

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

FOR THE YEARS ENDED DECEMBER 31,  
2006 AND 2005

## **Description of the Office of the State Auditor**

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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

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

**For the Years Ended December 31, 2006 and 2005**



**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, 2006

Term of Office Ends

Board

Directors

District No. 1

Melanie Hendrickson

June 30, 2009

District No. 2

Aaron Bransky

June 30, 2007

District No. 3

Richard Towey

August 31, 2009

District No. 4

Dennis Birchland

June 30, 2008

District No. 5

Tari Rayala

April 30, 2007

At Large

Walter Kramer

June 30, 2009

Timothy Bearheart

June 30, 2007

Isobel Rapaich

December 31, 2006

Appointed by Mayor, City of Superior, Wisconsin

Lewis Martin

March 31, 2009

Officers

President

Isobel Rapaich

Vice President

Aaron Bransky

Management

ATE Management of Duluth, Inc.

Dennis Jensen, General Manager

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Duluth

Board of Directors  
Duluth Transit Authority

We have audited the accompanying basic financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2007, 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* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 19, 2007

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

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2006. This information should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- The Authority continued in its multi-year contracts for the U-Pass college transportation program.
- The Authority switched from monthly passes to various pass and ticket media.
- In August 2005, a price increase was introduced. A full year of the new fare policy was shown in 2006.
- The Authority's net assets increased from 2005 by 11.9 percent.

**OVERVIEW OF ANNUAL FINANCIAL REPORT**

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

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

The financial statements include: a comparative statement of net assets; a comparative statement of revenues, expenses, and changes in net assets; a comparative statement of cash flows; notes to the financial statements; and supplemental information. The comparative statement of net assets presents assets, liabilities, and the net assets both invested in capital assets, net of related debt, and the unrestricted assets of the Authority. The comparative statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and also includes depreciation of capital assets acquired by contributions. The comparative

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

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

## **SUMMARY OF ORGANIZATION AND BUSINESS**

On May 24, 1969, the Minnesota State Legislature enacted the Laws, 1969, Chapter 720 ("An Act") creating the Authority. The mission of the Authority pursuant to this law is, ". . . to administer, promote, control, direct, manage, and operate a bus transportation system." The Authority was created to have the power and duty to manage the property of the Authority. The State Legislature itself conferred upon the Authority the power and responsibility for the operation and management of the transit system. The Mayor of 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 regular route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 17 regular routes and provides service seven days a week. The Authority's regular route peak bus fleet numbered 55 buses through June 2003. Effective July 2003, the regular route peak bus fleet was reduced to 41 buses due to a reduction in service and due to the loss of the Duluth Public School transportation contract. The Authority operated 1,768,647 miles and carried 2,692,931 regular route passengers and 23,749 disabled riders during 2006. 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 assets shown below, total net assets increased by 11.9 percent in 2006 over 2005 and less than 1.0 percent in 2005 over 2004. The increase in total net assets for 2006 was due to the acquisition of ten buses for regular routes and three STRIDE buses. Other factors included the acquisition of three ticket vending machines, facility repairs, and security cameras and locks. The increase in total net assets for 2005 was due to new fareboxes and office remodeling.

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

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Assets			
Current assets	\$ 4,750	\$ 3,863	\$ 3,111
Capital assets	\$ 41,326	\$ 38,851	\$ 37,466
Less: depreciation	(26,184)	(24,928)	(22,828)
Capital Assets, Net	\$ 15,142	\$ 13,923	\$ 14,638
Total Assets	\$ 19,892	\$ 17,786	\$ 17,749
Current Liabilities	\$ 1,124	\$ 1,014	\$ 1,052
Net Assets			
Invested in capital assets	\$ 15,142	\$ 13,923	\$ 14,637
Restricted for transit operations and capital improvement	2,872	2,095	1,306
Unrestricted	754	754	754
Total Net Assets	\$ 18,768	\$ 16,772	\$ 16,697

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

	Fiscal Year 2006 Actual	Fiscal Year 2006 Budget	Fiscal Year 2005 Actual	Fiscal Year 2004 Actual
Operating revenues	\$ 2,120	\$ 1,832	\$ 1,861	\$ 1,833
Nonoperating revenues	9,714	9,664	9,270	8,953
<b>Total Revenues</b>	<b>\$ 11,834</b>	<b>\$ 11,496</b>	<b>\$ 11,131</b>	<b>\$ 10,786</b>
Operating expenses	12,754	13,196	12,256	11,964
Income (loss) before capital contributions	\$ (920)	\$ (1,700)	\$ (1,125)	\$ (1,178)
Capital contributions	2,916	2,916	1,200	3,064
Change in Net Assets	\$ 1,996	\$ 1,216	\$ 75	\$ 1,886
Net Assets - January 1	16,772	16,772	16,697	14,811
Net Assets - December 31	<u>\$ 18,768</u>	<u>\$ 17,988</u>	<u>\$ 16,772</u>	<u>\$ 16,697</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 \$259,000 to \$2.12 million in 2006, up from \$1.86 million in 2005. The main factor in this increase is the new fares adopted in August 2005. Nonoperating revenues increased from \$9.27 million in 2005 to \$9.71 million in 2006. This was an increase of 4.8 percent.

## Expenses

The Authority's 2006 operating expenses increased by \$497,354 over 2005 operating expenses of \$12.26 million, which is primarily due to increases of the price of diesel fuel and gasoline and also increased depreciation expense.

## BUDGETARY HIGHLIGHTS

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

Future state, federal, and local budget constraints, play a large part in the Authority's continued ability to serve the riding public. Nearly one-third of the state's subsidy comes from the Motor Vehicle Sales Tax, and this money is not guaranteed.

## **CAPITAL ASSETS**

By the end of fiscal year 2006, the Duluth Transit Authority had invested \$41.33 million in capital assets. The \$3.6 million of additions to capital assets for this past fiscal year is primarily due to the purchase of buses, revenue equipment, and security cameras and locks.

The Authority's five-year capital plan includes the replacement of approximately 20 full-size buses and 9 STRIDE vehicles. Additional capital improvements are also scheduled if adequate local, state, and federal funding is obtained.

## **ECONOMIC AND OTHER FACTORS**

The Authority considered many factors when setting the fiscal year 2006 budget. The Authority continues to promote its U-PASS collegiate pass program. The U-PASS program has increased regular route ridership 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 20 transit routes in Duluth and Superior. This information was used to adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2006 budget reflects the state formula that funds up to 80 percent of regular route expenses and 85 percent of STRIDE expenses. This formula, however, also capped the Authority's total operating expenses, so some services will end up being paid for locally with no state participation. This will be a concern for future years, unless the state allocates sufficient funds to fully fund the new formulas.

## **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 A**

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,554,915	\$ 2,942,773
Accounts receivable	27,207	188,451
Due from federal government	-	305,630
Due from State of Minnesota	452,511	65,932
Taxes receivable	69,717	56,935
Due from other governments	141,911	118,198
Inventory	182,547	168,807
Prepaid items	321,564	15,873
	<b>\$ 4,750,372</b>	<b>\$ 3,862,599</b>
Noncurrent assets		
Capital assets	\$ 41,325,917	\$ 38,851,247
Less: allowance for depreciation	(26,183,748)	(24,927,920)
	<b>\$ 15,142,169</b>	<b>\$ 13,923,327</b>
<b>Total Assets</b>	<b>\$ 19,892,541</b>	<b>\$ 17,785,926</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 387,889	\$ 310,958
Accrued salaries payable	193,282	186,518
Accrued vacation payable	480,313	455,792
Claims and judgments payable	4,988	4,988
Deferred revenue	57,759	55,569
	<b>\$ 1,124,231</b>	<b>\$ 1,013,825</b>
<b>Net Assets</b>		
Invested in capital assets	\$ 15,142,169	\$ 13,923,327
Restricted for transit operations and capital improvements	2,871,967	2,094,600
Unrestricted	754,174	754,174
	<b>\$ 18,768,310</b>	<b>\$ 16,772,101</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT B**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Operating Revenues</b>		
Charges for services	\$ <b>2,120,076</b>	\$ <b>1,861,041</b>
<b>Operating Expenses</b>		
Personal services	\$ 7,586,941	\$ 7,448,136
Supplies	1,437,978	1,441,198
Utilities	265,196	264,086
Other services and charges	1,042,656	1,003,311
Depreciation and amortization	2,421,279	2,099,965
<b>Total Operating Expenses</b>	<b>\$ 12,754,050</b>	<b>\$ 12,256,696</b>
<b>Operating Income (Loss)</b>	<b>\$ (10,633,974)</b>	<b>\$ (10,395,655)</b>
<b>Nonoperating Revenues</b>		
Investment earnings	\$ 132,359	\$ 66,799
Property taxes	1,316,898	1,316,900
Property tax replacement aid - state	1,609,212	1,455,073
Operating grants		
Federal	1,106,584	856,502
State	4,558,146	4,608,054
City of Superior, Wisconsin	991,032	966,809
<b>Total Nonoperating Revenues</b>	<b>\$ 9,714,231</b>	<b>\$ 9,270,137</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ (919,743)</b>	<b>\$ (1,125,518)</b>
<b>Capital Contributions</b>		
Federal	\$ 2,906,821	\$ 1,050,851
State	9,131	149,426
<b>Total Capital Contributions</b>	<b>\$ 2,915,952</b>	<b>\$ 1,200,277</b>
<b>Change in Net Assets</b>	<b>\$ 1,996,209</b>	<b>\$ 74,759</b>
<b>Net Assets - January 1</b>	<b>16,772,101</b>	<b>16,697,342</b>
<b>Net Assets - December 31</b>	<b>\$ 18,768,310</b>	<b>\$ 16,772,101</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT C**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,260,200	\$ 1,815,668
Cash paid to suppliers	(2,988,330)	(2,767,676)
Cash paid to employees	(7,555,656)	(7,433,965)
	<b>\$ (8,283,786)</b>	<b>\$ (8,385,973)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes and aids	\$ 1,304,116	\$ 1,354,312
Property tax replacement aid - state	1,609,212	1,455,073
Federal operating grants	1,412,214	656,798
State operating grants	4,151,718	4,584,368
City of Superior, Wisconsin, operating funds	990,629	960,172
	<b>\$ 9,467,889</b>	<b>\$ 9,010,723</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants and contributions	\$ 2,935,801	\$ 1,507,856
Acquisition of capital assets	(3,640,121)	(1,385,704)
	<b>\$ (704,320)</b>	<b>\$ 122,152</b>
<b>Cash Flows from Investing Activities</b>		
Investment earnings	\$ 132,359	\$ 66,799
	<b>\$ 612,142</b>	<b>\$ 813,701</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 612,142</b>	<b>\$ 813,701</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>2,942,773</b>	<b>2,129,072</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 3,554,915</b>	<b>\$ 2,942,773</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>		
<b>Net operating income (loss)</b>	<b>\$ (10,633,974)</b>	<b>\$ (10,395,655)</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities</b>		
Depreciation and amortization	2,421,279	2,099,965
Decrease (increase) in receivables	137,934	(42,956)
Decrease (increase) in inventory	(13,740)	(9,019)
Decrease (increase) in prepaids	(305,691)	(780)
Increase (decrease) in payables	108,216	(35,111)
Increase (decrease) in deferred revenue	2,190	(2,417)
	<b>\$ (8,283,786)</b>	<b>\$ (8,385,973)</b>

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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1. Summary of Significant Accounting Policies

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

Under 1969 Minn. Laws, ch. 720, § 5, subd. 3, the Authority is granted the power to enter into a management contract with any person, firm, or corporation for the management of the transit system. Effective November 1, 2006, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period. ATE Management employs all personnel required to operate the Authority; the Authority has no employees.

The accounting policies of the Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

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

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting

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

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

C. Basis of Accounting

The Authority follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to GASB Statement 20, the Authority has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Use of Estimates

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

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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

2. Inventories

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

3. Capital Assets and Depreciation

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

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

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

4. Deferred Revenue

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

5. Property Tax Revenue

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

6. Capital Contributions

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

7. Net Assets Restricted for Transit Operations and Capital Improvements

The Authority received a Public Transit Participation Program grant that requires it to deposit in a reserve account any operating revenues it generates in excess of its local share amount, which is set by statute. This reserve account is to be used for approved operating expenses not covered by the grant or for part of the local share of capital expenses of the transit system. At December 31, 2006, net assets restricted for transit operations and capital improvements were \$2,871,967.

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

2. Detailed Notes on All Accounts

A. 2006 and 2005 Budget to Actual

Minn. Laws 1969, ch. 720, requires an annual budget 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, 2006 and 2005.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2006 and 2005 Budget to Actual (Continued)

	2006		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 1,831,934	\$ 2,120,076	\$ 288,142
Operating Expenses			
Personal services	\$ 7,937,765	\$ 7,586,941	\$ 350,824
Supplies	1,388,560	1,437,978	(49,418)
Utilities	280,000	265,196	14,804
Other services and charges	1,168,779	1,042,656	126,123
Depreciation and amortization	2,421,279	2,421,279	-
Total Operating Expenses	\$ 13,196,383	\$ 12,754,050	\$ 442,333
Operating Income (Loss)	\$ (11,364,449)	\$ (10,633,974)	\$ 730,475
Nonoperating Revenues			
Investment earnings	\$ -	\$ 132,359	\$ 132,359
Property taxes	1,316,900	1,316,898	(2)
Property tax replacement aid – state	1,587,628	1,609,212	21,584
Operating grants			
Federal	1,105,000	1,106,584	1,584
State	4,497,009	4,558,146	61,137
City of Superior, Wisconsin	1,157,771	991,032	(166,739)
Total Nonoperating Revenues (Expenses)	\$ 9,664,308	\$ 9,714,231	\$ 49,923
Net Income (Loss)	\$ (1,700,141)	\$ (919,743)	\$ 780,398
Capital Contributions			
Federal	\$ 2,906,821	\$ 2,906,821	\$ -
State	9,131	9,131	-
Total Capital Contributions	\$ 2,915,952	\$ 2,915,952	\$ -
Change in Net Assets	\$ 1,215,811	\$ 1,996,209	\$ 780,398

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2006 and 2005 Budget to Actual (Continued)

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 1,741,071	\$ 1,861,041	\$ 119,970
Operating Expenses			
Personal services	\$ 7,805,701	\$ 7,448,136	\$ 357,565
Supplies	894,410	1,441,198	(546,788)
Utilities	268,000	264,086	3,914
Other services and charges	1,103,894	1,003,311	100,583
Depreciation and amortization	2,099,965	2,099,965	-
Total Operating Expenses	\$ 12,171,970	\$ 12,256,696	\$ (84,726)
Operating Income (Loss)	\$ (10,430,899)	\$ (10,395,655)	\$ 35,244
Nonoperating Revenues			
Investment earnings	\$ -	\$ 66,799	\$ 66,799
Property taxes	1,316,900	1,316,900	-
Property tax replacement aid - state	1,730,000	1,455,073	(274,927)
Operating grants			
Federal	855,000	856,502	1,502
State	4,001,768	4,608,054	606,286
City of Superior, Wisconsin	1,014,355	966,809	(47,546)
Total Nonoperating Revenues (Expenses)	\$ 8,918,023	\$ 9,270,137	\$ 352,114
Net Income (Loss)	\$ (1,512,876)	\$ (1,125,518)	\$ 387,358
Capital Contributions			
Federal	\$ 1,050,851	\$ 1,050,851	\$ -
State	149,426	149,426	-
Total Capital Contributions	\$ 1,200,277	\$ 1,200,277	\$ -
Change in Net Assets	\$ (312,599)	\$ 74,759	\$ 387,358

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts (Continued)

B. Deposits and Investments

1969 Minn. Laws, ch. 720, designates the City of Duluth Treasurer as Treasurer of the Authority. Minn. Stat. §§ 118A.02 and 118A.04 authorize the City Treasurer 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. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of securities available to the City of Duluth Treasurer.

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

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

	December 31	
	2006	2005
City Treasurer - savings account	\$ 2,937,849	\$ 2,160,489
City Treasurer - checking account	588,099	613,927
ATE Management - checking account	4,624	152,897
Petty cash fund and change funds	15,460	15,460
Medical flex account	8,883	-
Total Cash and Cash Equivalents	\$ 3,554,915	\$ 2,942,773

**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, 2006 and 2005, follows:

	Balance January 1, 2006	Increase	Decrease	Balance December 31, 2006
Capital assets not depreciated				
Land	\$ 222,367	-	-	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	-	-	\$ 99,886
Buildings and structures	14,607,638	113,469	22,553	14,698,554
Revenue equipment	19,870,655	3,446,627	712,153	22,605,129
Shop and garage equipment	1,064,587	11,514	94,721	981,380
Office furniture and equipment	2,932,511	68,511	336,024	2,664,998
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 38,628,880	\$ 3,640,121	\$ 1,165,451	\$ 41,103,550
Less: accumulated depreciation for				
Land improvements	\$ 19,977	\$ 9,989	-	\$ 29,966
Buildings and structures	9,124,356	390,814	22,553	9,492,617
Revenue equipment	13,447,989	1,671,312	712,153	14,407,148
Shop and garage equipment	744,789	63,749	94,721	713,817
Office furniture and equipment	1,549,207	279,414	336,024	1,492,597
Other	41,602	6,001	-	47,603
Total accumulated depreciation	\$ 24,927,920	\$ 2,421,279	\$ 1,165,451	\$ 26,183,748
Total capital assets depreciated, net	\$ 13,700,960	\$ 1,218,842	-	\$ 14,919,802
Capital Assets, Net	\$ 13,923,327	\$ 1,218,842	-	\$ 15,142,169

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2005	Increase	Decrease	Balance December 31, 2005
Capital assets not depreciated				
Land	\$ 222,367	-	-	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	-	-	\$ 99,886
Buildings and structures	14,226,109	381,529	-	14,607,638
Revenue equipment	18,967,148	903,507	-	19,870,655
Shop and garage equipment	981,892	82,695	-	1,064,587
Office furniture and equipment	2,914,538	17,973	-	2,932,511
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 37,243,176	\$ 1,385,704	-	\$ 38,628,880
Less: accumulated depreciation for				
Land improvements	\$ 9,989	\$ 9,988	-	\$ 19,977
Buildings and structures	8,728,890	395,466	-	9,124,356
Revenue equipment	12,089,955	1,358,034	-	13,447,989
Shop and garage equipment	682,812	61,977	-	744,789
Office furniture and equipment	1,280,708	268,499	-	1,549,207
Other	35,601	6,001	-	41,602
Total accumulated depreciation	\$ 22,827,955	\$ 2,099,965	-	\$ 24,927,920
Total capital assets depreciated, net	\$ 14,415,221	\$ (714,261)	-	\$ 13,700,960
Capital Assets, Net	\$ 14,637,588	\$ (714,261)	-	\$ 13,923,327

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts

D. Risk Management (Continued)

amount of that loss can be reasonably estimated. In addition, several incidents have occurred in the Authority's bus operation 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 \$21,000 to \$65,000. Changes in the balances of the claims and judgments liability for the years ended December 31, 2006 and 2005, were as follows:

	<u>Liability January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Liability December 31</u>
2006	\$ 4,988	\$ -	\$ -	\$ 4,988
2005	4,988	-	-	4,988

3. Operations in the City of Superior, Wisconsin

The Authority provides regular and disability transit services to the City of Superior, Wisconsin, for which it charges 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 \$1,114,686 for the year ended December 31, 2006, and \$1,086,784 for the year ended December 31, 2005. After deduction of the revenue collected in Superior of \$123,654 in 2006 and \$119,975 in 2005, the amounts actually billed were \$991,032 in 2006 and \$966,809 in 2005, which are included as nonoperating revenues.

4. Management Agreement

Though the Duluth Transit Authority has no employees, it has entered into a Management Agreement with ATE Management and Service Company, Inc., and its subsidiary ATE Management of Duluth, Inc., (collectively referred to as ATE). Under the terms of this agreement, the Authority is liable to ATE on a monthly basis for all employee compensation and benefits under the collective bargaining agreement between ATE and its employees. At

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement (Continued)

the expiration or termination of this agreement, the Authority becomes directly liable to employees under the collective bargaining agreement. The contractual obligation of the Authority to employees of ATE is:

A. Vacation and Sick Leave

Employees of ATE are granted from 5 to 30 days of vacation time per year depending on their years of service and union bargaining unit. Vacation earned in one year must be used the following year or it is forfeited. The accrued vacation for all employees had an estimated value of \$480,313 and \$455,792 at December 31, 2006 and 2005, respectively, and is included as accrued vacation payable on the balance sheet.

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

B. Retirement Plans

Defined Benefit Pension Plan

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

Plan trustees establish benefit provisions including monthly benefit amounts. Full-time hourly paid employees are eligible to participate in the plan. Employees who retire at or after age 60 with 20 years of credited service are entitled to a monthly retirement benefit. Benefits fully vest at age 65 with 5 years of participation or on reaching 10 years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement

B. Retirement Plans

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 \$158 per full-time employee per week to June 2006, and \$166 per full-time employee per week thereafter.

ATE's contributions for the years ending December 31, 2006, 2005, and 2004, were \$836,442, \$799,418, and \$743,434, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

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

Defined Contribution Plans

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

ATE establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed for 120 days and are at least 20-1/2 years of age. ATE contributes 12 percent and the employee 2 percent of each participant's salary. ATE contributions fully vest after seven years of employment. Benefits depend solely on amounts contributed plus related investment earnings. Contributions were as follows:

	<u>2006</u>	<u>2005</u>
Employer	\$ 126,214	\$ 111,444
Employee	21,036	18,574

**SUPPLEMENTARY INFORMATION**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 1**

**COMPARATIVE STATEMENT OF REVENUES  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Charges for Services</b>		
<b>Passenger fares for transit service</b>		
Adult fares	\$ 1,386,614	\$ 1,251,663
Senior citizen fares	235,003	99,224
Student fares	270,350	301,342
Disability fares	12,369	15,662
<b>Total passenger fares for transit service</b>	<b>\$ 1,904,336</b>	<b>\$ 1,667,891</b>
<b>Charter service revenues</b>	<b>\$ 28,360</b>	<b>\$ 21,554</b>
<b>Auxiliary transportation revenues</b>		
Advertising services	\$ 106,289	\$ 98,572
STRIDE	39,136	36,858
Other	41,955	36,166
<b>Total auxiliary transportation revenues</b>	<b>\$ 187,380</b>	<b>\$ 171,596</b>
<b>Total charges for services</b>	<b>\$ 2,120,076</b>	<b>\$ 1,861,041</b>
<b>Nonoperating and Other Revenues</b>		
Investment earnings	\$ 132,359	\$ 66,799
Property taxes	1,316,898	1,316,900
Property tax replacement aid - state	1,609,212	1,455,073
Operating grants		
Federal - Section 5307	1,105,000	855,000
Federal - other	1,584	1,502
State - regular route	4,277,831	4,267,693
State - disability service	280,315	340,361
City of Superior, Wisconsin - regular route	915,396	881,937
City of Superior, Wisconsin - disability service	75,636	84,872
Capital grants		
Federal	2,906,821	1,050,851
State	9,131	149,426
<b>Total nonoperating and other revenues</b>	<b>\$ 12,630,183</b>	<b>\$ 10,470,414</b>
<b>Total Revenues</b>	<b>\$ 14,750,259</b>	<b>\$ 12,331,455</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006		
	Vehicle Operations	Vehicle Maintenance	General Administration
<b>Personal services</b>			
Labor			
Operations - salaries and wages	\$ 2,949,767	\$ -	\$ -
Other salaries and wages	-	764,274	574,598
Fringe benefits	2,268,994	588,472	440,836
<b>Total personal services</b>	<b>\$ 5,218,761</b>	<b>\$ 1,352,746</b>	<b>\$ 1,015,434</b>
<b>Supplies</b>			
Materials and supplies consumed			
Fuel and lubricants	\$ 928,062	\$ 16,544	\$ -
Tires and tubes	51,077	2,411	-
Other materials and supplies	917	345,880	93,087
<b>Total supplies</b>	<b>\$ 980,056</b>	<b>\$ 364,835</b>	<b>\$ 93,087</b>
<b>Utilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 265,196</b>
<b>Other services and charges</b>			
Services			
Management service fee	\$ -	\$ -	\$ 195,898
Professional and technical services	9,631	33,540	224,233
Temporary help	-	-	1,350
Other services	-	13,035	45,370
Casualty and liability costs	-	-	156,865
Taxes and fees	972	260	12,724
Miscellaneous			
Dues and subscriptions	-	-	13,214
Travel and meetings	-	5,426	15,252
Advertising and promotional media	-	-	44,107
Purchased transportation service	-	-	263,795
Other	-	613	6,331
Lease and rental expense	40	-	-
<b>Total other services and charges</b>	<b>\$ 10,643</b>	<b>\$ 52,874</b>	<b>\$ 979,139</b>
<b>Depreciation and amortization</b>	<b>\$ 1,914,167</b>	<b>\$ 97,195</b>	<b>\$ 409,917</b>
<b>Total Expenses*</b>	<b>\$ 8,123,627</b>	<b>\$ 1,867,650</b>	<b>\$ 2,762,773</b>

\*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$591,171 for 2006 and \$573,396 for 2005.

**Schedule 2**

2005				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 2,949,767	\$ 2,869,327	\$ -	\$ -	\$ 2,869,327
1,338,872	-	743,015	540,497	1,283,512
3,298,302	2,280,133	586,415	428,749	3,295,297
<b>\$ 7,586,941</b>	<b>\$ 5,149,460</b>	<b>\$ 1,329,430</b>	<b>\$ 969,246</b>	<b>\$ 7,448,136</b>
\$ 944,606	\$ 785,669	\$ 11,258	\$ -	\$ 796,927
53,488	50,352	2,217	-	52,569
439,884	55	462,539	129,108	591,702
<b>\$ 1,437,978</b>	<b>\$ 836,076</b>	<b>\$ 476,014</b>	<b>\$ 129,108</b>	<b>\$ 1,441,198</b>
<b>\$ 265,196</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 264,086</b>	<b>\$ 264,086</b>
\$ 195,898	\$ -	\$ -	\$ 189,584	\$ 189,584
267,404	8,207	29,796	174,116	212,119
1,350	-	-	1,080	1,080
58,405	-	15,998	42,477	58,475
156,865	-	-	175,273	175,273
13,956	111	696	9,711	10,518
13,214	-	-	16,036	16,036
20,678	115	4,590	16,032	20,737
44,107	-	-	34,979	34,979
263,795	-	-	261,804	261,804
6,944	-	612	21,360	21,972
40	-	-	734	734
<b>\$ 1,042,656</b>	<b>\$ 8,433</b>	<b>\$ 51,692</b>	<b>\$ 943,186</b>	<b>\$ 1,003,311</b>
<b>\$ 2,421,279</b>	<b>\$ 1,639,642</b>	<b>\$ 93,325</b>	<b>\$ 366,998</b>	<b>\$ 2,099,965</b>
<b>\$ 12,754,050</b>	<b>\$ 7,633,611</b>	<b>\$ 1,950,461</b>	<b>\$ 2,672,624</b>	<b>\$ 12,256,696</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

Month	2006			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
<b>Regular Route</b>				
January	1,170	\$ 80.02	\$ 93,599	\$ 14,851
February	1,104	69.12	76,308	11,575
March	1,241	73.79	91,581	7,739
April	1,152	70.27	80,916	7,530
May	1,195	74.60	89,177	9,372
June	1,195	70.83	84,670	8,920
July	1,152	69.29	80,952 *	9,200
August	1,241	74.98	93,058	10,725
September	1,131	70.72	80,020	8,845
October	1,215	76.84	93,391	9,419
November	1,150	71.73	82,468	9,043
December	1,152	74.92	86,270	9,795
<b>Total Regular Route</b>	<b><u>14,098</u></b>		<b><u>\$ 1,032,410</u></b>	<b><u>\$ 117,014</u></b>
<b>Disability Service</b>				
January	224	\$ 30.72	\$ 7,296	\$ 648
February	175	29.97	5,659	565
March	224	38.60	9,034	650
April	175	34.45	6,419	521
May	176	35.73	6,704	539
June	164	36.51	6,404	521
July	171	37.90	6,869	520
August	196	38.81	7,994	606
September	170	37.43	6,780	563
October	182	39.43	7,583	565
November	166	37.28	6,596	516
December	156	29.00	4,938	426
<b>Total Disability Service</b>	<b><u>2,179</u></b>		<b><u>\$ 82,276</u></b> **	<b><u>\$ 6,640</u></b>

\* Monthly charge includes direct charter service costs of \$16.70 not included in the operating charge per hour.

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

**Schedule 3**

2005					
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
\$ 78,748	1,170	\$ 64.17	\$ 75,060	\$ 9,204	\$ 65,856
64,733	1,104	71.44	78,870	9,322	69,548
83,842	1,241	76.82	95,341	10,591	84,750
73,386	1,177	68.77	80,956	9,981	70,975
79,805	1,170	73.94	86,488	9,623	76,865
75,750	1,195	71.50	85,471	8,966	76,505
71,752	1,152	64.67	75,547 *	8,017	67,530
82,333	1,241	70.33	87,287	8,304	78,983
71,175	1,150	67.29	77,363	9,790	67,573
83,972	1,197	68.92	82,511	9,717	72,794
73,425	1,150	73.94	85,009	9,132	75,877
76,475	1,177	72.33	85,147	10,466	74,681
<b>\$ 915,396</b>	<b>14,124</b>		<b>\$ 995,050</b>	<b>\$ 113,113</b>	<b>\$ 881,937</b>
\$ 6,648	201	\$ 30.31	\$ 6,499	\$ 471	\$ 6,028
5,094	207	35.44	7,725	562	7,163
8,384	209	35.46	7,800	491	7,309
5,898	251	32.61	8,584	593	7,991
6,165	236	34.81	8,622	569	8,053
5,883	193	33.61	6,911	508	6,403
6,349	182	33.47	6,515	476	6,039
7,388	231	33.82	8,219	632	7,587
6,217	222	33.35	7,811	720	7,091
7,018	235	35.20	8,679	678	8,001
6,080	207	36.34	7,939	636	7,303
4,512	192	31.45	6,430	526	5,904
<b>\$ 75,636</b>	<b>2,566</b>		<b>\$ 91,734</b> **	<b>\$ 6,862</b>	<b>\$ 84,872</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 4**

**DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS  
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Deficit recognized for the City of Superior</b>		
Regular route	\$ 915,396	\$ 881,937
Disability service	75,636	84,872
<b>Total</b>	<b>\$ 991,032</b>	<b>\$ 966,809</b>
<b>Federal funding - lower of the following</b>		
Percentage limit - 50% of regular route deficit	\$ 457,698	\$ 440,969
Maximum federal share per grant agreement	380,803 (380,803)	320,277 (320,277)
<b>Deficit recognized by the Wisconsin Department of Transportation</b>		
Net charges to the City of Superior	\$ 991,032	\$ 966,809
Less: maximum federal share	(380,803)	(320,277)
<b>Non-Federal Share</b>	<b><u>\$ 610,229</u></b>	<b><u>\$ 646,532</u></b>
<b>Wisconsin Department of Transportation funding - lower of the following</b>		
Non-federal share	\$ 610,229	\$ 646,532
Percentage limit for 2006 - 27.30% of operating expenses	304,309	N/A
Percentage limit for 2005 - 30.03% of operating expenses	N/A	326,361
Maximum Wisconsin Department of Transportation share per grant agreement	318,148 (304,309)	333,680 (326,361)
<b>Local Funds Required - City of Superior, Wisconsin</b>	<b><u>\$ 305,920</u></b>	<b><u>\$ 320,171</u></b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 5*

**DEFICIT RECOGNIZED FOR FEDERAL AND STATE OPERATING FUNDS  
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Regular Route</b>		
Operating revenues in the City of Superior	\$ 117,014	\$ 113,113
Operating expenses in the City of Superior	(1,032,410)	(995,050)
<b>Regular Route Deficit Recognized for Federal and State Operating Funds</b>	<b>\$ (915,396)</b>	<b>\$ (881,937)</b>
<b>Disability Service</b>		
Operating revenues in the City of Superior	\$ 6,640	\$ 6,862
Operating expenses in the City of Superior	(82,276)	(91,734)
<b>Disability Service Deficit Recognized for State Operating Funds</b>	<b>\$ (75,636)</b>	<b>\$ (84,872)</b>

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 6**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of the Duluth Transit Authority.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Duluth Transit Authority and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The significant deficiency is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Duluth Transit Authority were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for the Duluth Transit Authority expresses an unqualified opinion.
- F. One finding was disclosed that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program cluster is:
- |  |              |
|--|--------------|
| Federal Transit Capital Investment Grant | CFDA #20.500 |
| Federal Transit Formula Grants           | CFDA #20.507 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Duluth Transit Authority was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Due to the limited number of office personnel within the Duluth Transit Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the Duluth Transit Authority's management be aware of the lack of segregation of accounting functions and develop oversight procedures to ensure that the Authority's internal control policies and procedures are followed by staff.

Client's Response:

*We are aware of the limited personnel and continue to monitor duties. Oversight procedures are in place to ensure that our internal control policies and procedures are being followed.*

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

06-1 Federal Transit Capital Investment Grant, CFDA #20.500, and Federal Transit Formula Grants, CFDA #20.507 - Equipment and Real Property Management

During 2006, the Duluth Transit Authority leased a bus to a transit company in Wausau, Wisconsin, without first obtaining approval of the lease with the Federal Transit Administration (FTA).

FTA Circular 5010.1C states, in part, “any disposition of rolling stock before the end of its service life requires prior FTA approval.” This bus was leased out prior to the end of its service life, and the required approval was not obtained.

We recommend that on future dispositions of rolling stock prior to the end of its service life, FTA approval be obtained prior to the disposition.

Client’s Response:

Contact Person:

*Dennis Jensen, General Manager  
(218) 722-4426, Ext. 306*

Corrective Action Plan:

*The City of Wausau requested assistance as they had an accident with a bus which rendered it inoperable. They did not have sufficient backup. DTA being over the FTA recommended fleet size responded to assist them so that service could be maintained.*

Estimated Completion Date:

*Complete.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

06-2 Prompt Payment of Invoices

Minn. Stat. § 471.425 requires the Authority to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. Three of 25 vouchers tested during our audit had invoices not paid within the 35-day time period required by the statute.

We recommend the Authority make payments on vendor invoices in accordance with Minn. Stat. § 471.425

Client's Response:

*A copy of the Minn. Stat. § 471.425 was obtained and being followed.*

06-3

Performance Bond

The Authority did not obtain a performance bond for a contract for the purchase of U-Lift replacements for the buses where a performance bond was required, both by state statute and the contract.

In accordance with Minn. Stat. § 574.26, contractors performing public work in amounts exceeding \$75,000 are required to provide a performance bond in the amount of or exceeding the amount of the contract.

We recommend that Authority personnel obtain performance bonds on all contracts as required under Minnesota statutes.

Client's Response:

*The requirement for the performance bond was in the specifications for this procurement. A new procurement process is being developed for DTA operational and capital purchases. This process will include a checklist that goes to vendors so that they understand the requirements of the bid and will also serve DTA staff as a check that all items are being met at time of award and payment.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Advertisements for Bids (04-2)**

In the prior audit, there were two contracts reviewed where Authority personnel could not provide documentation that there was a proper solicitation of bids.

**Resolution**

Review of contracts in the current audit showed that proper solicitation of bids was performed for all items reviewed.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

**Cash Account Reconciliation (05-1)**

The Duluth Transit Authority was not effectively reconciling its general ledger cash account with the City of Duluth.

**Resolution**

The Authority and the City Treasurer's Office developed a procedure to reconcile the Authority's cash account in a timely manner. The current year review showed the year-end reconciliation was accurate and timely.

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## **OTHER REQUIRED REPORTS**

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REBECCA OTTO  
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***

Mayor and City Council  
City of Duluth

Board of Directors  
Duluth Transit Authority

We have audited the basic financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Duluth Transit Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Duluth Transit Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 04-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness, because the Duluth Transit Authority has no long-term debt.

The results of our tests indicate that, for the items tested, the Duluth Transit Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 06-2 and 06-3.

The Duluth Transit Authority's written responses to the significant deficiency and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors and Mayor and City Council of Duluth, management, others within the Duluth Transit Authority, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

June 19, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council  
City of Duluth

Board of Directors  
Duluth Transit Authority

### Compliance

We have audited the compliance of the Duluth Transit Authority, a component unit of the City of Duluth, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Duluth Transit Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Duluth Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Duluth Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

### Internal Control Over Compliance

The management of the Duluth Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Duluth Transit Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Duluth Transit Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Duluth Transit Authority's internal control. We do not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Duluth Transit Authority, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. Our audit was performed for the purpose of forming an opinion on the Duluth Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Duluth Transit Authority's written response to the finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and Mayor and City Council of Duluth management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 19, 2007

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 7*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>		
Direct		
Federal Transit Capital Investment Grant	20.500	\$ 408,046
Federal Transit Capital Assistance Formula Grant	20.507	2,498,775
Federal Transit Operating Assistance Formula Grant	20.507	1,105,000
Passed Through Minnesota Department of Transportation		
Public Transportation for Nonurbanized Areas	20.509	1,584
<b>Total Federal Awards</b>		<b><u>\$ 4,013,405</u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Duluth Transit Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. During 2006, the Authority did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agency.