

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Duluth Transit Authority
(A Component Unit of the
City of Duluth, Minnesota)**

Years Ended December 31, 2021 and 2020

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 100 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 Minnesota’s local 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, 2021 and 2020



Office of the State Auditor

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2021

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1 Julie Zaruba Fountaine	June 30, 2023
District No. 2 Aaron Bransky	June 30, 2022
District No. 3 Edmund Gleeson	June 30, 2022
District No. 4 Rondi Watson	June 30, 2024
District No. 5 Michael Casey	June 30, 2022
At Large	
Henry Banks	June 30, 2023
Tom Szukis	June 30, 2024
Jarl Carlson	June 30, 2024
Appointed by Mayor, City of Superior, Wisconsin Krystal Brandstatter	Indefinite
Officers	
President Aaron Bransky	
Vice President Rondi Watson	
<u>Management</u>	
ATE Management of Duluth, Inc. Rod Fournier, General Manager	



INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 Comparative Statement of Revenues; Comparative Statement of Operating Expenses; Allocation of Income and Expense to the City of Superior, Wisconsin; Deficit Distribution Among the Subsidy Grantors for Operations in the City of Superior, Wisconsin; Deficit Recognized for Federal and State Operating Funds for Operations in the City of Superior, Wisconsin; and Schedule of Expenditures of Federal Awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 Supplementary Information as identified above 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 May 16, 2022, 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 solely 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 effectiveness of the Duluth Transit Authority's 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

May 16, 2022

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's (DTA) financial condition and activities for the fiscal year ended December 31, 2021. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- In response to the COVID-19 pandemic, the Authority researched air purification systems for our fixed-route and paratransit vehicles. After several conversations with vendors and agencies the Authority decided on ionization technology. Near the end of 2021, this technology was installed on the fleet and the results have been very positive.
- Beginning in late 2020, the Authority hired a transit consulting firm to assist in a comprehensive operations analysis and a complete transit network redesign. First, we analyzed the performance of the Authority's fixed-route operations, reviewed regional demographics and travel patterns, and surveyed the community. This was to highlight existing strengths, weaknesses, and opportunities. We then decided that to accomplish our goals, we needed to redesign our transit system to better meet the changing needs of our community. With the help of the consultants, we designed two new system concepts, modeled and analyzed each for performance, and crafted a final preferred alternative. After months of thoughtful development, a new bus network was formulated and approved by the DTA Board of Directors. Authority staff has been busy working on the implementation of the new system and will be launching the new service in August of 2022. The new network is expected to increase ridership and improve overall efficiency and performance.
- An exciting new tool for passengers was launched in May of 2021, the MyDTA Mobile app. The new app allows passengers to purchase mobile tickets on their cell phones. Tickets display on their phone and are then scanned on new validation equipment that was installed on all fixed-route buses. Passengers have been requesting a mobile app for some time and it was highlighted as a top priority in the Authority's Transit Development Plan. This new tool provides simplicity and convenience for passengers while allowing for more efficient operations for the Authority by speeding up the boarding process, reducing farebox breakdowns, and alleviating the volume of customer service interactions.

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 full 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 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. During 2021, in response to the COVID-19 pandemic, adjustments were made to routes to meet the changes in demand for service and also due to staffing shortages. The Authority operated a combined total of 2,299,825 miles and carried 1,461,213 fixed-route passengers and 23,177 paratransit riders during 2021.

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 12.7 percent in 2021 from 2020 and increased by 14.2 percent in 2020 from 2019. Typically, the Authority has a capital plan to replace revenue vehicles every other year, which drives the net position from year to year.

Condensed Statement of Net Position
(000s)

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Assets			
Current assets	\$ 8,547	\$ 10,866	\$ 9,517
Capital assets	\$ 109,780	\$ 109,379	\$ 100,834
Less: depreciation	(64,785)	(59,355)	(56,851)
Capital assets, net	\$ 44,995	\$ 50,024	\$ 43,983
Total Assets	\$ 53,542	\$ 60,890	\$ 53,500
Current Liabilities	\$ 2,385	\$ 2,270	\$ 2,177
Net Position			
Investment in capital assets	\$ 44,995	\$ 50,024	\$ 43,983
Restricted for transit operations and capital improvements	5,408	7,842	6,586
Unrestricted	754	754	754
Total Net Position	\$ 51,157	\$ 58,620	\$ 51,323

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

	Fiscal Year 2021 Actual	Fiscal Year 2021 Budget	Fiscal Year 2020 Actual	Fiscal Year 2019 Actual
Operating Revenues	\$ 1,828	\$ 3,204	\$ 1,500	\$ 3,027
Nonoperating Revenues	15,231	17,735	20,146	18,453
Total Revenues	\$ 17,059	\$ 20,939	\$ 21,646	\$ 21,480
Operating Expenses	25,287	25,977	23,910	24,213
Net Income (Loss) Before Capital Contributions	\$ (8,228)	\$ (5,038)	\$ (2,264)	\$ (2,733)
Capital Contributions	765	287	9,561	1,923
Change in Net Position	\$ (7,463)	\$ (4,751)	\$ 7,297	\$ (810)
Net Position – January 1	58,620	58,620	51,323	52,133
Net Position – December 31	\$ 51,157	\$ 53,869	\$ 58,620	\$ 51,323

(Unaudited)

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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 21.87 percent to \$1.83 million in 2021, up from \$1.5 million in 2020. Nonoperating revenues decreased from \$20.1 million in 2020 to \$15.2 million in 2021. This was a decrease of 24.4 percent. The number of passengers decreased from 1,759,205 in 2020 to 1,461,213 in 2021 for fixed-route and increased for paratransit from 21,512 in 2020 to 23,177 in 2021, due to the COVID-19 pandemic.

Expenses

The Authority's 2021 operating expenses increased 5.8 percent, or \$1,377,293 over 2020 operating expenses of \$23.9 million.

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. For 2020-2021, there was a change to a two-year budget vs. an annual budget. The Authority's operating budget remains in effect the entire budget period 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 2021, the Duluth Transit Authority had invested \$109.7 million in capital assets. This is up by \$0.7 million from 2020. The increase reflects the 2021 investment in facility upgrades and replacement vehicles, net of depreciation expense.

The Authority's five-year capital plan includes replacement of full-size buses, as well as replacement buses for paratransit services. Additional capital improvements are also scheduled for facility updates, IT upgrades, and an updated fare collection system along with a mobile application.

ECONOMIC AND OTHER FACTORS

The Authority considered many factors when setting the 2020-2021 budget. The 2020-2021 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 2020-2021 was a reprieve, it is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2020-2021 budget.

The Authority received funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to the COVID-19 pandemic that was apportioned for transit agencies around the country. The Minnesota side of the DTA's service area was apportioned \$6,366,509 and another \$1,377,042 for the Wisconsin side. These funds are provided at 100 percent federal share. Funds are to support capital, operating, and other expenses generally eligible under the 5307 program to prevent, prepare for, and respond to COVID-19. The Authority programmed the majority of the funds to cover operating expenses, while \$448,000 was used for protective barriers for bus operators and for a joint development feasibility study.

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.

BASIC FINANCIAL STATEMENTS

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 5,039,036	\$ 6,955,031
Accounts receivable	679,234	506,480
Taxes receivable	1,967	9,302
Due from other governments	2,436,443	3,072,460
Inventory	390,206	313,471
Prepaid items	-	9,475
	\$ 8,546,886	\$ 10,866,219
Noncurrent assets		
Capital assets		
Not depreciated	\$ 222,367	\$ 286,880
Depreciated	109,557,169	109,092,486
Less: accumulated depreciation	(64,784,698)	(59,355,083)
	\$ 44,994,838	\$ 50,024,283
Noncurrent assets – net	\$ 44,994,838	\$ 50,024,283
Total Assets	\$ 53,541,724	\$ 60,890,502
Liabilities		
Current liabilities		
Accounts payable	\$ 1,068,361	\$ 1,158,680
Payable to ATE Management for employee services	1,139,674	1,092,312
Unearned revenue	176,578	18,620
	\$ 2,384,613	\$ 2,269,612
Total Liabilities	\$ 2,384,613	\$ 2,269,612
Net Position		
Investment in capital assets	\$ 44,994,838	\$ 50,024,283
Restricted for transit operations and capital improvements	5,408,099	7,842,433
Unrestricted	754,174	754,174
	\$ 51,157,111	\$ 58,620,890
Total Net Position	\$ 51,157,111	\$ 58,620,890

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Operating Revenues		
Charges for services	<u>\$ 1,828,416</u>	<u>\$ 1,499,966</u>
Operating Expenses		
Personal services	\$ 14,636,959	\$ 13,743,623
Supplies	1,770,667	1,446,265
Utilities	366,154	323,091
Other services and charges	2,101,935	2,238,858
Depreciation	<u>6,411,700</u>	<u>6,158,285</u>
Total Operating Expenses	<u>\$ 25,287,415</u>	<u>\$ 23,910,122</u>
Operating Income (Loss)	<u>\$ (23,458,999)</u>	<u>\$ (22,410,156)</u>
Nonoperating Revenues		
Investment earnings	\$ 40,080	\$ 82,380
Property taxes	1,666,896	1,666,900
Operating grants		
Federal	1,707,148	3,195,148
State	10,292,884	13,600,565
City of Superior, Wisconsin	<u>1,524,273</u>	<u>1,601,425</u>
Total Nonoperating Revenues	<u>\$ 15,231,281</u>	<u>\$ 20,146,418</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (8,227,718)</u>	<u>\$ (2,263,738)</u>
Capital Contributions		
Federal	\$ 687,722	\$ 8,155,425
State	<u>76,217</u>	<u>1,406,230</u>
Total Capital Contributions	<u>\$ 763,939</u>	<u>\$ 9,561,655</u>
Change in Net Position	<u>\$ (7,463,779)</u>	<u>\$ 7,297,917</u>
Net Position – January 1	<u>58,620,890</u>	<u>51,322,973</u>
Net Position – December 31	<u><u>\$ 51,157,111</u></u>	<u><u>\$ 58,620,890</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,824,413	\$ 1,092,494
Payments to suppliers	(4,396,335)	(3,628,856)
Payments to ATE Management for employee services	(14,589,597)	(13,571,281)
	\$ (17,161,519)	\$ (16,107,643)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 1,674,231	\$ 1,657,598
Federal operating grants	1,304,212	2,295,148
State operating grants	10,284,402	13,600,565
City of Superior, Wisconsin, operating grants	1,236,053	1,477,490
	\$ 14,498,898	\$ 19,030,801
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 2,153,802	\$ 8,520,932
Acquisition or construction of capital assets	(1,447,256)	(12,542,962)
	\$ 706,546	\$ (4,022,030)
Cash Flows from Investing Activities		
Interest on investments	\$ 40,080	\$ 82,380
	\$ (1,915,995)	\$ (1,016,492)
Net Increase (Decrease) in Cash and Cash Equivalents		
	\$ 6,955,031	\$ 7,971,523
Cash and Cash Equivalents – January 1	\$ 5,039,036	\$ 6,955,031
Cash and Cash Equivalents – December 31	\$ 11,994,067	\$ 14,926,554
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (23,458,999)	\$ (22,410,156)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	6,411,700	6,158,285
(Increase) decrease in receivables	(161,961)	(307,457)
(Increase) decrease in inventory	(76,735)	(44,431)
(Increase) decrease in prepaid items	9,475	60,517
Increase (decrease) in payables	(42,957)	535,614
Increase (decrease) in unearned revenue	157,958	(100,015)
	6,197,480	6,802,928
Net Cash Provided by (Used in) Operating Activities	\$ (17,161,519)	\$ (16,107,643)

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, 2021 AND 2020

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, and then extended the contract through April 30, 2022. 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>
Land improvements	10 years
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, 2021 and 2020, net position restricted for transit operations and capital improvements was \$5,408,099 and \$7,842,433, 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**

2. Detailed Notes on All Accounts

A. 2021 and 2020 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, 2021 and 2020.

	2021		Variance
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 3,204,466	\$ 1,828,416	\$ (1,376,050)
Operating Expenses			
Personal services	\$ 14,997,005	\$ 14,636,959	\$ 360,046
Supplies	2,491,038	1,770,667	720,371
Utilities	275,000	366,154	(91,154)
Other services and charges	1,802,493	2,101,935	(299,442)
Depreciation	6,411,700	6,411,700	-
Total Operating Expenses	\$ 25,977,236	\$ 25,287,415	\$ 689,821
Operating Income (Loss)	\$ (22,772,770)	\$ (23,458,999)	\$ (686,229)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 40,080	\$ 40,080
Property taxes	1,666,900	1,666,896	(4)
Operating grants			
Federal	1,095,148	1,707,148	612,000
State	13,626,627	10,292,884	(3,333,743)
City of Superior, Wisconsin	1,345,840	1,524,273	178,433
Total Nonoperating Revenues	\$ 17,734,515	\$ 15,231,281	\$ (2,503,234)
Net Income (Loss) Before Capital Contributions	\$ (5,038,255)	\$ (8,227,718)	\$ (3,189,463)
Capital Contributions			
Federal	\$ -	\$ 687,722	\$ 687,722
State	286,934	76,217	(210,717)
Total Capital Contributions	\$ 286,934	\$ 763,939	\$ 477,005
Change in Net Position	\$ (4,751,321)	\$ (7,463,779)	\$ (2,712,458)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2021 and 2020 Budget to Actual (Continued)

	Budget	2020 Actual	Variance
Operating Revenues			
Charges for services	\$ 3,175,033	\$ 1,499,966	\$ (1,675,067)
Operating Expenses			
Personal services	\$ 14,603,338	\$ 13,743,623	\$ 859,715
Supplies	2,461,141	1,446,265	1,014,876
Utilities	275,000	323,091	(48,091)
Other services and charges	1,792,221	2,238,858	(446,637)
Depreciation	6,158,285	6,158,285	-
Total Operating Expenses	\$ 25,289,985	\$ 23,910,122	\$ 1,379,863
Operating Income (Loss)	\$ (22,114,952)	\$ (22,410,156)	\$ (295,204)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 82,380	\$ 82,380
Property taxes	1,666,900	1,666,900	-
Operating grants			
Federal	991,000	3,195,148	2,204,148
State	13,081,575	13,600,565	518,990
City of Superior, Wisconsin	1,345,027	1,601,425	256,398
Total Nonoperating Revenues	\$ 17,084,502	\$ 20,146,418	\$ 3,061,916
Net Income (Loss) Before Capital Contributions	\$ (5,030,450)	\$ (2,263,738)	\$ 2,766,712
Capital Contributions			
Federal	\$ 1,562,824	\$ 8,155,425	\$ 6,592,601
State	350,000	1,406,230	1,056,230
Total Capital Contributions	\$ 1,912,824	\$ 9,561,655	\$ 7,648,831
Change in Net Position	\$ (3,117,626)	\$ 7,297,917	\$ 10,415,543

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

B. Deposits and Investments

The City of Duluth Treasurer is Treasurer of the Authority as designated by 1969 Minn. Laws, ch. 720. 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 Annual Comprehensive Financial Report. The Authority is a component unit of the City of Duluth, Minnesota.

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

	December 31	
	2021	2020
City Treasurer – accounts	\$ 3,734,188	\$ 6,386,453
ATE Management – checking account	1,258,593	504,001
Petty cash fund and change funds	7,905	12,960
Medical flex account	38,350	51,617
Total Cash and Cash Equivalents	\$ 5,039,036	\$ 6,955,031

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2021, and 2020, follows:

	Balance January 1, 2021	Increase	Decrease	Balance December 31, 2021
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Construction in process	64,513	-	64,513	-
Total capital assets not depreciated	\$ 286,880	\$ -	\$ 64,513	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ 153,911	\$ -	\$ 253,797
Buildings and structures	57,536,558	122,396	31,581	57,627,373
Revenue equipment	43,358,117	950,485	950,992	43,357,610
Shop and garage equipment	1,978,182	41,457	-	2,019,639
Office furniture and equipment	6,119,743	179,007	-	6,298,750
Total capital assets depreciated	\$ 109,092,486	\$ 1,447,256	\$ 982,573	\$ 109,557,169
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ 65,001	\$ -	\$ 164,887
Buildings and structures	29,646,019	2,460,904	31,581	32,075,342
Revenue equipment	22,817,603	3,495,916	950,504	25,363,015
Shop and garage equipment	1,501,977	69,544	-	1,571,521
Office furniture and equipment	5,289,598	320,335	-	5,609,933
Total accumulated depreciation	\$ 59,355,083	\$ 6,411,700	\$ 982,085	\$ 64,784,698
Total capital assets depreciated, net	\$ 49,737,403	\$ (4,964,444)	\$ 488	\$ 44,772,471
Capital Assets, Net	\$ 50,024,283	\$ (4,964,444)	\$ 65,001	\$ 44,994,838

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2020	Increase	Decrease	Balance December 31, 2020
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Construction in process	-	64,513	-	64,513
Total capital assets not depreciated	\$ 222,367	\$ 64,513	\$ -	\$ 286,880
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	52,437,159	5,130,980	31,581	57,536,558
Revenue equipment	40,150,761	6,784,436	3,577,080	43,358,117
Shop and garage equipment	1,894,461	129,172	45,451	1,978,182
Office furniture and equipment	6,029,310	90,433	-	6,119,743
Total capital assets depreciated	\$ 100,611,577	\$ 12,135,021	\$ 3,654,112	\$ 109,092,486
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	27,221,350	2,456,250	31,581	29,646,019
Revenue equipment	23,005,712	3,388,971	3,577,080	22,817,603
Shop and garage equipment	1,504,867	42,161	45,051	1,501,977
Office furniture and equipment	5,019,095	270,503	-	5,289,598
Total accumulated depreciation	\$ 56,850,910	\$ 6,157,885	\$ 3,653,712	\$ 59,355,083
Total capital assets depreciated, net	\$ 43,760,667	\$ 5,977,136	\$ 400	\$ 49,737,403
Capital Assets, Net	\$ 43,983,034	\$ 6,041,649	\$ 400	\$ 50,024,283

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.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

D. Risk Management (Continued)

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. A liability for claims and judgments payable of \$278,662 is reported within Accounts Payable on the financial statements for the year ended December 31, 2021, for claims considered “probable” losses to the Authority. For the year ended December 31, 2020, \$98,089 was reported within Accounts Payable.

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 \$1,477,820 for the year ended December 31, 2021, and \$1,653,418 for the year ended December 31, 2020. After deduction of the revenue collected in Superior of \$93,937 in 2021 and \$51,993 in 2020, the amounts actually billed were \$1,383,883 in 2021 and \$1,601,425 in 2020, 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:

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement (Continued)

A. Vacation and Sick Leave

Employees of ATE are granted from five 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 \$618,270 and \$593,786 at December 31, 2021 and 2020, respectively, and is included with salaries payable of \$508,485 and \$498,526 for December 31, 2021 and 2020, 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 ten years of service and to 120 days for those with over ten 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 five years of participation or on reaching ten years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

1. Defined Benefit Pension Plan (Continued)

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution was \$338.00 per full-time employee per week in 2021.

ATE's contributions for the years ending December 31, 2021, 2020, and 2019, were \$2,098,801, \$2,068,681, and \$1,970,263, 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's 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 two 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>2021</u>	<u>2020</u>
Employer	\$ 222,912	\$ 208,657
Employee	37,129	34,776

SUPPLEMENTARY INFORMATION

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,225,661	\$ 768,798
College student passes	51,714	184,777
Total passenger fares for transit service	\$ 1,277,375	\$ 953,575
Charter service revenues	\$ 13,250	\$ 406
Auxiliary transportation revenues		
Advertising services	\$ 176,575	\$ 118,175
STRIDE	73,310	46,580
Other	287,906	381,230
Total auxiliary transportation revenues	\$ 537,791	\$ 545,985
Total charges for services	\$ 1,828,416	\$ 1,499,966
Nonoperating and Other Revenues		
Investment earnings	\$ 40,080	\$ 82,380
Property taxes	1,666,896	1,666,900
Operating grants		
Federal – Section 5307	1,707,148	3,195,148
State – regular route	9,792,953	12,760,052
State – disability service	499,931	840,513
City of Superior, Wisconsin – regular route	1,479,599	1,548,618
City of Superior, Wisconsin – disability service	44,674	52,807
Capital contributions		
Federal	687,722	8,155,425
State	76,217	1,406,230
Total nonoperating and other revenues	\$ 15,995,220	\$ 29,708,073
Total Revenues	\$ 17,823,636	\$ 31,208,039

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
Personal services			
Labor			
Operations – salaries and wages	\$ 5,311,082	\$ -	\$ -
Other salaries and wages	-	1,292,975	917,117
Fringe benefits	4,982,240	1,281,128	852,417
Total personal services	\$ 10,293,322	\$ 2,574,103	\$ 1,769,534
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,028,347	\$ 3,435	\$ -
Tires and tubes	76,821	283	-
Other materials and supplies	1,316	531,898	128,567
Total supplies	\$ 1,106,484	\$ 535,616	\$ 128,567
Utilities	\$ 103,255	\$ -	\$ 262,899
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 102,331
Professional and technical services	-	20,330	299,675
Other services	166,614	278,586	74,635
Casualty and liability costs	-	-	878,618
Taxes and fees	-	1,050	4,761
Miscellaneous			
Dues and subscriptions	-	-	7,454
Travel and meetings	-	1,583	9,883
Advertising and promotional media	-	-	129,303
Purchased transportation service	-	-	-
Other	-	1,443	125,669
Total other services and charges	\$ 166,614	\$ 302,992	\$ 1,632,329
Depreciation	\$ 4,254,877	\$ 270,986	\$ 1,885,837
Total Expenses	\$ 15,924,552	\$ 3,683,697	\$ 5,679,166

EXHIBIT A-2

2020				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 5,311,082	\$ 4,664,735	\$ -	\$ -	\$ 4,664,735
2,210,092	-	1,304,335	870,942	2,175,277
7,115,785	4,677,874	1,342,899	882,838	6,903,611
\$ 14,636,959	\$ 9,342,609	\$ 2,647,234	\$ 1,753,780	\$ 13,743,623
\$ 1,031,782	\$ 612,186	\$ 9,057	\$ -	\$ 621,243
77,104	73,447	1,702	-	75,149
661,781	16,362	609,821	123,690	749,873
\$ 1,770,667	\$ 701,995	\$ 620,580	\$ 123,690	\$ 1,446,265
\$ 366,154	\$ 104,854	\$ -	\$ 218,237	\$ 323,091
\$ 102,331	\$ -	\$ -	\$ 252,125	\$ 252,125
320,005	379,968	77,821	146,278	604,067
519,835	137,809	302,076	96,565	536,450
878,618	-	-	488,899	488,899
5,811	2,765	735	4,363	7,863
7,454	-	-	4,928	4,928
11,466	1,964	1,221	5,570	8,755
129,303	-	-	99,096	99,096
-	-	-	234,688	234,688
127,112	-	169	1,818	1,987
\$ 2,101,935	\$ 522,506	\$ 382,022	\$ 1,334,330	\$ 2,238,858
\$ 6,411,700	\$ 4,223,394	\$ 9,556	\$ 1,925,335	\$ 6,158,285
\$ 25,287,415	\$ 14,895,358	\$ 3,659,392	\$ 5,355,372	\$ 23,910,122

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

<u>Month</u>	<u>2021</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	1,116	\$ 96.17	\$ 107,278	\$ 5,474
February	1,065	106.84	113,806	15,435
March	1,195	118.44	141,512	6,556
April	1,152	107.39	123,670	4,129
May	1,116	105.73	117,942	6,543
June	1,152	110.29	127,010	7,357
July	1,160	103.33	119,873	4,000
August	1,172	83.47	97,869	5,250
September	1,108	107.41	119,053	5,857
October	1,108	111.03	123,066	5,869
November	1,058	104.86	110,952	5,929
December	1,165	109.70	127,844	18,267
Total Regular Route	<u>13,567</u>		<u>\$ 1,429,875</u>	<u>\$ 90,666</u>
Disability Service				
January	63	\$ 63.23	\$ 4,406	\$ 163
February	68	51.78	3,915	214
March	76	50.24	4,225	243
April	83	47.43	4,344	236
May	99	59.06	6,284	265
June	87	60.71	5,674	314
July	73	36.24	3,044	300
August	90	51.71	5,035	360
September	64	49.70	3,575	334
October	41	52.15	2,558	275
November	39	48.73	2,307	252
December	44	48.52	2,578	315
Total Disability Service	<u>827</u>		<u>\$ 47,945</u> *	<u>\$ 3,271</u>

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

** Beginning in August of 2021, the Duluth Transit Authority started receiving reimbursement from the Wisconsin Department of Transportation of \$94,060 per month (Total of \$470,299) which directly reduced the charges to the City of Superior, that is not included above. There is also revenue of \$140,390 from a special contract that is not included here, but is included as Superior revenue on Exhibit A-1.

Note: There is no "Income From Runs in Superior" reported for the months of April to September of 2020, as there were no fares being charged during this period due to the COVID-19 pandemic.

EXHIBIT A-3

2020					
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
\$ 101,804	1,140	\$ 124.49	\$ 141,936	\$ 10,594	\$ 131,342
98,371	1,083	108.30	117,288	9,441	107,847
134,956	1,160	119.39	138,534	5,552	132,982
119,541	889	121.47	108,035	-	108,035
111,399	895	161.18	144,208	-	144,208
119,653	1,152	169.88	195,634	-	195,634
115,873	1,165	120.42	140,337	-	140,337
92,619	1,159	109.19	126,519	-	126,519
113,196	1,108	102.30	113,389	-	113,389
117,197	1,181	103.82	122,611	9,105	113,506
105,023	1,086	109.58	119,016	5,773	113,243
109,577	1,152	114.19	131,501	9,925	121,576
\$ 1,339,209 **	13,170		\$ 1,599,008	\$ 50,390	\$ 1,548,618
\$ 4,243	155	\$ 45.16	\$ 7,418	\$ 483	\$ 6,935
3,701	130	43.59	6,052	352	5,700
3,982	94	46.98	4,823	218	4,605
4,108	22	55.11	1,633	-	1,633
6,019	35	121.39	4,716	-	4,716
5,360	28	107.52	3,391	-	3,391
2,744	34	90.95	3,477	-	3,477
4,675	44	68.45	3,419	-	3,419
3,241	72	63.53	4,965	-	4,965
2,283	56	65.90	4,097	164	3,933
2,055	64	64.41	4,594	183	4,411
2,263	81	67.31	5,825	203	5,622
\$ 44,674	815		\$ 54,410 *	\$ 1,603	\$ 52,807

**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, 2021 AND 2020**

	2021	2020
Deficit recognized for the City of Superior, Wisconsin		
Regular route	\$ 1,339,209	\$ 1,548,618
Disability service	44,674	52,807
Total	\$ 1,383,883	\$ 1,601,425
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,383,883	\$ 1,601,425
Less: maximum federal share per grant agreement	(470,299)	(484,400)
Non-Federal Share	\$ 913,584	\$ 1,117,025
Wisconsin Department of Transportation funding – lower of the following		
Non-federal share	\$ 913,584	\$ 1,117,025
Maximum Wisconsin Department of Transportation share per grant agreement	(334,834)	(362,483)
Local Funds Required – City of Superior, Wisconsin	\$ 578,750	\$ 754,542

**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, 2021 AND 2020**

	2021	2020
Regular Route		
Operating revenues in the City of Superior	\$ 90,666	\$ 50,390
Operating expenses in the City of Superior	(1,429,875)	(1,599,008)
 Regular Route Deficit Recognized for Federal and State Operating Funds	 \$ (1,339,209)	 \$ (1,548,618)
 Disability Service		
Operating revenues in the City of Superior	\$ 3,271	\$ 1,603
Operating expenses in the City of Superior	(47,945)	(54,410)
 Disability Service Deficit Recognized for State Operating Funds	 \$ (44,674)	 \$ (52,807)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Expenditures
U.S. Department of Transportation		
Direct		
Federal Transit Cluster		
Federal Transit Formula Grants	20.507	\$ 1,622,112
COVID-19 Federal Transit Formula Grants	20.507	821,672
(Total Federal Transit Formula Grants 20.507 \$2,443,784)		
Public Transportation Research	20.514	38,931
Federal Transit Cluster		
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	<u>255,016</u>
Total Federal Awards		<u>\$ 2,737,731</u>

The Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2021.

Totals by Cluster		
Total expenditures for Federal Transit Cluster		\$ 2,698,800

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

A. 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.

B. 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, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 position, or cash flows of the Duluth Transit Authority.

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

The Duluth Transit Authority has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance. No indirect costs were charged to these grants.

3. Reconciliation to Comparative Statement of Revenues, Expenses, and Changes in Net Position

Nonoperating revenues: operating grants – federal	\$ 1,707,148
Capital contributions – federal	687,722
Differences between expenditures incurred in previous years and related reimbursements	<u>342,861</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,737,731</u>



**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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 16, 2022.

Report on 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 as a basis for designing 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. However, material weaknesses may exist that have not been identified.

Report on 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 financial statements. 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

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 contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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 Cities* 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

May 16, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Duluth Transit Authority's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2021. The Duluth Transit Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Duluth Transit Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Duluth Transit Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Duluth Transit Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Duluth Transit Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Duluth Transit Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Duluth Transit Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Duluth Transit Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of the Duluth Transit Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Duluth Transit Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

May 16, 2022

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over the major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor’s report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major program is:

Assistance Listing Number	Name of Federal Program or Cluster
	Federal Transit Cluster
20.507	Federal Transit Formula Grants
20.507	COVID-19 – Federal Transit Formula Grants
	Buses and Bus Facilities Formula, Competitive, Major Federal
20.526	Program III and Low or No Emissions Programs

The threshold for distinguishing between Types A and B programs was \$750,000.

The Duluth Transit Authority qualified as a low-risk auditee? **Yes**

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.