	-	292,277
Taxes and fees	55	1,133	22,490
Miscellaneous			
Dues and subscriptions	-	-	8,503
Travel and meetings	845	2,334	21,999
Advertising and promotional media	-	-	83,255
Purchased transportation service	-	-	471,941
Other	2	1,270	6,664
Total other services and charges	\$ 320,415	\$ 409,490	\$ 1,636,095
Depreciation	\$ 1,965,226	\$ 169,688	\$ 2,785,602
Total Expenses*	\$ 11,920,548	\$ 3,361,736	\$ 6,243,258

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$917,456 for 2017 and \$876,345 for 2016.

EXHIBIT A-2

2016				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 4,463,755	\$ 4,107,805	\$ -	\$ -	\$ 4,107,805
1,830,578	-	967,989	794,054	1,762,043
5,835,523	3,723,930	875,582	717,868	5,317,380
\$ 12,129,856	\$ 7,831,735	\$ 1,843,571	\$ 1,511,922	\$ 11,187,228
\$ 874,916	\$ 660,347	\$ 9,416	\$ -	\$ 669,763
81,423	73,891	833	-	74,724
856,923	16,695	616,898	120,342	753,935
\$ 1,813,262	\$ 750,933	\$ 627,147	\$ 120,342	\$ 1,498,422
\$ 295,908	\$ 76,083	\$ -	\$ 198,350	\$ 274,433
\$ 234,472	\$ -	\$ -	\$ 235,650	\$ 235,650
962,943	297,686	68,932	197,699	564,317
255,817	142	127,778	83,575	211,495
292,277	-	-	313,370	313,370
23,678	655	776	1,805	3,236
8,503	-	-	5,167	5,167
25,178	1,139	3,927	13,175	18,241
83,255	-	-	57,988	57,988
471,941	-	-	463,757	463,757
7,936	952	2,793	12,817	16,562
\$ 2,366,000	\$ 300,574	\$ 204,206	\$ 1,385,003	\$ 1,889,783
\$ 4,920,516	\$ 3,143,123	\$ 156,309	\$ 2,013,006	\$ 5,312,438
\$ 21,525,542	\$ 12,102,448	\$ 2,831,233	\$ 5,228,623	\$ 20,162,304

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

<u>Month</u>	<u>2017</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>
Regular Route				
January	1,134	\$ 100.53	\$ 113,972	\$ 12,555
February	1,052	95.87	100,882	8,172
March	1,181	98.74	116,589	12,214
April	1,124	94.48	106,180	8,625
May	1,145	102.62	117,468	10,160
June	1,138	99.80	113,566	11,918
July	1,111	94.81	105,362	9,235
August	1,181	99.07	116,979	9,020
September	1,081	96.17	103,960	9,172
October	1,158	100.98	116,949	13,214
November	1,095	87.93	96,216	10,336
December	1,101	96.57	106,343	11,576
Total Regular Route	<u>13,501</u>		<u>\$ 1,314,466</u>	<u>\$ 126,197</u>
Disability Service				
January	187	\$ 42.87	\$ 8,413	\$ 425
February	208	46.21	9,996	447
March	216	44.57	10,034	484
April	190	43.26	8,648	393
May	183	45.73	8,776	384
June	206	43.87	9,433	441
July	186	44.77	8,745	387
August	210	49.57	10,817	468
September	192	45.57	9,168	399
October	222	43.18	9,982	489
November	195	45.41	9,262	497
December	175	44.28	9,196	430
Total Disability Service	<u>2,370</u>		<u>\$ 112,470</u> *	<u>\$ 5,244</u>

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

EXHIBIT A-3

2016						
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	
\$ 101,417	1,131	\$ 99.12	\$ 112,105	\$ 9,360	\$ 102,745	
92,710	1,125	102.89	115,731	9,841	105,890	
104,375	1,181	93.80	110,756	6,982	103,774	
97,555	1,124	92.56	104,021	11,442	92,579	
107,308	1,115	93.82	104,638	9,082	95,556	
101,648	1,138	94.24	103,609	11,251	92,358	
96,127	1,101	90.52	99,680	8,755	90,925	
107,959	1,192	102.17	121,783	9,994	111,789	
94,788	1,095	85.81	93,974	8,956	85,018	
103,735	1,144	89.32	102,185	9,911	92,274	
85,880	1,095	93.19	102,053	11,192	90,861	
94,767	1,146	92.05	105,532	9,870	95,662	
\$ 1,188,269	13,587		\$ 1,276,067	\$ 116,636	\$ 1,159,431	
\$ 7,988	164	\$ 44.67	\$ 7,710	\$ 321	\$ 7,389	
9,549	170	41.71	7,519	357	7,162	
9,550	140	41.90	6,262	292	5,970	
8,255	165	43.60	7,645	360	7,285	
8,392	161	41.51	7,069	390	6,679	
8,992	185	42.76	8,307	411	7,896	
8,358	149	40.57	6,442	304	6,138	
10,349	156	42.11	6,955	294	6,661	
8,769	140	41.68	6,221	281	5,940	
9,493	169	43.01	7,697	367	7,330	
8,765	159	41.53	7,021	389	6,632	
8,766	175	42.95	7,945	417	7,528	
\$ 107,226	1,933		\$ 86,793 *	\$ 4,183	\$ 82,610	

**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, 2017 AND 2016**

	2017	2016
Deficit recognized for the City of Superior, Wisconsin		
Regular route	\$ 1,188,269	\$ 1,159,431
Disability service	107,226	82,610
Total	\$ 1,295,495	\$ 1,242,041
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,295,495	\$ 1,242,041
Less: maximum federal share per grant agreement	(449,483)	(458,085)
Non-Federal Share	\$ 846,012	\$ 783,956
Wisconsin Department of Transportation funding - lower of the following		
Non-federal share	\$ 846,012	\$ 783,956
Maximum Wisconsin Department of Transportation share per grant agreement	(352,755)	(355,713)
Local Funds Required - City of Superior, Wisconsin	\$ 493,257	\$ 428,243

**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, 2017 AND 2016**

	2017	2016
Regular Route		
Operating revenues in the City of Superior	\$ 126,197	\$ 116,636
Operating expenses in the City of Superior	(1,314,466)	(1,276,067)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,188,269)	\$ (1,159,431)
 Disability Service		
Operating revenues in the City of Superior	\$ 5,244	\$ 4,183
Operating expenses in the City of Superior	(112,470)	(86,793)
Disability Service Deficit Recognized for State Operating Funds	\$ (107,226)	\$ (82,610)

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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*

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Duluth Transit Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Transit Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Authority does not administer any tax increment financing districts. The provisions for deposits and investments were tested in conjunction with our audit of the City of Duluth, Minnesota, which holds the Authority's cash and investments.

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Transit Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 2, 2018