

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED DECEMBER 31,
2014 AND 2013

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 700 public pension funds; and

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

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

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

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

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

**For the Years Ended December 31,
2014 and 2013**



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

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Comparative Statement of Net Position	1	10
Comparative Statement of Revenues, Expenses, and Changes in Net Position	2	11
Comparative Statement of Cash Flows	3	12
Notes to the Financial Statements		13
Supplementary Information		
Comparative Statement of Revenues	A-1	25
Comparative Statement of Operating Expenses	A-2	26
Allocation of Income and Expense to the City of Superior, Wisconsin	A-3	28
Deficit Distribution Among the Subsidy Grantors for Operations in the City of Superior, Wisconsin	A-4	30
Deficit Recognized for Federal and State Operating Funds for Operations in the City of Superior, Wisconsin	A-5	31
Schedule of Expenditures of Federal Awards	B-1	32
Notes to the Schedule of Expenditures of Federal Awards		33
Management and Compliance Section		
Schedule of Findings and Questioned Costs		35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		38
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		41

This page was left blank intentionally.

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2014**

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1 Tony Orman	June 30, 2015
District No. 2 David Schaeffer	June 30, 2016
District No. 3 John Brostrom	June 30, 2016
District No. 4 Debby Putney	June 30, 2017
District No. 5 Donald Simons	June 30, 2017
At Large	
Thomas Griffin	June 30, 2016
Walter Kramer	June 30, 2015
Wayne Nelson	June 30, 2015
Appointed by Mayor, City of Superior, Wisconsin Leslie Evans	June 30, 2015
Officers	
President John Brostrom	
Vice President Donald Simons	
<u>Management</u>	
ATE Management of Duluth, Inc. Dennis Jensen, General Manager	

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, 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, 2014 and 2013, 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 of 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, 2014 and 2013, and the results of its operations and its cash flows for the years 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 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 May 5, 2015, 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 5, 2015

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2014. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Authority's net position increased from 2013 by 13.6 percent.
- The Authority started the construction phase for a multimodal facility which will be located in downtown Duluth. The facility will allow for safe and secure transfers between Duluth Transit Authority routes as well as the other transit providers, rail riders, pedestrians, and cyclists. The project design began in 2012 and 2013, with construction beginning in 2014 and completion for late 2015. The off-street location and design will improve the effectiveness of the current and future transportation demand, and provide connectivity to the overall transportation system. The total cost of the facility is estimated to be \$28.9 million. Funding for the project will be derived from several sources including the Duluth Transit Authority; the City of Duluth; and federal, state, and local grants.
- The Authority has also been engaged in a Signalization project to tie into the multimodal facility. This will allow the buses to move through downtown Duluth smoothly and timely.
- The Authority also finished a lighting project in 2014. This replaced old technology with LED lights throughout the main facility.

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 also includes depreciation of capital assets acquired by contributions. The comparative statement of cash flows presents the cash flows from operating activities, noncapital financing activities, capital and related financing activities, investing activities, and the net cash provided by (used for) operating activities. The comparative statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The supplementary information section elaborates on the above-noted financial statements and also examines the transit services provided to the City of Superior, Wisconsin.

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

SUMMARY OF ORGANIZATION AND BUSINESS

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

The Authority provides both fixed route bus transportation and STRIDE paratransit transportation for disabled passengers. The Authority operates buses on 19 fixed routes and provides service seven days a week. The Authority operated 1,843,210 miles and carried 3,107,305 fixed route passengers and 28,027 paratransit riders during 2014. The Authority also provided downtown circulator trolley service during the summer months.

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

FINANCIAL ANALYSIS

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

From the condensed statement of net position shown below, total net position increased by 13.6 percent in 2014 from 2013 and increased 12.3 percent in 2013 from 2012. The design work and the construction for the new multimodal facility increased the net position in 2014 along with some facility upgrades. The acquisition of ten fixed route buses and nine paratransit buses in 2013 increased the net position for that year along with facility upgrades and the design work for the new multimodal facility.

Condensed Statement of Net Position (000s)

	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012
Assets			
Current assets	\$ 11,831	\$ 10,039	\$ 9,898
Capital assets	\$ 57,758	\$ 54,626	\$ 48,330
Less: depreciation	(36,932)	(37,315)	(33,774)
Capital assets, net	\$ 20,826	\$ 17,311	\$ 14,556
Total Assets	\$ 32,657	\$ 27,350	\$ 24,454
Current Liabilities	\$ 3,125	\$ 1,346	\$ 1,287
Net Position			
Investment in capital assets	\$ 20,826	\$ 17,311	\$ 14,556
Restricted for transit operations and capital improvements	7,952	7,939	7,857
Unrestricted	754	754	754
Total Net Position	\$ 29,532	\$ 26,004	\$ 23,167

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

	Fiscal Year 2014 Actual	Fiscal Year 2014 Budget	Fiscal Year 2013 Actual	Fiscal Year 2012 Actual
Operating Revenues	\$ 2,911	\$ 2,677	\$ 2,654	\$ 2,664
Nonoperating Revenues	12,839	10,563	12,177	11,547
Total Revenues	\$ 15,750	\$ 13,240	\$ 14,831	\$ 14,211
Operating Expenses	17,732	17,645	17,017	16,599
Net Income (Loss) Before Capital Contributions	\$ (1,982)	\$ (4,405)	\$ (2,186)	\$ (2,388)
Capital Contributions	5,510	15,874	5,023	695
Change in Net Position	\$ 3,528	\$ 11,469	\$ 2,837	\$ (1,693)
Net Position - January 1	26,004	26,004	23,167	24,860
Net Position - December 31	<u>\$ 29,532</u>	<u>\$ 37,473</u>	<u>\$ 26,004</u>	<u>\$ 23,167</u>

Revenues

The Authority's operating revenues are derived from various sources: passenger revenue, charter revenue, and other revenues such as transit advertising and subsidies. Operating revenues increased by 9.7 percent to \$2.91 million in 2014, up from \$2.65 million in 2013. Nonoperating revenues increased from \$12.18 million in 2013 to \$12.84 million in 2014. This was an increase of 5.4 percent. The number of passengers decreased from 3,195,020 in 2013 to 3,107,305 in 2014.

Expenses

The Authority's 2014 operating expenses increased 4.2 percent, or \$714,972, over 2013 operating expenses of \$17.02 million.

BUDGETARY HIGHLIGHTS

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

Future state, federal, and local budget constraints play a large part in the Authority's continued ability to serve the riding public.

CAPITAL ASSETS

By the end of fiscal year 2014, the Duluth Transit Authority had invested \$57.76 million in capital assets. The \$3,131,434 increase in capital assets is primarily due to the design and beginning construction for the new multimodal facility, along with the signalization around the multimodal facility.

The Authority's five-year capital plan includes a multimodal transportation center in downtown Duluth. The plan also includes replacement of full-size buses for fixed routes. Additional capital improvements are also scheduled if adequate local, state, and federal funding is obtained.

ECONOMIC AND OTHER FACTORS

The Authority considered many factors when setting the fiscal year 2014 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. The U-PASS program has increased fixed route ridership nearly every year from the start. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 19 transit routes in Duluth and Superior at that time. This information was used to adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2014 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE expenses. The cost of fuel is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2014 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.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 9,915,841	\$ 9,375,093
Accounts receivable	89,978	60,979
Taxes receivable	39,814	40,202
Due from other governments	1,469,474	264,599
Inventory	200,062	191,967
Prepaid items	116,196	105,791
Total current assets	\$ 11,831,365	\$ 10,038,631
Noncurrent assets		
Capital assets		
Not depreciated	\$ 4,306,242	\$ 222,367
Depreciated	53,451,738	54,404,179
Less: accumulated depreciation	(36,932,774)	(37,315,189)
Noncurrent assets - net	\$ 20,825,206	\$ 17,311,357
Total Assets	\$ 32,656,571	\$ 27,349,988
Liabilities		
Current liabilities		
Accounts payable	\$ 519,130	\$ 517,221
Payable to ATE for employee services	718,575	696,498
Contracts payable	1,752,679	-
Unearned revenue	134,551	132,259
Total Liabilities	\$ 3,124,935	\$ 1,345,978
Net Position		
Investment in capital assets	\$ 20,825,206	\$ 17,311,357
Restricted for transit operations and capital improvements	7,952,256	7,938,479
Unrestricted	754,174	754,174
Total Net Position	\$ 29,531,636	\$ 26,004,010

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Operating Revenues		
Charges for services	\$ 2,911,195	\$ 2,653,723
Operating Expenses		
Personal services	\$ 10,099,127	\$ 9,739,251
Supplies	2,158,208	2,123,793
Utilities	240,087	229,393
Other services and charges	1,604,303	1,369,856
Depreciation and amortization	3,630,681	3,555,141
Total Operating Expenses	\$ 17,732,406	\$ 17,017,434
Operating Income (Loss)	\$ (14,821,211)	\$ (14,363,711)
Nonoperating Revenues		
Investment earnings	\$ 93,888	\$ 84,671
Property taxes	1,391,900	1,391,900
Greater Minnesota Transit Fund	5,673,363	4,998,285
Operating grants		
Federal	1,300,750	1,404,037
State	3,054,887	3,063,463
City of Superior, Wisconsin	1,324,478	1,234,443
Total Nonoperating Revenues	\$ 12,839,266	\$ 12,176,799
Net Income (Loss) Before Capital Contributions	\$ (1,981,945)	\$ (2,186,912)
Capital Contributions		
Federal	5,509,571	5,023,961
Change in Net Position	\$ 3,527,626	\$ 2,837,049
Net Position - January 1	26,004,010	23,166,961
Net Position - December 31	\$ 29,531,636	\$ 26,004,010

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,851,731	\$ 2,696,810
Payments to suppliers	(4,019,189)	(3,777,212)
Payments to ATE for employee services	(10,077,050)	(9,710,535)
Net cash provided by (used in) operating activities	\$ (11,244,508)	\$ (10,790,937)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 1,392,288	\$ 1,391,975
Greater Minnesota Transit Fund	5,673,363	4,998,285
Federal operating grants	1,337,732	1,412,073
State operating grants	3,058,700	3,084,464
City of Superior, Wisconsin, operating grants	1,314,113	1,218,616
Net cash provided by (used in) noncapital financing activities	\$ 12,776,196	\$ 12,105,413
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 4,307,222	\$ 5,023,961
Acquisition or construction of capital assets	(5,392,050)	(6,310,583)
Net cash provided by (used in) capital and related financing activities	\$ (1,084,828)	\$ (1,286,622)
Cash Flows from Investing Activities		
Interest on investments	\$ 93,888	\$ 84,671
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 540,748	\$ 112,525
Cash and Cash Equivalents - January 1	9,375,093	9,262,568
Cash and Cash Equivalents - December 31	\$ 9,915,841	\$ 9,375,093
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (14,821,211)	\$ (14,363,711)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	3,630,681	3,555,141
(Increase) decrease in receivables	(61,756)	2,588
(Increase) decrease in inventory	(8,095)	13,160
(Increase) decrease in prepaid items	(10,405)	(56,894)
Increase (decrease) in payables	23,986	18,280
Increase (decrease) in unearned revenue	2,292	40,499
Net Cash Provided by (Used in) Operating Activities	\$ (11,244,508)	\$ (10,790,937)
Noncash Capital Financing Activities		
Acquisition of capital assets by contracts payable	\$ 1,752,679	\$ -

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 November 1, 2011, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period. ATE Management employs all personnel required to operate the Authority; the Authority has no employees.

The accounting policies of the Authority conform to generally accepted accounting principles (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 items. 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 accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Reclassifications

Certain items on the statement of net position have been reclassified from previous years, however total assets, total liabilities, and total net position were unchanged.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. 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

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

3. Capital Assets and Depreciation

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

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

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Significant Accounting Treatments (Continued)

4. Unearned Revenue

Unredeemed ride tickets and tokens are reported as unearned revenue until they are earned.

5. Property Tax Revenue

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

6. Capital Contributions

Capital grants received for the acquisition and construction of capital assets are reported as capital contributions.

7. Net Position - 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, 2014, net position restricted for transit operations and capital improvements was \$7,952,256.

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. 2014 and 2013 Budget to Actual

As required by 1969 Minn. Laws, ch. 720, the Authority's annual budget is approved by the City Council of Duluth. Following is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2014 and 2013.

	2014		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,677,360	\$ 2,911,195	\$ 233,835
Operating Expenses			
Personal services	\$ 9,982,924	\$ 10,099,127	\$ (116,203)
Supplies	2,268,102	2,158,208	109,894
Utilities	300,000	240,087	59,913
Other services and charges	1,463,434	1,604,303	(140,869)
Depreciation and amortization	3,630,681	3,630,681	-
Total Operating Expenses	\$ 17,645,141	\$ 17,732,406	\$ (87,265)
Operating Income (Loss)	\$ (14,967,781)	\$ (14,821,211)	\$ 146,570
Nonoperating Revenues			
Investment earnings	\$ -	\$ 93,888	\$ 93,888
Property taxes	509,197	1,391,900	882,703
Greater Minnesota Transit Fund	5,673,363	5,673,363	-
Operating grants			
Federal	1,300,000	1,300,750	750
State	1,865,637	3,054,887	1,189,250
City of Superior, Wisconsin	1,214,847	1,324,478	109,631
Total Nonoperating Revenues	\$ 10,563,044	\$ 12,839,266	\$ 2,276,222
Net Income (Loss) Before Capital Contributions	\$ (4,404,737)	\$ (1,981,945)	\$ 2,422,792
Capital Contributions			
Federal	15,873,501	5,509,571	(10,363,930)
Change in Net Position	\$ 11,468,764	\$ 3,527,626	\$ (7,941,138)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2014 and 2013 Budget to Actual (Continued)

	2013		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,726,239	\$ 2,653,723	\$ (72,516)
Operating Expenses			
Personal services	\$ 10,055,483	\$ 9,739,251	\$ 316,232
Supplies	2,278,884	2,123,793	155,091
Utilities	300,000	229,393	70,607
Other services and charges	1,382,849	1,369,856	12,993
Depreciation and amortization	3,555,141	3,555,141	-
Total Operating Expenses	\$ 17,572,357	\$ 17,017,434	\$ 554,923
Operating Income (Loss)	\$ (14,846,118)	\$ (14,363,711)	\$ 482,407
Nonoperating Revenues			
Investment earnings	\$ -	\$ 84,671	\$ 84,671
Property taxes	868,139	1,391,900	523,761
Greater Minnesota Transit Fund	4,998,285	4,998,285	-
Operating grants			
Federal	1,452,932	1,404,037	(48,895)
State	2,077,715	3,063,463	985,748
City of Superior, Wisconsin	1,164,291	1,234,443	70,152
Total Nonoperating Revenues	\$ 10,561,362	\$ 12,176,799	\$ 1,615,437
Net Income (Loss) Before Capital Contributions	\$ (4,284,756)	\$ (2,186,912)	\$ 2,097,844
Capital Contributions			
Federal	6,651,104	5,023,961	(1,627,143)
Change in Net Position	\$ 2,366,348	\$ 2,837,049	\$ 470,701

B. Deposits and Investments

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

B. Deposits and Investments (Continued)

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

Additional disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth Comprehensive Annual Financial Report. The Authority is a component unit of the City of Duluth, Minnesota.

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

	December 31	
	2014	2013
City Treasurer - checking account	\$ 9,812,207	\$ 9,311,164
ATE Management - checking account	66,303	28,652
Petty cash fund and change funds	15,112	14,960
Medical flex account	22,219	20,317
Total Cash and Cash Equivalents	\$ 9,915,841	\$ 9,375,093

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2014 and 2013, follows:

	Balance January 1, 2014	Increase	Decrease	Balance December 31, 2014
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Construction in progress	-	4,083,875	-	4,083,875
Total capital assets not depreciated	\$ 222,367	\$ 4,083,875	\$ -	\$ 4,306,242
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	19,933,256	1,807,524	-	21,740,780
Revenue equipment	28,845,941	190	4,027,028	24,819,103
Shop and garage equipment	1,653,534	25,641	-	1,679,175
Office furniture and equipment	3,871,562	1,241,232	-	5,112,794
Total capital assets depreciated	\$ 54,404,179	\$ 3,074,587	\$ 4,027,028	\$ 53,451,738

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2014	Increase	Decrease	Balance December 31, 2014
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	14,095,234	1,191,071	-	15,286,305
Revenue equipment	18,280,822	2,154,383	4,027,028	16,408,177
Shop and garage equipment	1,257,402	76,582	-	1,333,984
Office furniture and equipment	3,581,845	222,577	-	3,804,422
Total accumulated depreciation	<u>\$ 37,315,189</u>	<u>\$ 3,644,613</u>	<u>\$ 4,027,028</u>	<u>\$ 36,932,774</u>
Total capital assets depreciated, net	<u>\$ 17,088,990</u>	<u>\$ (570,026)</u>	<u>\$ -</u>	<u>\$ 16,518,964</u>
Capital Assets, Net	<u>\$ 17,311,357</u>	<u>\$ 3,513,849</u>	<u>\$ -</u>	<u>\$ 20,825,206</u>

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	18,728,263	1,204,993	-	19,933,256
Revenue equipment	23,839,885	5,006,056	-	28,845,941
Shop and garage equipment	1,653,359	175	-	1,653,534
Office furniture and equipment	3,786,133	85,429	-	3,871,562
Total capital assets depreciated	<u>\$ 48,107,526</u>	<u>\$ 6,296,653</u>	<u>\$ -</u>	<u>\$ 54,404,179</u>
Less: accumulated depreciation for				
Land improvements	\$ 89,897	\$ 9,989	\$ -	\$ 99,886
Buildings and structures	13,252,892	842,342	-	14,095,234
Revenue equipment	15,850,923	2,429,899	-	18,280,822
Shop and garage equipment	1,177,140	80,262	-	1,257,402
Office furniture and equipment	3,403,127	178,718	-	3,581,845
Total accumulated depreciation	<u>\$ 33,773,979</u>	<u>\$ 3,541,210</u>	<u>\$ -</u>	<u>\$ 37,315,189</u>
Total capital assets depreciated, net	<u>\$ 14,333,547</u>	<u>\$ 2,755,443</u>	<u>\$ -</u>	<u>\$ 17,088,990</u>
Capital Assets, Net	<u>\$ 14,555,914</u>	<u>\$ 2,755,443</u>	<u>\$ -</u>	<u>\$ 17,311,357</u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

D. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss related to transit liability and property damage are retained. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Risk management activities for transit liability and property damage include the purchase of commercial insurance coverage for claims exceeding \$100,000. The Authority retains the risk of loss for the first \$100,000 per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. In addition, several incidents have occurred in the Authority's bus operations that are considered reasonably possible losses to the Authority. Reasonably possible losses are not reflected in the financial statements. The Authority has estimated that its exposure to reasonably possible losses range from \$40,000 to \$243,345. There were no balances for claims and judgments liability reported on the financial statements for the years ended December 31, 2014 or 2013.

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 \$1,459,015 for the year ended December 31, 2014, and \$1,353,942 for the year ended December 31, 2013. After deduction of the revenue collected in Superior of \$134,537 in 2014 and \$119,499 in 2013, the amounts actually billed were \$1,324,478 in 2014 and \$1,234,443 in 2013, which are included as nonoperating revenues.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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 \$544,795 and \$544,661 at December 31, 2014 and 2013, respectively, and is included with salaries payable of \$173,780 and \$151,837 for December 31, 2014 and 2013, 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

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.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

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 \$268.80 per full-time employee per week in 2014.

ATE's contributions for the years ending December 31, 2014, 2013, and 2012, were \$1,386,739, \$1,336,445, and \$1,268,624, 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.

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>2014</u>	<u>2013</u>
Employer	\$ 164,804	\$ 152,405
Employee	27,468	25,401

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

5. Contract Commitment Note

The Duluth Transit Authority has entered into agreements with several organizations relating to the construction of a new multimodal transportation facility in downtown Duluth.

The total cost of the facility is estimated to be \$28.9 million. Funding for the project will be derived from several sources including the Duluth Transit Authority, the City of Duluth, and federal, state and local grants.

Construction work on the facility began in spring 2014 and is expected to be completed in the fall of 2015.

As of December 31, 2014, the Authority had the following remaining contract commitment on the multimodal facility.

Total contract sum	\$ 27,267,084
Less: completed and stored to date	<u>(5,519,767)</u>
Remaining Commitment	<u>\$ 21,747,317</u>

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 2,028,816	\$ 1,898,235
Senior citizen fares	158,755	156,751
Student fares	400,000	373,936
Disability fares	28,015	27,662
	\$ 2,615,586	\$ 2,456,584
Total passenger fares for transit service	\$ 2,615,586	\$ 2,456,584
Charter service revenues	\$ 15,956	\$ 13,275
Auxiliary transportation revenues		
Advertising services	\$ 123,386	\$ 119,585
STRIDE	55,793	51,648
Other	100,474	12,631
	\$ 279,653	\$ 183,864
Total auxiliary transportation revenues	\$ 279,653	\$ 183,864
Total charges for services	\$ 2,911,195	\$ 2,653,723
Nonoperating and Other Revenues		
Investment earnings	\$ 93,888	\$ 84,671
Property taxes	1,391,900	1,391,900
Greater Minnesota Transit Fund	5,673,363	4,998,285
Operating grants		
Federal - Section 5307	1,300,000	1,260,000
Federal - Job Access Reverse Commute	-	141,422
Federal - other	750	2,615
State - regular route	2,820,160	2,864,820
State - disability service	234,727	198,643
City of Superior, Wisconsin - regular route	1,232,450	1,152,962
City of Superior, Wisconsin - disability service	92,028	81,481
Capital contributions		
Federal	5,509,571	5,023,961
	\$ 18,348,837	\$ 17,200,760
Total nonoperating and other revenues	\$ 18,348,837	\$ 17,200,760
Total Revenues	\$ 21,260,032	\$ 19,854,483

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
Personal services			
Labor			
Operations - salaries and wages	\$ 3,738,209	\$ -	\$ -
Other salaries and wages	-	909,675	759,698
Fringe benefits	3,245,618	787,747	658,180
Total personal services	\$ 6,983,827	\$ 1,697,422	\$ 1,417,878
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,371,992	\$ 13,645	\$ -
Tires and tubes	63,100	895	-
Other materials and supplies	17,809	539,125	151,642
Total supplies	\$ 1,452,901	\$ 553,665	\$ 151,642
Utilities	\$ 27,628	\$ -	\$ 212,459
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 206,116
Professional and technical services	259,355	40,592	226,669
Other services	143	64,289	3,611
Casualty and liability costs	-	-	267,994
Taxes and fees	344	590	10,542
Miscellaneous			
Dues and subscriptions	-	-	23,280
Travel and meetings	2,219	4,900	18,908
Advertising and promotional media	-	-	60,389
Purchased transportation service	-	-	403,605
Other	470	2,190	8,097
Total other services and charges	\$ 262,531	\$ 112,561	\$ 1,229,211
Depreciation	\$ 2,732,301	\$ 192,221	\$ 706,159
Total Expenses*	\$ 11,459,188	\$ 2,555,869	\$ 3,717,349

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$808,071 for 2014 and \$764,533 for 2013.

EXHIBIT A-2

2013				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 3,738,209	\$ 3,697,354	\$ -	\$ -	\$ 3,697,354
1,669,373	-	862,025	723,776	1,585,801
4,691,545	3,120,189	725,909	609,998	4,456,096
\$ 10,099,127	\$ 6,817,543	\$ 1,587,934	\$ 1,333,774	\$ 9,739,251
\$ 1,385,637	\$ 1,438,917	\$ 20,380	\$ -	\$ 1,459,297
63,995	85,174	1,432	-	86,606
708,576	19,148	454,354	104,388	577,890
\$ 2,158,208	\$ 1,543,239	\$ 476,166	\$ 104,388	\$ 2,123,793
\$ 240,087	\$ 24,579	\$ -	\$ 204,814	\$ 229,393
\$ 206,116	\$ -	\$ -	\$ 220,380	\$ 220,380
526,616	212,093	21,724	213,244	447,061
68,043	143	54,935	2,821	57,899
267,994	-	-	181,616	181,616
11,476	1,692	-	16,858	18,550
23,280	-	-	6,422	6,422
26,027	3,584	610	14,759	18,953
60,389	-	-	45,293	45,293
403,605	-	-	367,563	367,563
10,757	85	129	5,905	6,119
\$ 1,604,303	\$ 217,597	\$ 77,398	\$ 1,074,861	\$ 1,369,856
\$ 3,630,681	\$ 2,886,385	\$ 163,204	\$ 505,552	\$ 3,555,141
\$ 17,732,406	\$ 11,489,343	\$ 2,304,702	\$ 3,223,389	\$ 17,017,434

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

Month	2014			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
Regular Route				
January	1,195	\$ 98.07	\$ 117,233	\$ 8,200
February	1,104	95.34	105,255	10,856
March	1,197	101.49	121,504	10,377
April	1,196	101.47	121,297	10,746
May	1,177	94.77	111,563	11,214
June	1,170	98.53	115,251	11,325
July	1,196	96.49	115,344	9,351
August	1,197	88.91	107,439	11,692
September	1,149	96.05	110,429	10,838
October	1,241	94.29	117,023	13,460
November	1,106	88.74	98,129	11,137
December	1,195	101.22	120,998	9,819
Total Regular Route	14,123		\$ 1,361,465	\$ 129,015
Disability Service				
January	168	\$ 45.84	\$ 8,131	\$ 368
February	163	41.42	7,159	425
March	185	45.57	8,815	435
April	176	41.92	7,795	432
May	181	42.35	8,072	482
June	166	45.83	8,015	366
July	178	44.07	8,240	406
August	149	42.08	6,677	381
September	182	41.56	7,950	569
October	193	43.17	8,739	579
November	195	40.41	8,277	463
December	224	41.35	9,680	616
Total Disability Service	2,160		\$ 97,550 *	\$ 5,522

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

EXHIBIT A-3

		2013				
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	
\$ 109,033	1,195	\$ 99.01	\$ 118,357	\$ 7,629	\$ 110,728	
94,399	1,104	88.90	98,146	9,629	88,517	
111,127	1,197	89.66	107,341	9,989	97,352	
110,551	1,195	89.78	107,143	9,916	97,227	
100,349	1,195	88.30	105,554	11,786	93,768	
103,926	1,152	85.17	98,073	9,335	88,738	
105,993	1,195	89.67	107,191	9,183	98,008	
95,747	1,223	86.98	107,342	10,410	96,932	
99,591	1,124	86.06	96,731	8,231	88,500	
103,563	1,241	91.07	113,027	10,693	102,334	
86,992	1,132	85.74	97,015	9,294	87,721	
111,179	1,170	96.24	112,572	9,435	103,137	
\$ 1,232,450	14,123		\$ 1,268,492	\$ 115,530	\$ 1,152,962	
\$ 7,763	137	\$ 43.99	\$ 6,434	\$ 295	\$ 6,139	
6,734	131	44.80	6,287	266	6,021	
8,380	156	41.67	6,897	321	6,576	
7,363	164	42.39	7,348	243	7,105	
7,590	171	42.35	7,638	333	7,305	
7,649	151	41.63	6,683	257	6,426	
7,834	146	44.13	6,850	253	6,597	
6,296	149	43.14	6,824	290	6,534	
7,381	170	41.61	7,501	357	7,144	
8,160	190	41.19	8,233	483	7,750	
7,814	176	40.88	7,592	448	7,144	
9,064	165	40.76	7,163	423	6,740	
\$ 92,028	1,906		\$ 85,450 *	\$ 3,969	\$ 81,481	

**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, 2014 AND 2013**

	2014	2013
Deficit recognized for the City of Superior		
Regular route	\$ 1,232,450	\$ 1,152,962
Disability service	92,028	81,481
Total	\$ 1,324,478	\$ 1,234,443
Federal funding - lower of the following		
Percentage limit - 50% of regular route deficit	\$ 616,225	\$ 576,481
Maximum federal share per grant agreement	443,604 (443,604)	434,841 (434,841)
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,324,478	\$ 1,234,443
Less: maximum federal share	(443,604)	(434,841)
Non-Federal Share	\$ 880,874	\$ 799,602
Wisconsin Department of Transportation funding - lower of the following		
Non-federal share	\$ 880,874	\$ 799,602
Maximum Wisconsin Department of Transportation share per grant agreement	334,415 (334,415)	331,036 (331,036)
Local Funds Required - City of Superior, Wisconsin	\$ 546,459	\$ 468,566

**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, 2014 AND 2013**

	2014	2013
Regular Route		
Operating revenues in the City of Superior	\$ 129,015	\$ 115,530
Operating expenses in the City of Superior	(1,361,465)	(1,268,492)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,232,450)	\$ (1,152,962)
 Disability Service		
Operating revenues in the City of Superior	\$ 5,522	\$ 3,969
Operating expenses in the City of Superior	(97,550)	(85,450)
Disability Service Deficit Recognized for State Operating Funds	\$ (92,028)	\$ (81,481)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Direct		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	\$ 4,982,477
Federal Transit Capital Assistance Formula Grants	20.507	527,094
Federal Transit Operating Assistance Formula Grants	20.507	1,300,000
(Total Transit Formula Grants CFDA 20.507 \$1,827,094)		
Passed Through Minnesota Department of Transportation		
Formula Grants for Rural Areas	20.509	<u>750</u>
Total Federal Awards		<u>\$ 6,810,321</u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Duluth Transit Authority, a discretely presented component unit of the City of Duluth, Minnesota. The Authority's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Transit Authority under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Duluth Transit Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Duluth Transit Authority.

3. Summary of Significant Accounting Policies

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

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenses by cluster are:

Federal Transit Cluster	\$ 6,809,571
-------------------------	--------------

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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

Nonoperating revenues: operating grants - federal	\$ 1,300,750
Capital contributions - federal	<u>5,509,571</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 6,810,321</u>

6. Subrecipients

The Duluth Transit Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **No**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program cluster is:

Federal Transit Cluster	
Federal Transit Capital Investment Grants	CFDA #20.500
Federal Transit Formula Grants	CFDA #20.507

The threshold for distinguishing between Types A and B programs was \$300,000.

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

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

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control 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.

Condition: During our audit, we proposed audit adjustments which were material. The audit adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the Authority's internal control.

Context: The Duluth Transit Authority is a component unit of the City of Duluth, Minnesota, and the financial information is included in the City of Duluth's financial statements. The Authority's financial information is prepared by the management company's staff. The Authority's inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Adjustments were made for \$1,752,679 to record a contract payable, for \$1,202,349 to record a grant receivable for the federal share of the additional contract payable, and for \$4,027,028 to record capital asset deletions for buses sold in 2014.

Cause: The management company's staff failed to identify a year-end payable for construction work and the corresponding grant receivable on the multimodal facility. Older buses sold in 2014 were properly identified as sold on the capital asset records, but had not been recorded as deletions in the general ledger.

Recommendation: We recommend the Authority review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

Our past practice has always been to post our Federal Grant Drawdowns in the month of which they are received. During the 2014 Audit it was decided to adjust it from 2015 to 2014 based on the date of work. We made the adjustments as advised. The sold assets will be deleted from the books.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

REPORT ON 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, 2014, 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 5, 2015.

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.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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 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, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the Authority has no long-term debt. 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 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.

Other Matters

Duluth Transit Authority's Response to Finding

The Duluth Transit Authority's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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

May 5, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

REPORT ON COMPLIANCE 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 Each Major Federal Program

We have audited the Duluth Transit Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2014. The Duluth Transit Authority is a component unit of the City of Duluth, Minnesota. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Duluth Transit Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Duluth Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Duluth Transit Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Duluth Transit Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or 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 the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 5, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR