

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, 2018 AND 2017

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 approximately 600 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, 2018 and 2017



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

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2018

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1 Julie Zaruba Fountaine	June 30, 2020
District No. 2 Aaron Bransky	June 30, 2019
District No. 3 Edmund Gleeson	June 30, 2019
District No. 4 Rondi Watson	June 30, 2021
District No. 5 Michael Casey	June 30, 2019
At Large Joshua Smerdon	June 30, 2020
Henry Banks	June 30, 2020
Tom Szukis	June 30, 2021
Appointed by Mayor, City of Superior, Wisconsin Krystal Brandstatter	Indefinite
Officers	
President Aaron Bransky	
Vice President Rondi Watson	

Management

ATE Management of Duluth, Inc.
Philip Pumphrey, General Manager

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JULIE BLAHA
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2018 and 2017, 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.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2019, 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 18, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2018. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Authority's net position increased from 2017 by 15 percent.
- The Authority was awarded a Lo-No Grant to purchase six quick charge electric buses. This grant also included project planning and initiation, infrastructure procurement, design and build, public relations, data collection, analysis, and reporting. The project planning started in 2015 and was amended in 2016 to change from the limited range, quick charge batteries, to an extended range battery and one additional bus. After extensive research and modeling for cold weather operations, additional changes included the design and installation of auxiliary heaters. The cold weather research and battery changes resulted in a delay in the delivery date to the last quarter of 2018. The Authority upgraded the infrastructure to accommodate the electric chargers with increased electrical power and a back-up generator.
- The Authority completed a Transit Development Plan in 2017, which includes three phases over a five-year plan. The Duluth Transit Authority started implementation of Phase One, which included a 2-year Pilot Program of Routes. Five new routes were introduced along with expansion hours on some existing routes. This 2-year Pilot Program is funded by the Minnesota Department of Transportation's Greater Minnesota Transit Investment Plan. Included in this plan is funding for operations and capital equipment.
- The Authority had facility upgrades in 2018, which included EIFS (exterior insulation and finish system) for the exterior of the facility.
- Replacement vehicles were also purchased in 2018, which included ten for fixed route service and four vehicles for paratransit service.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's operating budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using accrual accounting methods as used by similar public transit systems.

The financial statements include: a comparative statement of net position; a comparative statement of revenues, expenses, and changes in net position; a comparative statement of cash flows; notes to the financial statements; and supplementary information. The comparative statement of net position presents assets, liabilities, and the net position invested in capital assets; net position restricted for transit operations and capital improvements; and the unrestricted net position of the Authority. The comparative statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and includes depreciation of capital assets. The comparative statement of cash flows presents the cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The comparative statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The supplementary information section elaborates on the above-noted financial statements and examines the transit services provided to the City of Superior, Wisconsin.

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

SUMMARY OF ORGANIZATION AND BUSINESS

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

The Authority provides both fixed route bus transportation and STRIDE paratransit transportation for disabled passengers. The Authority operates buses on 22 fixed routes, with 33 unique variations, and provides service seven days a week. The Authority operated 2,278,176 miles and carried 2,760,475 fixed route passengers and 34,311 paratransit riders during 2018. The Authority also provided downtown circulator trolley service during the summer months.

The Authority has local taxing authority, which is certified yearly by the Duluth City Council. Authority operations are funded from passenger revenues, nonoperating revenues, federal operating grants, Minnesota Department of Transportation operating grants, local tax pass-through monies, and local tax levies. City bonds and excess local operating monies are matched with federal and state capital grants to fund the acquisition and construction of capital assets. Bond debt service payments are deducted from the Authority's local share of tax levy proceeds, of which the Authority has none.

FINANCIAL ANALYSIS

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

From the condensed statement of net position shown below, total net position increased by 15 percent in 2018 from 2017 and decreased 5.6 percent in 2017 from 2016. The electric bus project, which included design and purchase of seven electric buses with chargers and facility infrastructure, increased the net position along with replacement vehicles for fixed route and paratransit. The decrease in 2017 from 2016 would be due to depreciation of capital assets.

Condensed Statement of Net Position (000s)

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016
Assets			
Current assets	\$ 13,904	\$ 7,082	\$ 5,913
Capital assets	\$ 102,022	\$ 88,608	\$ 87,787
Less: depreciation	(54,515)	(48,680)	(43,760)
Capital assets, net	\$ 47,507	\$ 39,928	\$ 44,027
Total Assets	\$ 61,411	\$ 47,010	\$ 49,940
Current Liabilities	\$ 9,278	\$ 1,713	\$ 1,940
Net Position			
Investment in capital assets	\$ 47,507	\$ 39,928	\$ 44,027
Restricted for transit operations			
and capital improvements	3,872	4,615	3,219
Unrestricted	754	754	754
Total Net Position	\$ 52,133	\$ 45,297	\$ 48,000

(Unaudited)

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

	Fiscal Year 2018 Actual	Fiscal Year 2018 Budget	Fiscal Year 2017 Actual	Fiscal Year 2016 Actual
Operating Revenues	\$ 2,992	\$ 2,909	\$ 2,834	\$ 2,787
Nonoperating Revenues	15,669	15,279	15,413	14,300
Total Revenues	\$ 18,661	\$ 18,188	\$ 18,247	\$ 17,087
Operating Expenses	23,541	22,888	21,525	20,162
Net Income (Loss) Before Capital Contributions	\$ (4,880)	\$ (4,700)	\$ (3,278)	\$ (3,075)
Capital Contributions	11,716	13,090	575	3,508
Change in Net Position	\$ 6,836	\$ 8,390	\$ (2,703)	\$ 433
Net Position – January 1	45,297	45,297	48,000	47,567
Net Position – December 31	<u>\$ 52,133</u>	<u>\$ 53,687</u>	<u>\$ 45,297</u>	<u>\$ 48,000</u>

Revenues

The Authority's operating revenues are derived from various sources: passenger revenues, charter revenues, and other revenues such as transit advertising and subsidies. Operating revenues increased by 5.6 percent to \$2.99 million in 2018, up from \$2.83 million in 2017. Nonoperating revenues increased from \$15.4 million in 2017 to \$15.7 million in 2018. This was an increase of 1.7 percent. The number of passengers decreased from 2,786,702 in 2017 to 2,760,475 in 2018 for fixed route, but increased for paratransit from 30,327 in 2017 to 34,311 in 2018.

Expenses

The Authority's 2018 operating expenses increased 9.36 percent, or \$2.02 million, over 2017 operating expenses of \$21.5 million. The increase was due to the new routes that were fully executed in 2018 for the pilot program offered by the Minnesota Department of Transportation.

BUDGETARY HIGHLIGHTS

The Authority creates an annual operating budget, which includes proposed expenses and the means of financing them. Once management and the Board of Directors approve the budget, it is presented to the Duluth City Council for final approval. The Minnesota Department of Transportation also reviews and approves the Authority's operating budget. The Authority's

operating budget remains in effect the entire year and is not revised. Management and the Authority's Board of Directors are presented detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

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

CAPITAL ASSETS

By the end of fiscal year 2018, the Duluth Transit Authority had invested \$102 million in capital assets. The \$13,413,413 increase in capital assets is primarily due to the acquisition of seven new electric buses, chargers, facility infrastructure for the electric buses, along with ten replacement diesel buses and three paratransit vehicles.

The Authority's five-year capital plan includes replacement of full-size buses, whether they are diesel or electric, 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 fiscal year 2018 budget. A fare increase was implemented on January 1, 2011, along with increased service hours and adding holiday service. The Authority continues to promote its U-PASS collegiate pass program along with general ridership for safe and affordable public transportation. The 2018 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 2017 and 2018 was a reprieve, it is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2018 budget.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Duluth Transit Authority, 2402 West Michigan Street, Duluth, Minnesota 55806.

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BASIC FINANCIAL STATEMENTS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 4,905,618	\$ 5,737,309
Accounts receivable	134,049	66,657
Taxes receivable	10,268	12,543
Due from other governments	8,480,697	1,001,239
Inventory	221,873	193,611
Prepaid items	151,989	70,307
Total current assets	\$ 13,904,494	\$ 7,081,666
Noncurrent assets		
Capital assets		
Not depreciated	\$ 222,367	\$ 222,367
Depreciated	101,799,127	88,385,714
Less: accumulated depreciation	(54,514,707)	(48,680,078)
Noncurrent assets – net	\$ 47,506,787	\$ 39,928,003
Total Assets	\$ 61,411,281	\$ 47,009,669
Liabilities		
Current liabilities		
Accounts payable	\$ 8,226,604	\$ 721,153
Payable to ATE Management for employee services	945,395	885,423
Unearned revenue	106,177	106,492
Total Liabilities	\$ 9,278,176	\$ 1,713,068
Net Position		
Investment in capital assets	\$ 47,506,787	\$ 39,928,003
Restricted for transit operations and capital improvements	3,872,144	4,614,424
Unrestricted	754,174	754,174
Total Net Position	\$ 52,133,105	\$ 45,296,601

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Operating Revenues		
Charges for services	<u>\$ 2,992,124</u>	<u>\$ 2,834,021</u>
Operating Expenses		
Personal services	\$ 13,014,032	\$ 12,129,856
Supplies	2,218,651	1,813,262
Utilities	321,703	295,908
Other services and charges	2,151,809	2,366,000
Depreciation	<u>5,834,629</u>	<u>4,920,516</u>
Total Operating Expenses	<u>\$ 23,540,824</u>	<u>\$ 21,525,542</u>
Operating Income (Loss)	<u>\$ (20,548,700)</u>	<u>\$ (18,691,521)</u>
Nonoperating Revenues		
Investment earnings	\$ 89,732	\$ 59,802
Property taxes	1,491,900	1,491,900
Operating grants		
Federal	1,013,657	177,050
State	11,785,349	12,389,000
City of Superior, Wisconsin	<u>1,288,629</u>	<u>1,295,495</u>
Total Nonoperating Revenues	<u>\$ 15,669,267</u>	<u>\$ 15,413,247</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (4,879,433)</u>	<u>\$ (3,278,274)</u>
Capital Contributions		
Federal	\$ 10,898,671	\$ 105,951
State	<u>817,266</u>	<u>469,315</u>
Total Capital Contributions	<u>\$ 11,715,937</u>	<u>\$ 575,266</u>
Change in Net Position	<u>\$ 6,836,504</u>	<u>\$ (2,703,008)</u>
Net Position – January 1	<u>45,296,601</u>	<u>47,999,609</u>
Net Position – December 31	<u><u>\$ 52,133,105</u></u>	<u><u>\$ 45,296,601</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,954,147	\$ 2,781,409
Payments to suppliers	(4,690,207)	(4,689,562)
Payments to ATE Management for employee services	(12,954,060)	(12,072,998)
	\$ (14,690,120)	\$ (13,981,151)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 1,494,175	\$ 1,491,594
Federal operating grants	1,013,657	177,050
State operating grants	11,785,349	12,389,000
City of Superior, Wisconsin, operating grants	1,379,874	1,201,523
	\$ 15,673,055	\$ 15,259,167
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 4,115,504	\$ 90,124
Acquisition or construction of capital assets	(6,019,862)	(821,731)
	\$ (1,904,358)	\$ (731,607)
Cash Flows from Investing Activities		
Interest on investments	\$ 89,732	\$ 59,802
	\$ (831,691)	\$ 606,211
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (831,691)	\$ 606,211
Cash and Cash Equivalents – January 1	5,737,309	5,131,098
Cash and Cash Equivalents – December 31	\$ 4,905,618	\$ 5,737,309
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (20,548,700)	\$ (18,691,521)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	5,834,629	4,920,516
(Increase) decrease in receivables	(37,662)	(21,225)
(Increase) decrease in inventory	(28,262)	(22,303)
(Increase) decrease in prepaid items	(81,682)	60,374
Increase (decrease) in payables	171,872	(195,605)
Increase (decrease) in unearned revenue	(315)	(31,387)
	\$ (14,690,120)	\$ (13,981,151)
Net Cash Provided by (Used in) Operating Activities	\$ (14,690,120)	\$ (13,981,151)
Noncash Investing, Capital, and Financing Activities		
Capital assets acquired by accounts payable	\$ 7,393,551	\$ -

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, 2018 AND 2017

1. Summary of Significant Accounting Policies

The Duluth Transit Authority for the City of Duluth, Minnesota, was established pursuant to 1969 Minn. Laws, ch. 720, as amended. Its function is to administer, promote, control, direct, manage, and operate a bus transportation system. The Authority is governed by a nine-member Board of Directors appointed by Duluth's Mayor and approved by the City Council. One member, whose name is submitted to the Mayor of Duluth by the City of Superior, Wisconsin, serves as a Director during any time the City of Superior contracts with the Authority for bus service.

Under 1969 Minn. Laws, ch. 720, § 5, subd. 3, the Authority is granted the power to enter into a management contract with any person, firm, or corporation for the management of the transit system. Effective December 1, 2016, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period. ATE Management employs all personnel required to operate the Authority; the Authority has no employees.

The accounting policies of the Authority conform with accounting principles generally accepted in the United States of America (GAAP). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

For financial reporting purposes, a reporting entity includes all funds, organizations, account groups, agencies, boards, commissions, and authorities for which it is financially accountable and other organizations for which the nature and significance of their relationship with it are such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the reporting entity to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the reporting entity.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

As required by generally accepted accounting principles, these financial statements present the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota. The Authority is included in the City of Duluth's reporting entity because of the significance of its operational or financial relationships with the City.

B. Basis of Presentation – Fund Accounting

The accounts of the Authority are presented as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and net income is desired for purposes of facilitating management control and accountability.

Enterprise funds distinguish operating revenues from nonoperating revenues. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenue of the Authority is charges to customers for bus service. All revenues not meeting this definition are reported as nonoperating revenues.

C. Basis of Accounting

The Authority follows the full accrual, economic resource basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows.

D. Use of Estimates

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Significant Accounting Treatments

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Investments are reported at fair value.

2. Inventory

Inventory of the Authority consists of diesel fuel, gasoline, and materials and supplies. Balances are maintained using a perpetual system and priced using the moving average cost method.

3. Capital Assets and Depreciation

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

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

<u>Classification Range</u>	<u>Range</u>
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, 2018 and 2017, net position restricted for transit operations and capital improvements was \$3,872,144 and \$4,614,424, 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. 2018 and 2017 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, 2018 and 2017.

	2018		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,908,877	\$ 2,992,124	\$ 83,247
Operating Expenses			
Personal services	\$ 13,006,268	\$ 13,014,032	\$ (7,764)
Supplies	2,234,044	2,218,651	15,393
Utilities	275,000	321,703	(46,703)
Other services and charges	1,538,101	2,151,809	(613,708)
Depreciation	5,834,629	5,834,629	-
Total Operating Expenses	\$ 22,888,042	\$ 23,540,824	\$ (652,782)
Operating Income (Loss)	\$ (19,979,165)	\$ (20,548,700)	\$ (569,535)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 89,732	\$ 89,732
Property taxes	1,491,900	1,491,900	-
Operating grants			
Federal	-	1,013,657	1,013,657
State	12,449,350	11,785,349	(664,001)
City of Superior, Wisconsin	1,337,784	1,288,629	(49,155)
Total Nonoperating Revenues	\$ 15,279,034	\$ 15,669,267	\$ 390,233
Net Income (Loss) Before Capital Contributions	\$ (4,700,131)	\$ (4,879,433)	\$ (179,302)
Capital Contributions			
Federal	\$ 11,460,937	\$ 10,898,671	\$ (562,266)
State	1,629,417	817,266	(812,151)
Total Capital Contributions	\$ 13,090,354	\$ 11,715,937	\$ (1,374,417)
Change in Net Position	\$ 8,390,223	\$ 6,836,504	\$ (1,553,719)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2018 and 2017 Budget to Actual (Continued)

	2017		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,817,852	\$ 2,834,021	\$ 16,169
Operating Expenses			
Personal services	\$ 12,447,860	\$ 12,129,856	\$ 318,004
Supplies	2,096,508	1,813,262	283,246
Utilities	300,000	295,908	4,092
Other services and charges	1,266,683	2,366,000	(1,099,317)
Depreciation	4,920,516	4,920,516	-
Total Operating Expenses	\$ 21,031,567	\$ 21,525,542	\$ (493,975)
Operating Income (Loss)	\$ (18,213,715)	\$ (18,691,521)	\$ (477,806)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 59,802	\$ 59,802
Property taxes	1,491,900	1,491,900	-
Operating grants			
Federal	-	177,050	177,050
State	10,960,000	12,389,000	1,429,000
City of Superior, Wisconsin	1,262,802	1,295,495	32,693
Total Nonoperating Revenues	\$ 13,714,702	\$ 15,413,247	\$ 1,698,545
Net Income (Loss) Before Capital Contributions	\$ (4,499,013)	\$ (3,278,274)	\$ 1,220,739
Capital Contributions			
Federal	\$ 3,147,802	\$ 105,951	\$ (3,041,851)
State	-	469,315	469,315
Total Capital Contributions	\$ 3,147,802	\$ 575,266	\$ (2,572,536)
Change in Net Position	\$ (1,351,211)	\$ (2,703,008)	\$ (1,351,797)

**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 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	
	2018	2017
City Treasurer – accounts	\$ 4,832,087	\$ 5,621,972
ATE Management – checking account	38,220	79,530
Petty cash fund and change funds	14,960	14,960
Medical flex account	20,351	20,847
Total Cash and Cash Equivalents	\$ 4,905,618	\$ 5,737,309

**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, 2018 and 2017, follows:

	Balance January 1, 2018	Increase	Decrease	Balance December 31, 2018
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	52,008,640	210,465	-	52,219,105
Revenue equipment	28,668,437	13,069,733	26,840	41,711,330
Shop and garage equipment	1,703,014	42,657	-	1,745,671
Office furniture and equipment	5,905,737	117,398	-	6,023,135
Total capital assets depreciated	\$ 88,385,714	\$ 13,440,253	\$ 26,840	\$ 101,799,127
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	22,483,462	2,359,124	-	24,842,586
Revenue equipment	20,156,351	3,115,431	-	23,271,782
Shop and garage equipment	1,463,412	84,517	-	1,547,929
Office furniture and equipment	4,476,967	275,557	-	4,752,524
Total accumulated depreciation	\$ 48,680,078	\$ 5,834,629	\$ -	\$ 54,514,707
Total capital assets depreciated, net	\$ 39,705,636	\$ 7,605,624	\$ 26,840	\$ 47,284,420
Capital Assets, Net	\$ 39,928,003	\$ 7,605,624	\$ 26,840	\$ 47,506,787

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

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

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. 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 ranges from \$0 to \$95,000. There were no balances for claims and judgments liability reported on the financial statements for the years ended December 31, 2018 or 2017.

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 \$1,402,010 for the year ended December 31, 2018, and \$1,426,936 for the year ended December 31, 2017. After deduction of the revenue collected in Superior of \$113,381 in 2018 and \$131,441 in 2017, the amounts actually billed were \$1,288,629 in 2018 and \$1,295,495 in 2017, 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 \$603,777 and \$578,396 at December 31, 2018 and 2017, respectively, and is included with salaries payable of \$341,618 and \$307,027 for December 31, 2018 and 2017, respectively, and is reported as payable to ATE for employee services on the balance sheet.

Sick leave is earned at the rate of 30 days per year and may be accumulated to 60 days for employees with less than 10 years of service and to 120 days for those with over 10 years of service. Employees are not compensated for unused sick leave. Any liability for earned, unused sick leave is not recognized in the financial statements.

B. Retirement Plans

1. Defined Benefit Pension Plan

ATE's hourly paid employees participate in the Central States, Southeast and Southwest Areas Pension Fund, a cost-sharing, multiple-employer defined benefit plan. The plan is administered by the trustees of the Central States, Southeast and Southwest Areas Pension Fund.

Plan trustees establish benefit provisions including monthly benefit amounts. Full-time hourly paid employees are eligible to participate in the plan. Employees who retire at or after age 60 with 20 years of credited service are entitled to a monthly retirement benefit. Benefits fully vest at age 65 with five years of participation or on reaching 10 years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

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 \$314.30 per full-time employee per week in 2018.

ATE's contributions for the years ending December 31, 2018, 2017, and 2016, were \$1,859,399, \$1,719,820, and \$1,553,286, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

The trustees of the Central States, Southeast and Southwest Areas Pension Fund issue a publicly available financial report. The report may be obtained by writing to Central States, Southeast and Southwest Areas Pension Fund, 9377 West Higgins Road, Rosemont, Illinois 60018-4938.

2. Defined Contribution Plan

ATE salaried employees participate in the Duluth Transit Authority Money Purchase Pension Plan, a defined contribution plan. The plan is administered by ATE.

ATE establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed for 120 days and are at least 20-1/2 years of age. ATE contributes 12 percent and the employee 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>2018</u>	<u>2017</u>
Employer	\$ 195,850	\$ 174,728
Employee	32,635	29,271

SUPPLEMENTARY INFORMATION

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,822,771	\$ 1,759,704
Senior citizen fares	107,279	118,400
College student passes	515,745	534,945
Disability fares	18,932	20,894
Total passenger fares for transit service	\$ 2,464,727	\$ 2,433,943
Charter service revenues	\$ 10,406	\$ 7,375
Auxiliary transportation revenues		
Advertising services	\$ 123,927	\$ 107,531
STRIDE	80,140	66,033
Other	312,924	219,139
Total auxiliary transportation revenues	\$ 516,991	\$ 392,703
Total charges for services	\$ 2,992,124	\$ 2,834,021
Nonoperating and Other Revenues		
Investment earnings	\$ 89,732	\$ 59,802
Property taxes	1,491,900	1,491,900
Operating grants		
Federal – Section 5307	1,000,000	-
Federal – other	13,657	177,050
State – regular route	10,969,349	11,574,700
State – disability service	816,000	814,300
City of Superior, Wisconsin – regular route	1,189,593	1,188,269
City of Superior, Wisconsin – disability service	99,036	107,226
Capital contributions		
Federal	10,898,671	105,951
State	817,266	469,315
Total nonoperating and other revenues	\$ 27,385,204	\$ 15,988,513
Total Revenues	\$ 30,377,328	\$ 18,822,534

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018		
	Vehicle Operations	Vehicle Maintenance	General Administration
Personal services			
Labor			
Operations – salaries and wages	\$ 4,914,536	\$ -	\$ -
Other salaries and wages	-	1,189,280	695,576
Fringe benefits	4,492,657	1,086,838	635,145
Total personal services	\$ 9,407,193	\$ 2,276,118	\$ 1,330,721
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,209,649	\$ 13,757	\$ -
Tires and tubes	98,939	1,558	-
Other materials and supplies	19,106	754,967	120,675
Total supplies	\$ 1,327,694	\$ 770,282	\$ 120,675
Utilities	\$ 80,037	\$ -	\$ 241,666
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 241,533
Professional and technical services	362,973	135,766	211,062
Other services	-	137,977	108,915
Casualty and liability costs	-	-	384,869
Taxes and fees	1,204	1,070	21,645
Miscellaneous			
Dues and subscriptions	-	-	7,190
Travel and meetings	3,208	4,293	29,822
Advertising and promotional media	-	-	66,572
Purchased transportation service	-	-	430,839
Other	85	159	2,627
Total other services and charges	\$ 367,470	\$ 279,265	\$ 1,505,074
Depreciation	\$ 3,720,261	\$ 174,642	\$ 1,939,726
Total Expenses*	\$ 14,902,655	\$ 3,500,307	\$ 5,137,862

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$990,975 for 2018 and \$917,456 for 2017.

EXHIBIT A-2

2017				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 4,914,536	\$ 4,463,755	\$ -	\$ -	\$ 4,463,755
1,884,856	-	1,066,441	764,137	1,830,578
6,214,640	4,143,500	986,013	706,010	5,835,523
\$ 13,014,032	\$ 8,607,255	\$ 2,052,454	\$ 1,470,147	\$ 12,129,856
\$ 1,223,406	\$ 857,985	\$ 16,931	\$ -	\$ 874,916
100,497	81,423	-	-	81,423
894,748	16,443	713,173	127,307	856,923
\$ 2,218,651	\$ 955,851	\$ 730,104	\$ 127,307	\$ 1,813,262
\$ 321,703	\$ 71,801	\$ -	\$ 224,107	\$ 295,908
\$ 241,533	\$ -	\$ -	\$ 234,472	\$ 234,472
709,801	319,513	247,968	395,462	962,943
246,892	-	156,785	99,032	255,817
384,869	-	-	292,277	292,277
23,919	55	1,133	22,490	23,678
7,190	-	-	8,503	8,503
37,323	845	2,334	21,999	25,178
66,572	-	-	83,255	83,255
430,839	-	-	471,941	471,941
2,871	2	1,270	6,664	7,936
\$ 2,151,809	\$ 320,415	\$ 409,490	\$ 1,636,095	\$ 2,366,000
\$ 5,834,629	\$ 1,965,226	\$ 169,688	\$ 2,785,602	\$ 4,920,516
\$ 23,540,824	\$ 11,920,548	\$ 3,361,736	\$ 6,243,258	\$ 21,525,542

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

<u>Month</u>	2018			
	<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	1,138	\$ 107.26	\$ 122,055	\$ 8,535
February	1,052	96.27	101,440	9,900
March	1,167	98.18	114,543	10,902
April	1,115	97.05	108,241	8,657
May	1,145	93.81	107,383	9,120
June	1,124	95.73	107,584	10,399
July	1,126	97.83	110,207	8,046
August	1,181	92.25	108,926	9,181
September	1,058	88.58	93,750	8,419
October	1,181	101.20	119,494	8,745
November	1,095	90.28	98,867	8,195
December	1,101	95.20	104,834	7,632
Total Regular Route	<u>13,483</u>		<u>\$ 1,297,324</u>	<u>\$ 107,731</u>
Disability Service				
January	174	\$ 44.96	\$ 8,219	\$ 515
February	147	46.21	7,200	419
March	198	45.92	9,511	567
April	174	43.62	8,008	483
May	190	46.92	9,334	531
June	194	45.33	9,212	432
July	184	45.58	8,759	475
August	191	45.51	9,111	608
September	184	49.82	9,574	447
October	173	47.20	8,537	425
November	177	43.55	8,126	367
December	182	47.67	9,095	381
Total Disability Service	<u>2,168</u>		<u>\$ 104,686</u> *	<u>\$ 5,650</u>

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

EXHIBIT A-3

2017						
<u>Net Charges to the City of Superior</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>	<u>Net Charges to the City of Superior</u>	
\$ 113,520	1,134	\$ 100.53	\$ 113,972	\$ 12,555	\$ 101,417	
91,540	1,052	95.87	100,882	8,172	92,710	
103,641	1,181	98.74	116,589	12,214	104,375	
99,584	1,124	94.48	106,180	8,625	97,555	
98,263	1,145	102.62	117,468	10,160	107,308	
97,185	1,138	99.80	113,566	11,918	101,648	
102,161	1,111	94.81	105,362	9,235	96,127	
99,745	1,181	99.07	116,979	9,020	107,959	
85,331	1,081	96.17	103,960	9,172	94,788	
110,749	1,158	100.98	116,949	13,214	103,735	
90,672	1,095	87.93	96,216	10,336	85,880	
97,202	1,101	96.57	106,343	11,576	94,767	
\$ 1,189,593	13,501		\$ 1,314,466	\$ 126,197	\$ 1,188,269	
\$ 7,704	187	\$ 42.87	\$ 8,413	\$ 425	\$ 7,988	
6,781	208	46.21	9,996	447	9,549	
8,944	216	44.57	10,034	484	9,550	
7,525	190	43.26	8,648	393	8,255	
8,803	183	45.73	8,776	384	8,392	
8,780	206	43.87	9,433	441	8,992	
8,284	186	44.77	8,745	387	8,358	
8,503	210	49.57	10,817	468	10,349	
9,127	192	45.57	9,168	399	8,769	
8,112	222	43.18	9,982	489	9,493	
7,759	195	45.41	9,262	497	8,765	
8,714	175	44.28	9,196	430	8,766	
\$ 99,036	2,370		\$ 112,470 *	\$ 5,244	\$ 107,226	

**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, 2018 AND 2017**

	2018	2017
Deficit recognized for the City of Superior, Wisconsin		
Regular route	\$ 1,189,593	\$ 1,188,269
Disability service	99,036	107,226
Total	\$ 1,288,629	\$ 1,295,495
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,288,629	\$ 1,295,495
Less: maximum federal share per grant agreement	(472,192)	(449,483)
Non-Federal Share	\$ 816,437	\$ 846,012
Wisconsin Department of Transportation funding – lower of the following		
Non-federal share	\$ 816,437	\$ 846,012
Maximum Wisconsin Department of Transportation share per grant agreement	(370,166)	(352,755)
Local Funds Required – City of Superior, Wisconsin	\$ 446,271	\$ 493,257

**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, 2018 AND 2017**

	2018	2017
Regular Route		
Operating revenues in the City of Superior	\$ 107,731	\$ 126,197
Operating expenses in the City of Superior	(1,297,324)	(1,314,466)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,189,593)	\$ (1,188,269)
 Disability Service		
Operating revenues in the City of Superior	\$ 5,650	\$ 5,244
Operating expenses in the City of Superior	(104,686)	(112,470)
Disability Service Deficit Recognized for State Operating Funds	\$ (99,036)	\$ (107,226)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Transportation			
Direct			
Federal Transit Cluster			
Federal Transit Capital Assistance Formula Grants	20.507		\$ 4,437,884
Federal Transit Operating Assistance Formula Grants	20.507		1,000,000
(Total Transit Formula Grants 20.507 \$5,437,884)			
Public Transportation Research, Technical Assistance, and Training	20.514		5,649,126
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	1025905	13,657
Federal Transit Cluster			
Bus and Bus Facilities Formula Program	20.526	1027293	<u>811,661</u>
Total Federal Awards			<u>\$ 11,912,328</u>

The Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2018.

Totals by Cluster	
Total expenditures for Federal Transit Cluster	\$ 6,249,545
Total expenditures for Highway Planning and Construction Cluster	13,657

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No indirect costs were charged to these grants. The Duluth Transit Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Nonoperating revenues: operating grants – federal	\$ 1,013,657
Capital contributions – federal	<u>10,898,671</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 11,912,328</u>

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JULIE BLAHA
STATE AUDITOR

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

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Duluth Transit Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial

reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Transit Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven 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, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Authority does not administer any tax increment financing districts, and we did not test for compliance with provisions for public indebtedness because the Authority did not issue debt nor did it have any debt outstanding. 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 Cities*, except as described in the Schedule of Findings and Questioned Costs as item 2018-001. 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.

Duluth Transit Authority's Response to Finding

The Duluth Transit Authority's response to the legal compliance finding identified in our audit is described in the Corrective Action Plan. 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 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/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 18, 2019

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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

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) *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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 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). Those standards and the Uniform Guidance 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.

Opinion on the 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, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 18, 2019

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 federal program is:

Public Transportation Research, Technical Assistance,
and Training

CFDA No. 20.514

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

The Duluth Transit Authority qualified as a low-risk auditee? **No**

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2018-001

Withholding Affidavit for Contractors (Form IC-134)

Criteria: Minnesota Statute, section 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the Authority is required to obtain a certificate from the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

Condition: Final payment to two contractors for contracts involving the employment of individuals for wages by the contractor were tested. For both of these, final payment was made on the contract before Form IC-134, which certifies withholding compliance, was received from this contractor and approved by the Minnesota Department of Revenue.

Context: The Authority is responsible for obtaining the required certificate prior to submitting the final payment for processing.

Effect: Noncompliance with Minn. Stat. § 270C.66.

Cause: Authority staff was not aware of the requirement.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Recommendation: We recommend the Authority obtain the required IC-134 Withholding Affidavit Form before final payment is made to contractors and subcontractors on all contracts requiring the employment of employees for wages.

View of Responsible Official: Concur

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Duluth Transit Authority

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REPRESENTATION OF THE DULUTH TRANSIT AUTHORITY DULUTH, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 2018-001

Finding Title: Withholding Affidavit for Contractors (Form IC-134)

Name of Contact Person Responsible for Corrective Action:

Nancy Brown, DTA Procurement Manager

Corrective Action Planned:

The federal prompt payment guidelines are not clear on whether the recipient (the DTA) can withhold final payment on federally funded projects for a state form. We are permitted to withhold funds on those projects that are funded entirely with state funds however. In those instances, the requirement for an IC-134 form has been added to the DTA standard terms and specifications and is a condition of final payment.

To ensure that the provision is reviewed at the time the procurement is posted, a separate line has been added to the Procurement checklist to note which procurements are eligible for this clause inclusion. If the federal guidelines are revised to permit the clause on all procurements, this will become a standard clause in DTA procurements.

Anticipated Completion Date:

The change has already been implemented on new procurements effective 3-1-19.