

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, 2022 and 2021

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than \$40 billion in annual financial activity by local governments and approximately \$20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice:** Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.
- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information:** Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.
- **Legal/Special Investigations:** Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.
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- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.
- **Tax Increment Financing (TIF):** Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

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www.osa.state.mn.us

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

Years Ended December 31, 2022 and 2021



Office of the State Auditor

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

Duluth Transit Authority

Duluth, Minnesota

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Introductory Section

Duluth Transit Authority Duluth, Minnesota

Organization
December 31, 2022

Term of Office Ends

Board

Directors

District No. 1

Vacant

Not Applicable

District No. 2

Lindsay Louise Biddle

June 30, 2025

District No. 3

Henry L. Banks

June 30, 2023

District No. 4

Rondi Watson

June 30, 2024

District No. 5

Rodney Polson

June 30, 2025

At Large

Jarl Carlson

June 30, 2024

Thomas Szukis

June 30, 2024

William "Skip" Williams

June 30, 2025

Appointed by Mayor, City of Superior, Wisconsin

Krystal Brandstatter

Indefinite

Officers

President

Rondi Watson

Vice President

Henry L. Banks

Management

ATE Management of Duluth, Inc.

Rod Fournier, General Manager

Financial Section



Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota, as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2022, and 2021, and the changes in financial position, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Acquisition of ATE Management of Duluth, Inc.

As discussed in Note 4 to the financial statements, the Authority acquired 100 percent of the common stock of its management company, ATE Management of Duluth, Inc., as of October 31, 2022. Accordingly, ATE Management of Duluth, Inc., is now reported in the Authority's financial statements as a blended component unit as of November 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Contributions – Central States, Southeast and Southwest Areas Pension Fund; and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is

required by the GASB, 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 audits 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 Authority's basic financial statements. The Comparative Statement of Revenues; Comparative Statement of Operating Expenses; Allocation of Income and Expense to the City of Superior, Wisconsin; Deficit Distribution Among the Subsidy Grantors for Operations in the City of Superior, Wisconsin; Deficit Recognized for Federal and State Operating Funds for Operations in the City of Superior, Wisconsin; and Schedule of Expenditures of Federal Awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the Supplementary Information as identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2023, on our consideration of the 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 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 Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

July 14, 2023

Management's Discussion and Analysis

Duluth Transit Authority Duluth, Minnesota

Management's Discussion and Analysis December 31, 2022 (Unaudited)

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2022. This information should be read in conjunction with the financial statements.

Financial and Operational Highlights

- Until November of 2022, the Duluth Transit Authority (DTA) was managed by First Transit (First Group), and this management contract had been in place for nearly 50 years. Language in the DTA's founding legislation prohibited it from having employees in the civil service classification with the City of Duluth. To prevent this, when First Transit became the managers of the DTA, they created a wholly owned subsidiary, ATE Management of Duluth, Inc. (ATED). This subsidiary has a private, non-traded stock. All employees of the DTA, unionized and non-unionized, are employed by ATED. ATED makes the contributions to Central States Pension Fund for the unionized employees. In 2021, we were informed that First Transit was being sold and the DTA had to decide on a course of action to ensure that ATED remained whole. If ATED were allowed to dissolve and pension payments to Central States Pension ceased, the DTA would incur a multi-million-dollar pension liability. The best way to guarantee the long-term future of ATED was for the DTA itself to acquire the ATED stock therefore ensuring continued payments to Central States Pension. On November 1, 2022, the DTA acquired this stock.
- Beginning in late 2020, the Duluth Transit Authority (DTA) hired a transit consulting firm to assist in a Comprehensive Operations Analysis (COA) and a complete transit network redesign. First, we analyzed the performance of the DTA's fixed-route operations, reviewed regional demographics and travel patterns, and surveyed the community. This was to highlight existing strengths, weaknesses, and opportunities. We then decided that to accomplish our goals, we needed to redesign our transit system to better meet the changing needs of our community. With the help of the consultants, we designed two new system concepts, modeled, and analyzed each for performance, and crafted a final preferred alternative. After months of thoughtful development, a new bus network, the Better Bus Blueprint, was formulated and approved by the DTA Board of Directors. DTA staff has been working on the implementation of the new system and will be launching the new service in August of 2023, after delays due to staffing shortages. The Better Bus Blueprint is expected to increase ridership and improve overall efficiency and performance.
- The DTA continues to be challenged by a shortage of bus operators. Currently, we are approximately 15 drivers short of full staffing and continue to rely on our current operators to fill in and work an extraordinary amount of overtime to meet service needs. We have been forced to

suspend service on two routes due to these staffing limitations. We continue an aggressive and creative marketing approach to recruit and train candidates to reach full-service staffing levels.

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 DTA's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the DTA's operating budget, and other management tools were used for this analysis.

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

The financial statements include: a Comparative Statement of Net Position; a Comparative Statement of Revenues, Expenses, and Changes in Net Position; a Comparative Statement of Cash Flows; and the notes to the financial statements. Additionally, required supplementary information and supplementary information are presented after the financial statements in the annual financial report.

- The Comparative Statement of Net Position presents assets, liabilities, deferred inflows of resources, and the net position invested in capital assets; net position restricted for transit operations and capital improvements; and the unrestricted net position of the DTA.
- 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 and amortization 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 and amortization 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 DTA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.
- The required supplementary information and related notes include the required schedule and disclosures related to contractually required contributions made by the DTA on behalf of its employees to the Central States, Southeast and Southwest Areas Pension Fund.
- 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 DTA's staff from the detailed books and records of the DTA. The financial statements were audited during the independent external audit process.

Summary of Organizations and Business

On May 24, 1969, the Minnesota State Legislature enacted 1969 Minn. Laws, Chapter 720 (“An Act”), creating the DTA. The mission of the DTA pursuant to this law is, “. . . to administer, promote, control, direct, manage, and operate a bus transportation system.” The DTA was created to have the power and duty to manage the property of the DTA. The State Legislature itself conferred upon the DTA 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 DTA’s Board of Directors that oversees the DTA, while the Mayor of the City of Superior appoints one Board member.

The DTA provides both fixed route bus transportation and STRIDE paratransit transportation for disabled passengers. The DTA operates buses on 22 fixed routes, with 33 unique variations, and provides service seven days a week. During 2022, in response to the COVID-19 pandemic and to bus operator staffing shortages, adjustments were made to routes to meet the changes in demand for service and the ability to provide service. The DTA operated a combined total of 2,205,461 miles and carried 1,874,795 fixed route passengers and 24,803 paratransit riders during 2022.

The DTA has local taxing authority, which is certified yearly by the Duluth City Council. DTA 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 DTA’s local share of tax levy proceeds, of which the DTA 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. In 2022, the DTA implemented GASB Statement No. 87, *Leases*, which resulted in changes to amounts previously reported as of and for the year ending December 31, 2021. See Note 1 to the Financial Statements.

From the Condensed Statement of Net Position shown below, total net position decreased by 11.4 percent in 2022 from 2021 and decreased by 12.7 percent in 2021 from 2020. Typically, the DTA has a capital plan to replace revenue vehicles every other year, which drives the net position from year to year. However, revenue vehicle replacement did not occur in 2022.

Condensed Statement of Net Position
(000s)

	Fiscal Year 2022	Fiscal Year 2021 Restated (Note 1)	Fiscal Year 2020
Assets			
Current assets	\$ 9,143	\$ 8,787	\$ 10,866
Capital assets	\$ 108,740	\$ 109,782	\$ 109,379
Less: depreciation and amortization	(69,535)	(64,785)	(59,355)
Capital assets, net	\$ 39,205	\$ 44,997	\$ 50,024
Total Assets	\$ 48,348	\$ 53,784	\$ 60,890
Total Liabilities	\$ 2,806	\$ 2,387	\$ 2,270
Deferred Inflows of Resources	\$ 199	\$ 231	\$ -
Net Position			
Net investment in capital assets	\$ 39,203	\$ 44,995	\$ 50,024
Restricted for transit operations and capital improvements	5,386	5,417	7,842
Unrestricted	754	754	754
Total Net Position	\$ 45,343	\$ 51,166	\$ 58,620

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

	Fiscal Year 2022 Actual	Fiscal Year 2022 Budget	Fiscal Year 2021 Actual Restated (Note 1)	Fiscal Year 2020 Actual
Operating Revenues	\$ 2,437	\$ 3,093	\$ 1,831	\$ 1,500
Nonoperating Revenues	18,488	18,787	15,238	20,146
Total Revenues	\$ 20,925	\$ 21,880	\$ 17,069	\$ 21,646
Operating Expenses	27,604	26,881	25,287	23,910
Net Income (Loss) Before Capital Contributions	\$ (6,679)	\$ (5,001)	\$ (8,218)	\$ (2,264)
Capital Contributions	856	1,663	764	9,561
Change in Net Position	\$ (5,823)	\$ (3,338)	\$ (7,454)	\$ 7,297
Net Position – January 1	51,166	51,166	58,620	51,323
Net Position – December 31	\$ 45,343	\$ 47,828	\$ 51,166	\$ 58,620

Revenues

The DTA'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 33.17 percent to \$2.44 million in 2022, up from \$1.83 million in 2021. Nonoperating revenues increased from \$15.2 million in 2021 to \$18.5 million in 2022. This was an increase of 21.3 percent. The number of

passengers increased from 1,461,213 in 2021 to 1,874,795 in 2022 for fixed route and increased for paratransit from 23,177 in 2021 to 24,803 in 2022, as we recover from the COVID-19 pandemic.

Expenses

The DTA's 2022 operating expenses increased 9.2 percent, or \$2,316,869 over 2021 operating expenses of \$25.3 million. The increase in both diesel and gasoline costs, new union contracts beginning January 1, 2022, and inflation resulted in the increased operating expenses.

Budgetary Highlights

The DTA prepares an annual operating budget to apply for the Minnesota Department of Transportation operating grant, which is approved by the DTA Board of Directors prior to submitting the operating grant application. The annual operating budget is then combined with the capital budget and presented to the Duluth City Council for the annual tax levy request.

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

Capital Assets

By the end of fiscal year 2022, the Duluth Transit Authority had invested \$108.7 million in capital assets. This is down by \$1.1 million from 2021. The decrease reflects capital asset disposals of three buses with replacement buses not expected to enter service until 2023.

The DTA's five-year capital plan includes replacement of full-size buses, as well as replacement buses for paratransit services. Additional capital improvements are also scheduled for facility updates, IT upgrades, and BRT stations.

Economic and Other Factors

The DTA considered many factors when setting the 2022 budget. The 2022 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE paratransit expenses. Although the cost of fuel for 2020-2021 was a reprieve, it is always a concern and hard to budget. The State of Minnesota has supplied this line-item cost for the 2022 budget.

In response to the COVID-19 pandemic, the DTA received funds from: the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA); and the American Rescue Plan Act (ARPA). These pandemic-related funds were apportioned to transit agencies across the country.

The Minnesota side of the DTA's service area was apportioned \$6,366,509 under CARES, \$3,933,033 under CRRSAA, and \$7,825,069 under ARPA. The Wisconsin side of the DTA's service area was apportioned \$1,377,042 under CARES, \$1,139,670 under CRRSAA, and \$543,886 under ARPA. These funds are provided at 100 percent federal share. Funds are to support capital, operating, and other expenses generally eligible under the 5307 program to prevent, prepare for, and respond to COVID-19. The DTA programmed the majority of the funds to cover operating expenses, with the remainder funding capital costs including protective barriers for bus operators and bus ionizers.

Financial Contact

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

Basic Financial Statements

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit 1

**Comparative Statement of Net Position
December 31, 2022 and 2021**

	2022	2021 Restated (Note 1)
Assets		
Current assets		
Cash and cash equivalents	\$ 5,162,179	\$ 5,039,036
Accounts receivable	566,409	679,234
Taxes receivable	17,771	1,967
Due from other governments	2,697,659	2,436,443
Inventory	466,735	390,206
Leases receivable	217,745	240,065
Prepaid items	14,396	-
	\$ 9,142,894	\$ 8,786,951
Noncurrent assets		
Capital assets		
Not depreciated or amortized	\$ 222,367	\$ 222,367
Depreciated and amortized	108,517,871	109,560,490
Less: accumulated depreciation and amortization	(69,535,021)	(64,785,436)
	\$ 39,205,217	\$ 44,997,421
Total Assets	\$ 48,348,111	\$ 53,784,372
Liabilities		
Current liabilities		
Accounts payable	\$ 1,298,733	\$ 1,068,361
Wages payable	635,080	-
Payable to ATE Management for employee services	-	1,139,674
Due to other governments	91,941	-
Vacation payable – current	642,104	-
Leases payable – current	737	716
Unearned revenue	136,203	176,578
	\$ 2,804,798	\$ 2,385,329
Noncurrent liabilities		
Leases payable – long-term	1,149	1,886
	\$ 2,805,947	\$ 2,387,215
Deferred Inflows of Resources		
Deferred lease inflows	\$ 198,872	\$ 231,076
Net Position		
Net investment in capital assets	\$ 39,203,331	\$ 44,994,819
Restricted for transit operations and capital improvements	5,385,787	5,417,088
Unrestricted	754,174	754,174
Total Net Position	\$ 45,343,292	\$ 51,166,081

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit 2

**Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021**

	2022	2021 Restated (Note 1)
Operating Revenues		
Charges for services	\$ 2,300,685	\$ 1,780,176
Miscellaneous	136,669	50,293
Total Operating Revenues	\$ 2,437,354	\$ 1,830,469
Operating Expenses		
Personnel services	\$ 15,803,385	\$ 14,636,959
Supplies	2,415,820	1,770,667
Utilities	490,357	366,154
Other services and charges	2,635,108	2,101,150
Depreciation and amortization	6,259,567	6,412,438
Total Operating Expenses	\$ 27,604,237	\$ 25,287,368
Operating Income (Loss)	\$ (25,166,883)	\$ (23,456,899)
Nonoperating Revenues (Expenses)		
Investment earnings	\$ 88,838	\$ 47,016
Property taxes	1,669,249	1,666,896
Operating grants		
Federal	1,738,811	1,707,148
State	13,972,537	10,292,884
City of Superior, Wisconsin	1,018,906	1,524,273
Interest expense	(71)	(66)
Total Nonoperating Revenues (Expenses)	\$ 18,488,270	\$ 15,238,151
Net Income (Loss) Before Capital Contributions	\$ (6,678,613)	\$ (8,218,748)
Capital Contributions		
Federal	\$ 658,724	\$ 687,722
State	197,100	76,217
Total Capital Contributions	\$ 855,824	\$ 763,939
Change in Net Position	\$ (5,822,789)	\$ (7,454,809)
Net Position – January 1	51,166,081	58,620,890
Net Position – December 31	\$ 45,343,292	\$ 51,166,081

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit 3

**Comparative Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021**

	2022	2021 Restated (Note 1)
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,186,732	\$ 1,794,262
Payments to suppliers	(5,381,888)	(4,395,550)
Payments to ATE Management for employee services	(15,665,875)	(14,589,597)
	\$ (18,861,031)	\$ (17,190,885)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 1,653,445	\$ 1,674,231
Federal operating grants	1,302,936	1,304,212
State operating grants	13,973,414	10,284,402
City of Superior, Wisconsin, operating grants	1,551,978	1,236,053
	\$ 18,481,773	\$ 14,498,898
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 859,393	\$ 2,153,802
Lease payments received	29,180	30,151
Acquisition or construction of capital assets	(468,150)	(1,448,041)
	\$ 420,423	\$ 735,912
Cash Flows from Investing Activities		
Interest on investments	\$ 81,978	\$ 40,080
	\$ 81,978	\$ 40,080
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 123,143	\$ (1,915,995)
Cash and Cash Equivalents – January 1	5,039,036	6,955,031
Cash and Cash Equivalents – December 31	\$ 5,162,179	\$ 5,039,036
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (25,166,883)	\$ (23,456,899)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Lease revenue	(32,204)	(32,204)
Depreciation	6,259,567	6,412,438
(Increase) decrease in receivables	(178,043)	(161,961)
(Increase) decrease in inventory	(76,529)	(76,735)
(Increase) decrease in prepaid items	(14,396)	9,475
Increase (decrease) in payables	387,832	(42,957)
Increase (decrease) in unearned revenue	(40,375)	157,958
	(18,861,031)	(17,190,885)
Net Cash Provided by (Used in) Operating Activities	\$ (18,861,031)	\$ (17,190,885)

Duluth Transit Authority Duluth, Minnesota

Notes to the Financial Statements As of and for the Years Ended December 31, 2022, and 2021

Note 1 – Summary of Significant Accounting Policies

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

Under 1969 Minn. Laws, ch. 720, § 5, subd. 3, the Authority is granted the power to enter into a management contract with any person, firm, or corporation for the management of the transit system. Effective December 1, 2016, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period, and then extended the contract through October 31, 2022. On October 31, 2022, the Authority purchased 100 percent of ATE Management's common stock and then entered into a new management contract with ATE Management effective November 1, 2022, through December 31, 2035. 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.

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, 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.

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the Authority that they are, in substance, the same as the Authority, and therefore, are reported as if they were part of the Authority. The Duluth Transit Authority has one blended component unit.

Duluth Transit Authority

Duluth, Minnesota

Component Unit	Blended Component Unit Component Unit Included in the Reporting Entity Because	Separate Financial Statements
ATE Management of Duluth, Inc.	Duluth Transit Authority owns 100 percent of ATE Management's common stock, and ATE Management provides services exclusively to the Authority.	Separate financial statements are not prepared.

The activity of ATE Management of Duluth, Inc., is recorded in the enterprise fund of the Authority. Further information including condensed financial statements for the component unit can be found in Note 4.

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.

Basis of Accounting

The Authority follows the economic resources measurement focus and the full accrual 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.

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.

Significant Accounting Treatments

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

Inventory and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in the Authority's financial statements.

Capital Assets, Depreciation, and Amortization

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, while right-to-use assets are amortized over the shorter of the underlying assets estimated useful life or the lease term:

Estimated Useful Lives of Capital Assets

<u>Classification</u>	<u>Range</u>
Land improvements	10 years
Buildings and structures	10 to 40 years
Furniture and equipment	5 to 10 years
Right-to-use furniture and equipment	5 years
Revenue vehicles	5 to 12 years
Shop and garage equipment	5 to 15 years

Unearned Revenue

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources for the net present value of leases that mature beyond one year, amortized to revenue on a straight-line basis over the lease terms.

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.

Capital Contributions

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

Duluth Transit Authority

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Classification of Net Position

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

Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation and amortization, 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, 2022, and 2021, the net position restricted for transit operations and capital improvements was \$5,385,787 and \$5,417,088, respectively.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net 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.

Change in Accounting Principles

During the year ended December 31, 2022, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement No. 87, *Leases*, which establishes criteria for accounting and financial reporting for leases. The implementation of this statement resulted in changing the presentation of the basic financial statements by increasing the beginning balances of the right to use capital assets and the beginning balances of the lease liability by \$3,321 as of January 1, 2021. Additionally, the Authority restated the beginning balances of leases receivable and deferred inflows of resources by \$263,279 as of January 1, 2021.

Note 2 – Detailed Notes

2022 and 2021 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, 2022, and 2021.

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Budget-to-Actual Comparison for the Year Ending December 31, 2022

	Budget	Actual	Variance
Operating Revenues			
Charges for services and miscellaneous	\$ 3,093,206	\$ 2,437,354	\$ (655,852)
Operating Expenses			
Personnel services	\$ 15,628,394	\$ 15,803,385	\$ (174,991)
Supplies	2,482,545	2,415,820	66,725
Utilities	419,240	490,357	(71,117)
Other services and charges	2,090,934	2,635,108	(544,174)
Depreciation and amortization	6,259,567	6,259,567	-
Total Operating Expenses	\$ 26,880,680	\$ 27,604,237	\$ (723,557)
Operating Income (Loss)	\$ (23,787,474)	\$ (25,166,883)	\$ (1,379,409)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 88,838	\$ 88,838
Property taxes	1,666,900	1,669,249	2,349
Operating grants			
Federal	1,095,148	1,738,811	643,663
State	14,631,858	13,972,537	(659,321)
City of Superior, Wisconsin	1,393,370	1,018,906	(374,464)
Interest expense	-	(71)	(71)
Total Nonoperating Revenues (Expenses)	\$ 18,787,276	\$ 18,488,270	\$ (299,006)
Net Income (Loss) Before Capital Contributions	\$ (5,000,198)	\$ (6,678,613)	\$ (1,678,415)
Capital Contributions			
Federal	\$ 1,662,800	\$ 658,724	\$ (1,004,076)
State	-	197,100	197,100
Total Capital Contributions	\$ 1,662,800	\$ 855,824	\$ (806,976)
Change in Net Position	\$ (3,337,398)	\$ (5,822,789)	\$ (2,485,391)

Duluth Transit Authority

Duluth, Minnesota

Budget-to-Actual Comparison for the Year Ending December 31, 2021

	Budget	Actual	Variance
Operating Revenues			
Charges for services and miscellaneous	\$ 3,204,466	\$ 1,830,469	\$ (1,373,997)
Operating Expenses			
Personnel services	\$ 14,997,005	\$ 14,636,959	\$ 360,046
Supplies	2,491,038	1,770,667	720,371
Utilities	275,000	366,154	(91,154)
Other services and charges	1,802,493	2,101,150	(298,657)
Depreciation	6,411,700	6,412,438	(738)
Total Operating Expenses	\$ 25,977,236	\$ 25,287,368	\$ 689,868
Operating Income (Loss)	\$ (22,772,770)	\$ (23,456,899)	\$ (684,129)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 47,016	\$ 47,016
Property taxes	1,666,900	1,666,896	(4)
Operating grants			
Federal	1,095,148	1,707,148	612,000
State	13,626,627	10,292,884	(3,333,743)
City of Superior, Wisconsin	1,345,840	1,524,273	178,433
Interest expense	-	(66)	(66)
Total Nonoperating Revenues (Expenses)	\$ 17,734,515	\$ 15,238,151	\$ (2,496,364)
Net Income (Loss) Before Capital Contributions	\$ (5,038,255)	\$ (8,218,748)	\$ (3,180,493)
Capital Contributions			
Federal	\$ -	\$ 687,722	\$ 687,722
State	286,934	76,217	(210,717)
Total Capital Contributions	\$ 286,934	\$ 763,939	\$ 477,005
Change in Net Position	\$ (4,751,321)	\$ (7,454,809)	\$ (2,703,488)

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

Duluth Transit Authority Duluth, Minnesota

on an entity-wide basis in the City of Duluth Annual Comprehensive Financial Report. The Authority is a component unit of the City of Duluth, Minnesota.

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

Cash and Cash Equivalents for the Years Ending December 31

	2022	2021
City Treasurer – accounts	\$ 4,135,964	\$ 3,734,188
ATE Management – checking account	995,957	1,258,593
Petty cash fund and change funds	7,905	7,905
Medical flex account	22,353	38,350
Total Cash and Cash Equivalents	\$ 5,162,179	\$ 5,039,036

Leases Receivable

The following is a summary of the Authority's leases receivable as of December 31, 2022:

Leases Receivable as of December 31, 2022

	Receivable	Amounts Not Scheduled for Collection During the Subsequent Year
City of Duluth, Minnesota	\$ 61,991	\$ 55,968
Jefferson Partners, L.P.	85,330	76,672
Limitless PCS, Inc.	70,424	54,015
Total Leases Receivable	\$ 217,745	\$ 186,655

The following is a summary of the Authority's leases receivable as of December 31, 2021:

Leases Receivable as of December 31, 2021

	Receivable	Amounts Not Scheduled for Collection During the Subsequent Year
City of Duluth, Minnesota	\$ 67,836	\$ 61,991
Jefferson Partners, L.P.	92,965	85,330
Limitless PCS, Inc.	79,264	70,424
Total Leases Receivable	\$ 240,065	\$ 217,745

On October 26, 2016, the Authority entered into an Office Space Lease Agreement with the City of Duluth, Minnesota, to provide office and parking space at the Authority-owned Duluth Transportation Center for operations of the Duluth Police Department. The lease may be renewed for up to two consecutive five-year increments, for a total of 15 years through March 31, 2031. The City of Duluth exercised its first renewal option in

Duluth Transit Authority Duluth, Minnesota

2021. Rent was set for the initial term beginning April 1, 2016, and ending April 1, 2021, at \$558.80 per month. However, the Authority granted a rent credit during the initial term of \$558.80 per month for improvements made by the tenant to the space being rented. For the term beginning April 1, 2021, the rent is \$650 per month through March 31, 2026. For the term beginning April 1, 2026, the rent will be \$750 per month through March 31, 2031.

On October 1, 2016, the Authority entered into a lease agreement with Jefferson Partners, L.P., to provide office and parking space at the Authority-owned Duluth Transportation Center to operate a Jefferson Lines ticket office and bus loading areas for intercity bus service. The lease may be renewed for up to two consecutive five-year increments, for a total of 15 years through September 30, 2031. Jefferson Partners, L.P., exercised its first renewal option in 2021. Rent was set at \$800 per month for calendar years 2016, 2017, and 2018, and \$825 per month for calendar years 2019, 2020, and 2021. Beginning with the rent for calendar year 2022, rent will be determined by comparing the percentage difference between the Consumer Price Index for all Urban Consumers, U.S. City Average, All Items, not seasonally adjusted (CPI-U) for the prior two calendar years. The percentage difference between the CPI-U for the previous two years will be multiplied by the rent from the calendar year just completed and then added to the rent for the calendar year just completed to determine the new monthly rent amount. Rent will never be adjusted below the previous year's rent. For calendar year 2022, rent was calculated at \$860 per month.

On September 25, 2019, the Authority entered into a lease agreement with Limitless PCS, Inc., to provide space at the Authority-owned Duluth Transit Center – East building to operate a retail cell phone sales and related services outlet. The initial term of the lease was for three years beginning on October 1, 2019, and terminating on September 30, 2022. The lease may be renewed for up to two consecutive two-year increments, for a total of seven years through September 30, 2026. Limitless PCS, Inc., exercised its first renewal option on June 24, 2022. Rent was set at \$1,200 per month for the first year of the initial term with rent increasing by \$100 per month at the beginning of each subsequent year. Rent was set during 2022 and 2021 at \$1,400 per month and \$1,300 per month, respectively. During 2022, the Authority granted a rent credit of \$3,340 for improvements made to the space rented by the tenant.

As of December 31, 2022, the Authority reported leases receivable and deferred inflows of resources totaling \$217,745 and \$198,872, respectively. The leases receivable will be reduced as repayments are received. Principal and interest totaling \$22,320 and \$6,860, respectively, were received during the year ended December 31, 2022. Inflows of resources recognized during the year ended December 31, 2022, consisted of lease revenue of \$32,204 and interest revenue of \$6,860.

As of December 31, 2021, the Authority reported leases receivable and deferred inflows of resources totaling \$240,065 and \$231,076, respectively. The leases receivable will be reduced as repayments are received. Principal and interest totaling \$23,214 and \$6,936, respectively, were received during the year ended December 31, 2021. Inflows of resources recognized during the year ended December 31, 2021, consisted of lease revenue of \$32,204 and interest revenue of \$6,936.

Duluth Transit Authority Duluth, Minnesota

Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2022, and 2021, follows:

Changes in Capital Assets for the Year Ending December 31, 2022

	Balance January 1, 2022	Additions	Deductions	Balance December 31, 2022
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Construction in progress	-	-	-	-
Total capital assets not depreciated	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 253,797	\$ -	\$ -	\$ 253,797
Buildings and structures	57,627,373	232,757	-	57,860,130
Revenue equipment	43,357,610	49,572	1,466,021	41,941,161
Shop and garage equipment	2,019,639	3,014	43,961	1,978,692
Office furniture and equipment	6,298,750	182,020	-	6,480,770
Total capital assets depreciated	\$ 109,557,169	\$ 467,363	\$ 1,509,982	\$ 108,514,550
Less: accumulated depreciation for				
Land improvements	\$ 164,887	\$ 10,006	\$ -	\$ 174,893
Buildings and structures	32,075,342	2,374,786	2,838*	34,447,290
Revenue equipment	25,363,015	3,485,292	1,466,021	27,382,286
Shop and garage equipment	1,571,521	53,646	43,961	1,581,206
Office furniture and equipment	5,609,933	337,937	-	5,947,870
Total accumulated depreciation	\$ 64,784,698	\$ 6,261,667	\$ 1,512,820	\$ 69,533,545
Total capital assets depreciated, net	\$ 44,772,471	\$ (5,794,304)	\$ (2,838)	\$ 38,981,005
Capital assets amortized				
Leased office furniture and equipment	\$ 3,321	\$ -	\$ -	\$ 3,321
Less: accumulated amortization for				
Leased office furniture and equipment	738	738	-	1,476
Total capital assets amortized, net	\$ 2,583	\$ (738)	\$ -	\$ 1,845
Capital Assets, Net	\$ 44,997,421	\$ (5,795,042)	\$ (2,838)	\$ 39,205,217

*During 2022, the Authority corrected an error where depreciation was double counted in a previous year, which resulted in deletions to accumulated depreciation exceeding deletions to capital assets depreciated.

Duluth Transit Authority Duluth, Minnesota

Changes in Capital Assets for the Year Ending December 31, 2021

	Balance January 1, 2021, as restated	Additions	Deductions	Balance December 31, 2021
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Construction in progress	64,513	-	64,513	-
Total capital assets not depreciated	\$ 286,880	\$ -	\$ 64,513	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ 153,911	\$ -	\$ 253,797
Buildings and structures	57,536,558	122,396	31,581	57,627,373
Revenue equipment	43,358,117	950,485	950,992	43,357,610
Shop and garage equipment	1,978,182	41,457	-	2,019,639
Office furniture and equipment	6,119,743	179,007	-	6,298,750
Total capital assets depreciated	\$ 109,092,486	\$ 1,447,256	\$ 982,573	\$ 109,557,169
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ 65,001	\$ -	\$ 164,887
Buildings and structures	29,646,019	2,460,904	31,581	32,075,342
Revenue equipment	22,817,603	3,495,916	950,504	25,363,015
Shop and garage equipment	1,501,977	69,544	-	1,571,521
Office furniture and equipment	5,289,598	320,335	-	5,609,933
Total accumulated depreciation	\$ 59,355,083	\$ 6,411,700	\$ 982,085	\$ 64,784,698
Total capital assets depreciated, net	\$ 49,737,403	\$ (4,964,444)	\$ 488	\$ 44,772,471
Capital assets amortized				
Leased office furniture and equipment	\$ 3,321	\$ -	\$ -	\$ 3,321
Less: accumulated amortization for				
Leased office furniture and equipment	-	738	-	738
Total capital assets amortized, net	\$ 3,321	\$ (738)	\$ -	\$ 2,583
Capital Assets, Net	\$ 50,027,604	\$ (4,965,182)	\$ 65,001	\$ 44,997,421

Leases Payable

The Authority has entered into lease agreements with two vendors for transit bus tire leasing services. The leases remain in effect until June 30, 2023. The Authority may elect to continue using all tires furnished through the termination dates of the lease agreements for a period of 36 months after the termination dates. Payments made by the Authority are variable based on the type of tire used and miles driven on it. There are no minimum payments required for the transit bus tire leasing services, and accordingly, no liability is reported for these lease agreements as of December 31, 2022, and 2021. Payments for transit bus tire leasing services totaled \$82,556 and \$76,821 during the years ending December 31, 2022, and 2021, respectively.

Additionally, the Authority has entered into a lease agreement for financing the acquisition of a postage meter for use by the Authority. The lease is expected to terminate on July 31, 2025. The lease has been recorded at the

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present value of the future minimum lease payments as of the inception date. Lease payments are paid from the Authority's enterprise fund. Charges of \$65.48 are accrued monthly and are paid quarterly to the lessor by the Authority.

Future Minimum Lease Obligations and the Net Present Value of These Minimum Lease Payments for the Year Ending December 31, 2022

Year Ending December 31	Principal	Interest
2023	\$ 737	\$ 48
2024	760	26
2025	389	5
Total Lease Payments	\$ 1,886	\$ 79

Future Minimum Lease Obligations and the Net Present Value of These Minimum Lease Payments for the Year Ending December 31, 2021

Year Ending December 31	Principal	Interest
2022	\$ 716	\$ 70
2023	737	48
2024	760	26
2025	389	5
Total Lease Payments	\$ 2,602	\$ 149

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

Change in Long-Term Liabilities for the Year Ending December 31, 2022

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lease liability	\$ 2,602	\$ -	\$ 716	\$ 1,886	\$ 737

Long-term liability activity for the year ended December 31, 2021, was as follows:

Change in Long-Term Liabilities for the Year Ending December 31, 2021

	Beginning Balance, as restated	Additions	Reductions	Ending Balance	Due Within One Year
Lease liability	\$ 3,321	\$ -	\$ 719	\$ 2,602	\$ 716

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

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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 \$200,000 which increased from \$100,000 in 2021. The Authority retains the risk of loss for the first \$200,000 (\$100,000 in 2021) per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. A liability for claims and judgments payable of \$544,629 is reported within accounts payable on the financial statements for the year ended December 31, 2022, for claims considered “probable” losses to the Authority. For the year ended December 31, 2021, \$278,662 was reported within accounts payable.

Note 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 \$1,757,207 for the year ended December 31, 2022, and \$1,477,820 for the year ended December 31, 2021. After deduction of the revenue collected in Superior of \$86,411 in 2022 and \$93,937 in 2021, the amounts actually billed were \$1,670,796 in 2022 and \$1,383,883 in 2021, which are included as nonoperating revenues.

Note 4 – ATE Management of Duluth, Inc. (Blended Component Unit)

On October 28, 2022, the Duluth Transit Authority (DTA) entered into an agreement with First Group Management, Inc., to purchase all outstanding common stock of its subsidiary, ATE Management of Duluth, Inc., (collectively referred to as ATE Management) for \$250. The closing date of the sale was October 31, 2022. As of the date of acquisition, November 1, 2022, ATE Management did not have any assets, deferred outflows of resources, liabilities, or deferred inflows of resources.

ATE Management employs a General Manager who is responsible to oversee the day-to-day operations of the Duluth Transit Authority, including operations, maintenance, and employment to operate the bus transportation system in accordance with the management agreement between the Authority and ATE Management. ATE Management is headed by a three-person Board of Directors. As a result of the sale, the existing Board of Directors of ATE Management resigned effective October 31, 2022. The Board of Directors of the Duluth Transit Authority then appointed three new members to the Board of Directors of ATE Management. The ATE Management by-laws state that all subsequent appointments shall be made by ATE Management’s Board of Directors.

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Condensed Financial Statements

The following is the Condensed Statement of Net Position for ATE Management of Duluth, Inc., as of December 31, 2022:

Condensed Statement of Net Position December 31, 2022

Assets	
Current assets	
Due from the Duluth Transit Authority	\$ 1,277,184
Liabilities	
Current liabilities	
Wages payable	\$ 635,080
Vacation payable – current	642,104
Total Liabilities	\$ 1,277,184

The following is the Condensed Statement of Activities for ATE Management of Duluth, Inc., for the two months ended December 31, 2022:

Condensed Statement of Activities for the Two Months Ended December 31, 2022

Operating Revenues	
Charges for services	\$ 3,415,451
Operating Expenses	
Personnel services	3,415,451
Change in Net Position	\$ -
Net Position – November 1	-
Net Position – December 31	\$ -

The following is the Condensed Statement of Cash Flows for ATE Management of Duluth, Inc., for the two months ended December 31, 2022:

Condensed Statement of Cash Flows for the Two Months Ended December 31, 2022

Net cash provided (used) by	
Operating activities	
Payments from the Duluth Transit Authority for employee services	\$ 2,138,267
Payments to employees	(2,138,267)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents – November 1	-
Cash and Cash Equivalents – December 31	\$ -

Duluth Transit Authority

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Management Agreement

The Duluth Transit Authority has entered into a management agreement with its component unit, ATE Management of Duluth, Inc. Under the terms of this agreement, the Authority is responsible for making available to ATE Management any facilities, vehicles, materials, utilities, supplies, and services as necessary for operation of the bus transportation system. All property acquired by the Authority for use by ATE Management remains the property of the Authority. All revenues derived from operations are revenues of the Authority upon initial receipt. Although the Duluth Transit Authority has no employees, the Authority is liable to ATE Management each month for all employee compensation and benefits under the collective bargaining agreement between ATE Management and its employees.

The contractual obligation of the Authority to employees of ATE Management is as follows:

Vacation and Sick Leave

Employees of ATE Management are granted from ten 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 \$642,104 and \$618,270 as of December 31, 2022, and 2021, respectively. For December 31, 2021, vacation payable of \$618,270 is included with wages payable of \$521,404 and is reported as payable to ATE Management for employee services on the balance sheet.

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

Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

ATE Management's regular full-time employees and retirees covered by the collective bargaining agreement between ATE Management and its employees, and ATE administrative employees not under the collective bargaining agreement, participate in the Teamsters Joint Council 32 Health and Welfare Plan for health, vision, and dental insurance benefits. The Health and Welfare Plan is a Taft-Hartley style multiple-employer cost-sharing defined benefit health care plan overseen by a Board of Trustees that provides health insurance benefits to union members on behalf of their employers. The Wilson-McShane Corporation is the third-party administrator of the Health and Welfare Plan. Assets of the Health and Welfare Plan are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Contributions to the Health and Welfare Plan are required under the collective bargaining agreement between ATE Management and its employees or are made on behalf of administrative employees as part of their employment benefits package. On average, there are 150 full-time employees that are enrolled in the Health and Welfare Plan during any given year. This varies based on employee turnover and unfilled positions. Funding requirements and benefit terms are set by the trustees of the Health and Welfare Plan. Covered employees are not required to make contributions to the plan, and ATE Management is required by the collective bargaining agreement to cover 100 percent of the cost of insurance coverage for its covered employees. Covered employees

Duluth Transit Authority

Duluth, Minnesota

are all regular full-time employees covered by the collective bargaining agreement who have been employed for 30 days or more. ATE Management's contribution for each full-time employee per week for the years ending December 31, 2022, and 2021, was \$326 and \$321, respectively. Total contributions to the Health and Welfare Plan by ATE Management totaled \$2,539,429 for the year ending December 31, 2022, and \$2,702,453 for the year ending December 31, 2021.

Covered employees who retire, are age 57 or older, and have accumulated at least 20 years of service in the Central States Pension Plan; or those who are age 60 or older and have completed at least ten years of continuous coverage in the Health and Welfare Plan, are eligible for post-employment health insurance benefits. Additionally, for employees who were covered under the Health and Welfare Plan before December 1, 2001, these employees must also have been continuously covered under the Plan for a period of five years prior to retirement, continuously covered under the Plan for a period of seven out of the last ten years prior to retirement, or continuously covered under the Plan for a period of ten years prior to retirement to be eligible for post-employment health insurance benefits.

Retirees and/or their spouses are eligible to receive the same medical coverage as that of active employees who receive health insurance benefits through the Health and Welfare Plan. Retirees and/or their spouses are responsible for 100 percent of the total premium cost which they remit directly to the third-party administrator. Accordingly, ATE Management does not make any contributions to the Health and Welfare Plan for retiree health coverage. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

The trustees of the Teamsters Joint Council 32 Health and Welfare Plan issue a publicly available financial report. The report may be obtained by writing to the Plan's third-party administrator at Wilson-McShane Corporation, 3001 Metro Drive, Suite 500, Bloomington, Minnesota 55425.

[Retirement Plans](#)

[Defined Benefit Pension Plan](#)

ATE Management'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 upon reaching ten years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

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

Contributions to the plan are required under the collective bargaining agreement between ATE Management 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 Management's contribution was \$338 per full-time employee per week in 2022. As of December 31, 2022, there were 140

Duluth Transit Authority Duluth, Minnesota

employees enrolled in the plan.

ATE Management's contributions for the years ending December 31, 2022, 2021, and 2020, were \$2,023,606, \$2,098,801, and \$2,068,681, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

On March 31, 2022, the plan actuary certified to the U.S. Department of the Treasury, and also to the plan sponsor, that the plan is in critical and declining status for the plan year beginning January 1, 2022. The plan is considered to be in critical and declining status because it has funding or liquidity problems, or both. More specifically, the plan's actuary determined that:

- Contributions to the plan are required under the collective bargaining agreement between ATE Management 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 Management's contribution was \$338 per full-time employee per week in 2022. As of December 31, 2022, there were 140 employees enrolled in the plan;
- the plan has an accumulated funding deficiency for the current plan year and over the next three plan years, the plan is projected to have an accumulated funding deficiency for the 2023 through 2025 plan years;
- the funded percentage of the plan is less than 65 percent; the plan has an accumulated funding deficiency for the current plan year; and over the next four plan years, the plan is projected to have an accumulated funding deficiency for the 2023 through 2026 plan years;
- the sum of the plan's normal cost and interest on the unfunded benefits for the current plan year exceeds the present value of all expected contributions for the year;
- the present value of vested benefits of inactive participants is greater than the present value of vested benefits of active participants;
- the plan has an accumulated funding deficiency for the current plan year; and over the next four plan years, the plan is projected to have an accumulated funding deficiency for the 2023 through 2026 plan years;
- the funded percentage of the plan is less than 65 percent, and the sum of the fair market value of plan assets plus the present value of projected contributions for the current plan year and each of the six succeeding plan years is less than the present value of all nonforfeitable benefits projected to be payable under the plan during the current plan year and each of the six succeeding plan years (plus administrative expenses for such plan years);
- the sum of the fair market value of plan assets, plus the present value of projected contributions for the current plan year and each of the four succeeding plan years, is less than the present value of all benefits projected to be payable under the plan during the current plan year and each of the four succeeding plan years (plus administrative expenses for such plan years);
- the plan was in critical status last year; the plan has an accumulated funding deficiency for the current plan year; and over the next nine years, the plan is projected to have an accumulated funding deficiency for the 2023 through 2031 plan years; and

Duluth Transit Authority

Duluth, Minnesota

- the plan is projected to become insolvent in 2025.

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, 8647 West Higgins Road, Chicago, Illinois 60631.

Defined Contribution Plan

ATE Management's administrative employees participate in the Duluth Transit Authority Money Purchase Pension Plan, a defined contribution plan that is administered by trustees from ATE Management and managed by Securian Financial.

ATE Management establishes plan provisions and contribution requirements. Employees are eligible to participate when they have completed 500 hours of service within their first six months and are at least 20-1/2 years of age. If an employee does not complete the 500 hours of service within their first six months, they can also be deemed eligible if they complete at least 1,000 hours of service within the 12-month period beginning on their date of hire or during any subsequent plan year. ATE Management contributes 12 percent and the employee two percent of each participant's salary. ATE Management contributions fully vest after six years of service. Benefits depend solely on amounts contributed plus related investment earnings. Contributions were as follows:

Contributions to the Money Purchase Pension Plan for the Years Ending December 31

	2022	2021
Employer	\$ 245,469	\$ 222,912
Employee	40,804	37,129

Required Supplementary Information

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit A-1

**Schedule of Contributions
Central States, Southeast and Southwest Areas Pension Fund
December 31, 2022**

Year Ending	Contractually Required Contributions (a)	Actual Contributions in Relation to Contractually Required Contributions (b)	Contribution (Deficiency) Excess (b - a)
2022*	\$ 347,802	\$ 347,802	\$ -

*Amounts listed are for November 1 - December 31, 2022. The total contributions for the year were \$2,023,606.

This schedule is intended to show information for ten years. Additional years will be displayed as they become available

The Duluth Transit Authority's year-end is December 31.

Duluth Transit Authority Duluth, Minnesota

Notes to the Required Supplementary Information
For the Year Ended December 31, 2022

Note 1 – Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes went into effect for the fiscal year ending December 31:

Central States, Southeast and Southwest Areas Pension Fund

2022

- On October 28, 2022, the Duluth Transit Authority entered into an agreement with FirstGroup Management, Inc., to purchase all of the outstanding common stock of its subsidiary, ATE Management of Duluth, Inc. Pension contributions reported in the Required Supplementary Information are those that occurred subsequent to the purchase of ATE Management of Duluth, Inc., by the Authority. There were no changes in plan provisions that occurred subsequent to the purchase of ATE Management of Duluth, Inc., through the end of the fiscal year.

Supplementary Information

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit B-1

**Comparative Statement of Revenues
For the Years Ended December 31, 2022 and 2021**

	2022	2021 Restated (Note 1)
Operating Revenues		
Charges for services		
Passenger fares for transit service		
Adult fares	\$ 1,332,928	\$ 1,225,661
College student passes	356,066	51,714
	\$ 1,688,994	\$ 1,277,375
Charter service revenues	\$ 13,063	\$ 13,250
Auxiliary transportation revenues		
Advertising services	\$ 225,570	\$ 176,575
STRIDE	81,276	73,310
Other	291,782	239,666
	\$ 598,628	\$ 489,551
Total charges for services	\$ 2,300,685	\$ 1,780,176
Miscellaneous revenue	\$ 136,669	\$ 50,293
Total operating revenues	\$ 2,437,354	\$ 1,830,469
Nonoperating and Other Revenues		
Investment earnings	\$ 88,838	\$ 47,016
Property taxes	1,669,249	1,666,896
Operating grants		
Federal – Section 5307	1,738,811	1,707,148
State – regular route	13,236,587	9,792,953
State – disability service	735,950	499,931
City of Superior, Wisconsin – regular route	988,427	1,479,599
City of Superior, Wisconsin – disability service	30,479	44,674
Capital contributions		
Federal	658,724	687,722
State	197,100	76,217
	\$ 19,344,165	\$ 16,002,156
Total nonoperating and other revenues	\$ 19,344,165	\$ 16,002,156
Total Revenues	\$ 21,781,519	\$ 17,832,625

**Duluth Transit Authority
Duluth, Minnesota**

**Comparative Statement of Operating Expenses
For the Years Ended December 31, 2022 and 2021**

	2022		
	Vehicle Operations	Vehicle Maintenance	General Administration
Personnel services			
Labor			
Operations – salaries and wages	\$ 6,945,888	\$ -	\$ -
Other salaries and wages	-	1,743,894	960,194
Fringe benefits	4,489,526	1,176,105	487,778
Total personnel services	\$ 11,435,414	\$ 2,919,999	\$ 1,447,972
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,593,280	\$ 16,499	\$ -
Tires and tubes	82,556	345	-
Other materials and supplies	4,641	668,537	49,962
Total supplies	\$ 1,680,477	\$ 685,381	\$ 49,962
Utilities	\$ 47,903	\$ 115,599	\$ 326,855
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 73,530
Professional and technical services	20,650	128,147	353,978
Other services	-	357,400	248,333
Casualty and liability costs	-	-	1,130,272
Taxes and fees	-	841	25,928
Miscellaneous			
Dues and subscriptions	325	-	10,642
Travel and meetings	1,426	4,868	6,741
Advertising and promotional media	-	-	135,062
Other	-	-	136,965
Total other services and charges	\$ 22,401	\$ 491,256	\$ 2,121,451
Depreciation and amortization	\$ 4,143,903	\$ 232,585	\$ 1,883,079
Total Expenses	\$ 17,330,098	\$ 4,444,820	\$ 5,829,319

2021 Restated (Note 1)				
Total	Vehicle Operations	Vehicle Maintenance	General Administration	Total
\$ 6,945,888	\$ 5,311,082	\$ -	\$ -	\$ 5,311,082
2,704,088	-	1,292,975	917,117	2,210,092
6,153,409	4,982,240	1,281,128	852,417	7,115,785
\$ 15,803,385	\$ 10,293,322	\$ 2,574,103	\$ 1,769,534	\$ 14,636,959
\$ 1,609,779	\$ 1,028,347	\$ 3,435	\$ -	\$ 1,031,782
82,901	76,821	283	-	77,104
723,140	1,316	531,898	128,567	661,781
\$ 2,415,820	\$ 1,106,484	\$ 535,616	\$ 128,567	\$ 1,770,667
\$ 490,357	\$ 103,255	\$ -	\$ 262,899	\$ 366,154
\$ 73,530	\$ -	\$ -	\$ 102,331	\$ 102,331
502,775	-	20,330	299,675	320,005
605,733	166,614	278,586	74,635	519,835
1,130,272	-	-	878,618	878,618
26,769	-	1,050	4,761	5,811
10,967	-	-	7,454	7,454
13,035	-	1,583	9,883	11,466
135,062	-	-	129,303	129,303
136,965	-	1,443	124,884	126,327
\$ 2,635,108	\$ 166,614	\$ 302,992	\$ 1,631,544	\$ 2,101,150
\$ 6,259,567	\$ 4,254,877	\$ 270,986	\$ 1,886,575	\$ 6,412,438
\$ 27,604,237	\$ 15,924,552	\$ 3,683,697	\$ 5,679,119	\$ 25,287,368

**Duluth Transit Authority
Duluth, Minnesota**

**Allocation of Income and Expense to the City of Superior, Wisconsin
For the Years Ended December 31, 2022 and 2021**

Month	2022			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
Regular Route				
January	1,129	\$ 112.13	\$ 126,632	\$ 4,838
February	1,065	128.56	136,942	6,515
March	1,195	122.01	145,778	6,364
April	1,138	118.98	135,375	5,512
May	1,129	138.11	156,900	4,929
June	1,152	121.45	139,862	6,491
July	1,116	125.29	139,761	10,782
August	1,195	143.24	171,143	6,469
September	1,108	123.18	136,532	6,711
October	1,159	129.55	150,110	11,743
November	1,108	122.00	135,225	5,635
December	1,117	132.57	148,067	6,021
Total Regular Route	<u>13,611</u>		<u>\$ 1,722,327</u>	<u>\$ 82,010</u>
Disability Service				
January	41	\$ 44.93	\$ 2,250	\$ 296
February	41	59.31	2,854	292
March	50	57.09	3,276	374
April	52	52.22	3,109	379
May	64	68.05	4,762	439
June	61	50.46	3,472	394
July	42	57.19	2,823	410
August	44	52.79	2,743	427
September	36	52.81	2,321	411
October	38	56.24	2,516	391
November	30	57.04	2,118	287
December	43	51.83	2,636	301
Total Disability Service	<u>542</u>		<u>\$ 34,880</u> *	<u>\$ 4,401</u>

*Total charge includes \$4,903 of direct insurance costs (allocated monthly) not included in the operating charge per hour

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

***Beginning in June 2022, the Duluth Transit Authority received \$86,986 per month (total \$608,903) from the Wisconsin Department of Transportation for transit service in Superior, which directly reduced the charges to the City of Superior, that is not included above.

Exhibit B-3

2021					
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
\$ 121,794	1,116	\$ 96.17	\$ 107,278	\$ 5,474	\$ 101,804
130,427	1,065	106.84	113,806	15,435	98,371
139,414	1,195	118.44	141,512	6,556	134,956
129,863	1,152	107.39	123,670	4,129	119,541
151,971	1,116	105.73	117,942	6,543	111,399
133,371	1,152	110.29	127,010	7,357	119,653
128,979	1,160	103.33	119,873	4,000	115,873
164,674	1,172	83.47	97,869	5,250	92,619
129,821	1,108	107.41	119,053	5,857	113,196
138,367	1,108	111.03	123,066	5,869	117,197
129,590	1,058	104.86	110,952	5,929	105,023
142,046	1,165	109.70	127,844	18,267	109,577
<u>\$ 1,640,317</u> ***	<u>13,567</u>		<u>\$ 1,429,875</u>	<u>\$ 90,666</u>	<u>\$ 1,339,209</u> **
\$ 1,954	63	\$ 63.23	\$ 4,406	\$ 163	\$ 4,243
2,562	68	51.78	3,915	214	3,701
2,902	76	50.24	4,225	243	3,982
2,730	83	47.43	4,344	236	4,108
4,323	99	59.06	6,284	265	6,019
3,078	87	60.71	5,674	314	5,360
2,413	73	36.24	3,044	300	2,744
2,316	90	51.71	5,035	360	4,675
1,910	64	49.70	3,575	334	3,241
2,125	41	52.15	2,558	275	2,283
1,831	39	48.73	2,307	252	2,055
2,335	44	48.52	2,578	315	2,263
<u>\$ 30,479</u>	<u>827</u>		<u>\$ 47,945</u> *	<u>\$ 3,271</u>	<u>\$ 44,674</u>

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit B-4

**Deficit Distribution Among the Subsidy Grantors
For Operations in the City of Superior, Wisconsin
For the Years Ended December 31, 2022 and 2021**

	2022	2021
Deficit recognized for the City of Superior, Wisconsin		
Regular route	\$ 1,640,317	\$ 1,339,209
Disability service	30,479	44,674
	\$ 1,670,796	\$ 1,383,883
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,670,796	\$ 1,383,883
Less: maximum federal share per grant agreement	(608,903)	(470,299)
	\$ 1,061,893	\$ 913,584
Wisconsin Department of Transportation funding – lower of the following		
Non-federal share	\$ 1,061,893	\$ 913,584
Maximum Wisconsin Department of Transportation share per grant agreement	(347,521)	(334,834)
	\$ 714,372	\$ 578,750
Local Funds Required – City of Superior, Wisconsin	\$ 714,372	\$ 578,750

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit B-5

**Deficit Recognized for Federal and State Operating Funds
For Operations in the City of Superior, Wisconsin
For the Years Ended December 31, 2022 and 2021**

	2022	2021
Regular Route		
Operating revenues in the City of Superior	\$ 82,010	\$ 90,666
Operating expenses in the City of Superior	(1,722,327)	(1,429,875)
 Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,640,317)	\$ (1,339,209)
 Disability Service		
Operating revenues in the City of Superior	\$ 4,401	\$ 3,271
Operating expenses in the City of Superior	(34,880)	(47,945)
 Disability Service Deficit Recognized for State Operating Funds	\$ (30,479)	\$ (44,674)

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit C-1

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Expenditures
U.S. Department of Transportation		
Direct		
Federal Transit Cluster		
Federal Transit – Formula Grants	20.507	\$ 2,021,864
COVID-19 – Federal Transit – Formula Grants	20.507	29,225
(Total Federal Transit – Formula Grants 20.507 \$2,051,089)		
Public Transportation Research	20.514	10,358
Federal Transit Cluster		
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	<u>104,431</u>
Total Federal Awards		<u>\$ 2,165,878</u>

The Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2022.

Totals by Cluster		
Total expenditures for Federal Transit Cluster		\$ 2,155,520

Duluth Transit Authority Duluth, Minnesota

Notes to the Schedule of Expenditures of Federal Awards As of and for the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Duluth Transit Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.

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, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Duluth Transit Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Duluth Transit Authority.

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

Note 2 – De Minimis Cost Rate

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

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

<u>Reconciliation to Comparative Statement of Revenues, Expenses, and Changes in Net Position</u>	
Nonoperating revenues: operating grants – federal	\$ 1,738,811
Capital contributions – federal	658,724
Differences between expenditures incurred in previous years and related reimbursements	<u>(231,657)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 2,165,878</u>

Management and Compliance Section



**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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 14, 2023.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by 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 were not identified.

Report on Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Transit Authority failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters. Described in the Schedule of Findings and Questioned Costs is a matter reported as item 2022-001.

Duluth Transit Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the legal compliance finding identified in our audit and described in the accompanying Corrective Action Plan. The Authority's response was not subject 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

July 14, 2023



**Report on Compliance for Each Major Federal Program and Report on Internal
Control Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Transit Authority
Duluth, Minnesota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Duluth Transit Authority's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Duluth Transit Authority's major federal program for the year ended December 31, 2022. The Duluth Transit Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Duluth Transit Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws,

statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Duluth Transit Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in

internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

/s/Julie Blaha

Julie Blaha
State Auditor

July 14, 2023

Duluth Transit Authority Duluth, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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 federal 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**

Identification of the major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
20.507	Federal Transit Cluster
20.526	

The threshold used to distinguish between Type A and B programs was \$750,000.

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

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Other Findings and Recommendations

2022-001 **Unauthorized Purchase of Corporation**

Duluth Transit Authority

Duluth, Minnesota

Prior Year Finding Number: 2022-001

Repeat Finding Since: N/A

Type of Finding: Minnesota Legal Compliance

Criteria: The Minnesota Attorney General has long held that there appears to be no express statutory authority for local units of government to form nonprofit corporations, either directly or indirectly, for the purpose of carrying out general governmental or other functions, nor can such authority be properly implied from existing grants of power to such units. *See* Op. Att’y Gen. 92a-30, (Jan. 29, 1986), and Op. Att’y Gen. 733, (July 29, 1988). Thereafter, the Minnesota Legislature enacted Minn. Stat. § 465.717, subd. 1, prohibiting the creation of both nonprofit and for-profit corporations by government entities. It states:

A county, home rule charter city, statutory city, town, school district, or other political subdivision, including a joint powers entity operating under section 471.59, may not create a corporation, whether for profit or not for profit, unless explicitly authorized to do so by law.

Minnesota Statutes, Section 458A.25 gives the Duluth Transit Authority (Authority) broad authority to acquire the assets and debts of the operator of the bus transit system. However, it does not provide authority to the Authority to purchase the operator itself, and in our opinion the power to own and operate a private for-profit business corporation cannot be implied from the powers granted to the Authority.

Condition: In October 2022, the Authority purchased ATE Management of Duluth, Inc. (ATE Management), a business corporation formed under the Minnesota Business Corporation Act, Minn. Stat. ch. 302A, by purchasing 100 percent of its common stock.

Context: The parent company of ATE Management no longer wished to operate the Duluth transit system. The Authority sought legal counsel and approval from grantor agencies prior to the purchase of the stock of ATE Management. Legislation was enacted relating to specific ATE Management employees (*see* Minn. Stat. § 353.01, subd. 2b (22), and 2022 Minn. Laws, ch. 65, art. 2, §§ 1, 4). ATE Management is now headed by a three-person Board of Directors who are appointed by the Board of Directors of the Duluth Transit Authority. ATE Management employs all staff and is responsible for daily operations and maintenance to operate the bus transportation system in accordance with the management agreement with the Authority. ATE Management is reported as a blended component unit of the Duluth Transit Authority; the operating revenues and expenses are recorded by the Authority.

Effect: The Authority exceeded its statutory authority and is now a government entity operating a private for-profit business corporation. While municipalities have only those powers expressly conferred by statute or charter, or implied as necessary in aid of those expressly conferred powers (*see e. g. Mangold Midwest Co. v. Village of Richfield*, 143 N.W.2d 813, 820 (1966)), business corporations can engage in any activity that is not prohibited. For instance, in order to reduce exposing public funds to risk, government entities in Minnesota are limited to very safe, highly rated investments (*see* Minn. Stat. §§ 118A.04 and 118A.05); however, business corporations are not limited with regards to investments and could invest in such speculative investments as penny stocks, bitcoins, or gold and silver futures. (*see* Minn. Stat. § 302A.161, subd. 8 ("A corporation may invest and reinvest its funds.")). In addition to not needing statutory authorization to act, private for-profit corporations are not subject to numerous statutes that restrict government activity including the Minnesota Open Meeting Law (Minn. Stat. ch. 13D), the Minnesota Government Data Practices Act (Minn. Stat. ch. 13, requiring public access to minutes and other documents), restrictions on issuing debt (Minn. Stat. ch. 475), limitations on tort liability (Minn. Stat. ch. 466), and protection of public deposits (Minn. Stat. ch. 118A) to name just a few.

Duluth Transit Authority Duluth, Minnesota

Cause: The decision by the parent company of ATE Management to no longer operate the Duluth transit system and the Authority's desire to continue to provide bus transportation services through a continued partnership with ATE Management resulting in limited disruption of service.

Recommendation. We recommend the Authority either seek statutory authority, along with appropriate statutory safeguards consistent with the governmental nature and purpose of the Authority, (for example, Minn. Stat. § 465.717, subd. 2, states in part: "A corporation created under this subdivision shall comply with every law that applies to the participating political subdivisions and shall possess no greater authority or power than that held by the joint powers entity itself."), or transfer operational responsibility, including employment of staff, from ATE Management to the Authority.

View of Responsible Official: Acknowledge



Duluth Transit Authority

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Representation of the Duluth Transit Authority Duluth, Minnesota

Corrective Action Plan
For the Year Ended December 31, 2022

Finding Number: 2022-001

Finding Title: Unauthorized Purchase of Corporation

Program: N/A

Name of Contact Person Responsible for Corrective Action:

Rod Fournier – General Manager

Corrective Action Planned:

The Duluth Transit Authority (DTA) respectfully disagrees with the State Auditor's conclusion that its purchase of the stock of ATED Management was an unauthorized act. The issue was thoroughly vetted by counsel for the DTA, and DTA's Board, to reach the conclusion that the purchase was authorized. With a goal of resolving any issues through its own action, the DTA anticipates, by December 31, 2023, developing a set of guidelines/rules which it will operate under. These guidelines/rules will create and guarantee the kind of transparency that the State Auditor's office believes is lacking in the current structure. Appropriate safeguards will be included to avoid the DTA, without an affirming authority, being able to change these procedures. The developed procedures and overall plan will be submitted to the State Auditor on a timely basis for review.

Anticipated Completion Date:

December 31, 2023