

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

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

Year Ended December 31, 2023

Duluth Transit Authority Duluth, Minnesota

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Statement of Net Position	1	10
Statement of Revenues, Expenses, and Changes in Net Position	2	11
Statement of Cash Flows	3	12
Notes to the Financial Statements		13
Required Supplementary Information		
Schedule of Contributions – Central States, Southeast and Southwest Areas Pension Fund	A-1	28
Notes to the Required Supplementary Information		29
Supplementary Information		
Schedule of Revenues	B-1	30
Schedule of Operating Expenses	B-2	31
Allocation of Income and Expense to the City of Superior, Wisconsin	B-3	32
Deficit Distribution Among the Subsidy Grantors for Operations in the City of Superior, Wisconsin	B-4	33
Deficit Recognized for Federal and State Operating Funds for Operations in the City of Superior, Wisconsin	B-5	34
Schedule of Expenditures of Federal Awards	C-1	35
Notes to the Schedule of Expenditures of Federal Awards		36
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 Accordance with <i>Government Auditing Standards</i>		37
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance		39
Schedule of Findings and Questioned Costs		42
Corrective Action Plan		45
Summary Schedule of Prior Audit Findings		49

Introductory Section

Duluth Transit Authority Duluth, Minnesota

Organization
December 31, 2023

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1	
William "Skip" Williams	June 30, 2025
District No. 2	
Lindsay Louise Biddle	June 30, 2025
District No. 3	
Todd Olson	June 30, 2026
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
Vacant	Not Applicable
Appointed by Mayor, City of Superior, Wisconsin	
Krystal Brandstatter	Indefinite
Officers	
President	
Rondi Watson	
Vice President	
William "Skip" Williams	
Secretary/Treasurer	
Lindsay Louise Biddle	
<u>Management</u>	
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 year ended December 31, 2023, 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, 2023, and the changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, which represents a change in accounting principles. 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Transit Authority's basic financial statements. The Schedule of Revenues; Schedule 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 June 14, 2024, on our consideration of the Duluth Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Duluth Transit Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Transit Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

June 14, 2024

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Management's Discussion and Analysis

Duluth Transit Authority Duluth, Minnesota

Management's Discussion and Analysis December 31, 2023 (Unaudited)

This section, the Management's Discussion and Analysis, is crucial to our financial reporting. It comprehensively analyzes the Duluth Transit Authority's financial condition and activities for the fiscal year ending December 31, 2023. We strongly recommend reading this section in conjunction with the financial statements to comprehensively understand the Authority's financial performance and strategic decisions.

Financial and Operational Highlights

- ATE Management of Duluth amended its Articles of Incorporation to be a Specific Benefit Corporation under Minn. Stat. § 304A for the purpose of operating a public transit system in the Duluth Superior service area. The transition away from First Transit after the Duluth Transit Authority (DTA) purchased the ATE stock has been seamless. ATE Management of Duluth is reported as a blended component unit in the Authority's financial statements.
- DTA staff worked tirelessly on implementing the Better Bus Blueprint and launched the new service in August of 2023 after delays due to staffing shortages. The Better Bus Blueprint is a testament to our commitment to improving service, significantly increasing ridership, and improving the overall efficiency and performance of the DTA and our community.
- The DTA continues to be challenged by a shortage of bus operators. We are approximately 10 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. On August 27th, 2023, all of DTA's old routes were suspended and the new routes started. Due to staffing limitations, one route that should've started but didn't was Route 119, the Port Town Trolley, due to staffing limitations. Overall, services were reduced by 11% due to 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, also used by similar public transit systems.

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

- The Statement of Net Position presents assets, liabilities, deferred inflows of resources, and the net position net investment in capital assets; the net position restricted for transit operations and capital improvements; and the unrestricted net position of the DTA.

- The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the business activities over the fiscal year and includes depreciation and amortization of capital assets.
- The Statement of Cash Flows presents the cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It presents cash receipts and cash disbursement information without consideration of earnings events, 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 complete understanding of the 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 DTA's staff prepared the financial statements from its detailed books and records, which 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, which 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 16 fixed routes, with 17 unique variations, and provides service seven days a week. In response to the COVID-19 pandemic and 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 2,030,655 miles and carried 2,134,071 fixed route passengers and 25,995 paratransit riders during 2023.

The DTA has a 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 and year-to-year variances are included in each section by the name of the statement or account. In 2023, the DTA implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). See Note 1 to the Financial Statements.

From the Condensed Statement of Net Position shown below, total net position Increased by 23.7 percent in 2023 from 2022. The increase was mostly due to Federal operating assistance received during 2023 to offset the economic effects of the COVID-19 pandemic. Typically, the DTA has a capital plan to replace revenue vehicles every other year, which drives the change in net position from year to year. The Authority purchased ten new diesel transit buses during 2023.

Condensed Statement of Net Position (000s)

	Fiscal Year 2023	Fiscal Year 2022 Restated (Note 1)
Current and other assets	\$ 17,522	\$ 9,143
Capital assets	\$ 116,042	\$ 108,844
Less: depreciation and amortization	(74,705)	(69,535)
Capital assets, net	\$ 41,337	\$ 39,309
Total Assets	\$ 58,859	\$ 48,452
Total Liabilities	\$ 2,596	\$ 2,910
Deferred Inflows of Resources	\$ 167	\$ 199
Net Position		
Net investment in capital assets	\$ 41,262	\$ 39,203
Restricted for transit operations and capital improvements	13,723	5,386
Unrestricted	1,111	754
Total Net Position	\$ 56,096	\$ 45,343

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

	Fiscal Year 2023 Actual	Fiscal Year 2023 Budget	Fiscal Year 2022 Actual
Operating Revenues	\$ 2,565	\$ 2,200	\$ 2,437
Nonoperating Revenues	29,092	22,404	18,488
Total Revenues	\$ 31,657	\$ 24,604	\$ 20,925
Operating Expenses	27,790	28,977	27,604
Net Income (Loss) Before Capital Contributions	\$ 3,867	\$ (4,373)	\$ (6,679)
Capital Contributions	6,886	7,377	856
Change in Net Position	\$ 10,753	\$ 3,004	\$ (5,823)
Net Position – January 1	45,343	45,343	51,166
Net Position – December 31	\$ 56,096	\$ 48,347	\$ 45,343

Revenues

The DTA's operating revenues are derived from various sources: passenger revenues, charter revenues, and other revenues such as interest, transit advertising, and subsidies. Operating revenues increased by 5 percent to \$2.6 million in 2023, up from \$2.4 million in 2022. Nonoperating revenues increased from \$18.5 million in 2022 to \$29 million in 2023. This was more than a 57 percent increase in 2023. The number of passengers increased from 1,874,795 in 2022 to 2,134,071 in 2023 for fixed-route and increased for paratransit from 24,803 in 2022 to 25,995 in 2023.

Expenses

The DTA's 2023 operating expenses increased slightly by 0.1 percent over 2022 operating expenses of \$27.6 million to \$27.8 million. The increase in both diesel and gasoline costs, as well as inflation, resulted in increased operating expenses.

Capital Assets

By the end of fiscal year 2023, the Duluth Transit Authority had invested \$116 million in capital assets, an increase of \$7.2 million from 2022. The increase reflects capital asset purchases and parking lot improvements.

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

Budgetary Highlights

The DTA prepares an annual operating budget to apply for the Minnesota Department of Transportation operating grant. The budget is approved by the DTA Board of Directors before submitting the operating grant application. The 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 will greatly affect the DTA's continued ability to serve the riding public.

Economic and Other Factors

The DTA considered many factors when setting the 2023 budget. The 2023 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE paratransit expenses. Although the fuel cost is unpredictable, it is always a concern and hard to budget. The State of Minnesota has supplied this line-item cost for the 2023 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 support capital, operating, and other expenses generally eligible under the 5307 program to prevent, prepare for, and respond to COVID-19. The DTA programmed most of the funds to cover operating expenses, with the remainder funding capital projects.

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

**Statement of Net Position
December 31, 2023**

Assets

Current assets	
Cash and cash equivalents	\$ 10,849,540
Accounts receivable	121,738
Taxes receivable	27,421
Due from other governments	5,761,494
Inventory	561,047
Leases receivable – current	33,252
Prepaid items	14,396

Total current assets	<u>\$ 17,368,888</u>
-----------------------------	-----------------------------

Noncurrent assets	
Leases receivable – long-term	<u>\$ 153,404</u>

Capital assets	
Not depreciated or amortized	\$ 222,367
Depreciated and amortized	115,819,834
Less: accumulated depreciation and amortization	<u>(74,705,645)</u>

Total capital assets – net of accumulated depreciation and amortization	<u>\$ 41,336,556</u>
--	-----------------------------

Noncurrent assets – net	<u>\$ 41,489,960</u>
--------------------------------	-----------------------------

Total Assets	<u>\$ 58,858,848</u>
---------------------	-----------------------------

Liabilities

Current liabilities	
Accounts payable	\$ 1,325,655
Contracts payable	125,843
Wages payable	274,594
Due to other governments	8,755
Vacation payable – current	611,950
Leases payable – current	760
Software subscription liability – current	29,515
Unearned revenue	175,221

Total current liabilities	<u>\$ 2,552,293</u>
----------------------------------	----------------------------

Noncurrent liabilities	
Leases payable – long-term	\$ 389
Software subscription liability – long-term	<u>43,772</u>

Total noncurrent liabilities	<u>\$ 44,161</u>
-------------------------------------	-------------------------

Total Liabilities	<u>\$ 2,596,454</u>
--------------------------	----------------------------

Deferred Inflows of Resources

Deferred lease inflows	<u>\$ 166,668</u>
------------------------	--------------------------

Net Position

Net investment in capital assets	\$ 41,262,120
Restricted for transit operations and capital improvements	13,722,482
Unrestricted	<u>1,111,124</u>

Total Net Position	<u>\$ 56,095,726</u>
---------------------------	-----------------------------

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit 2

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2023**

Operating Revenues	
Charges for services	\$ 2,503,995
Miscellaneous	<u>60,506</u>
Total Operating Revenues	<u>\$ 2,564,501</u>
Operating Expenses	
Personnel services	\$ 15,919,011
Supplies	2,449,105
Utilities	464,191
Other services and charges	2,551,235
Depreciation and amortization	<u>6,406,202</u>
Total Operating Expenses	<u>\$ 27,789,744</u>
Operating Income (Loss)	<u>\$ (25,225,243)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 324,672
Property taxes	2,174,416
Operating grants	
Federal	10,137,762
State	15,304,006
City of Superior, Wisconsin	1,153,425
Interest expense	<u>(2,397)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 29,091,884</u>
Net Income (Loss) Before Capital Contributions	<u>\$ 3,866,641</u>
Capital Contributions	
Federal	\$ 6,367,873
State	<u>517,920</u>
Total Capital Contributions	<u>\$ 6,885,793</u>
Change in Net Position	<u>\$ 10,752,434</u>
Net Position – January 1	<u>45,343,292</u>
Net Position – December 31	<u><u>\$ 56,095,726</u></u>

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit 3

**Statement of Cash Flows
For the Year Ended December 31, 2023**

Cash Flows from Operating Activities	
Cash received from customers	\$ 2,952,883
Payments to suppliers	(5,615,107)
Payments for employee services	<u>(16,309,651)</u>
Net cash provided by (used in) operating activities	<u>\$ (18,971,875)</u>
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 2,164,766
Federal operating grants	8,879,958
State operating grants	15,304,006
City of Superior, Wisconsin, operating grants	<u>1,037,826</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 27,386,556</u>
Cash Flows from Capital and Related Financing Activities	
Capital grants and contributions	\$ 5,258,464
Lease payments received	37,200
Acquisition or construction of capital assets	<u>(8,341,545)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (3,045,881)</u>
Cash Flows from Investing Activities	
Interest on investments	<u>\$ 318,561</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 5,687,361
Cash and Cash Equivalents – January 1	<u>5,162,179</u>
Cash and Cash Equivalents – December 31	<u><u>\$ 10,849,540</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (25,225,243)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Lease revenue	(32,204)
Depreciation and amortization	6,406,202
(Increase) decrease in receivables	381,568
(Increase) decrease in inventory	(94,312)
Increase (decrease) in payables	(416,750)
Increase (decrease) in vacation payable	(30,154)
Increase (decrease) in unearned revenue	<u>39,018</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (18,971,875)</u></u>

Duluth Transit Authority Duluth, Minnesota

Notes to the Financial Statements As of and for the Year Ended December 31, 2023

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

Blended Component Unit		
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, the lease term, or the subscription term:

Estimated Useful Lives of Capital Assets

Classification	Range
Land improvements	10 years
Buildings and structures	10 to 40 years
Furniture and equipment	5 to 10 years
Right-to-use assets	1 to 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, recognizing revenue in a systematic and rational manner over the term of the lease on a straight-line basis.

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 for which they were levied.

Duluth Transit Authority

Duluth, Minnesota

Capital Contributions

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

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.

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, 2023, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which establishes criteria for accounting and financial reporting for subscription-based information technology arrangements. The implementation of this statement resulted in changing the presentation of the notes to the financial statements by increasing the beginning balances of the software subscription asset and software subscription liability by \$104,432.

Note 2 – Detailed Notes

2023 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 year ended December 31, 2023.

Duluth Transit Authority

Duluth, Minnesota

Budget-to-Actual Comparison for the Year Ended December 31, 2023

	Budget	Actual	Variance
Operating Revenues			
Charges for services and miscellaneous	\$ 2,199,564	\$ 2,564,501	\$ 364,937
Operating Expenses			
Personnel services	\$ 13,635,471	\$ 15,919,011	\$ (2,283,540)
Supplies	3,009,218	2,449,105	560,113
Utilities	451,555	464,191	(12,636)
Other services and charges	5,474,486	2,551,235	2,923,251
Depreciation and amortization	6,406,202	6,406,202	-
Total Operating Expenses	\$ 28,976,932	\$ 27,789,744	\$ 1,187,188
Operating Income (Loss)	\$ (26,777,368)	\$ (25,225,243)	\$ 1,552,125
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 324,672	\$ 324,672
Property taxes	3,900,000	2,174,416	(1,725,584)
Operating grants			
Federal	1,129,907	10,137,762	9,007,855
State	15,856,320	15,304,006	(552,314)
City of Superior, Wisconsin	1,517,754	1,153,425	(364,329)
Interest expense	-	(2,397)	(2,397)
Total Nonoperating Revenues (Expenses)	\$ 22,403,981	\$ 29,091,884	\$ 6,687,903
Net Income (Loss) Before Capital Contributions	\$ (4,373,387)	\$ 3,866,641	\$ 8,240,028
Capital Contributions			
Federal	\$ 7,377,520	\$ 6,367,873	\$ (1,009,647)
State	-	517,920	517,920
Total Capital Contributions	\$ 7,377,520	\$ 6,885,793	\$ (491,727)
Change in Net Position	\$ 3,004,133	\$ 10,752,434	\$ 7,748,301

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.

Duluth Transit Authority

Duluth, Minnesota

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

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

Cash and Cash Equivalents for the Year Ended December 31, 2023

City Treasurer – accounts	\$ 6,642,916
ATE Management – checking account	4,174,353
Petty cash fund and change funds	7,905
Medical flex account	24,366
Total Cash and Cash Equivalents	<u>\$ 10,849,540</u>

Leases Receivable

The following is a summary of the Authority's leases receivable as of December 31, 2023:

Leases Receivable as of December 31, 2023

	Receivable	Amounts Not Scheduled for Collection During the Subsequent Year
City of Duluth, Minnesota	\$ 55,968	\$ 49,763
Jefferson Partners, L.P.	76,672	67,750
Limitless PCS, Inc.	54,016	35,891
Total Leases Receivable	<u>\$ 186,656</u>	<u>\$ 153,404</u>

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 2021. 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. Beginning with the rent for calendar year 2022, rent will be increased based on the increase of the Consumer Price Index for all Urban Consumers (CPI-U) between the previous two calendar years. Rent will never be adjusted below the previous year's rent. For calendar year 2023, rent was calculated at \$925 per month.

Duluth Transit Authority Duluth, Minnesota

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 \$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 during 2023 was \$1,500 per month.

As of December 31, 2023, the Authority reported leases receivable and deferred inflows of resources totaling \$186,656 and \$166,668, respectively. The leases receivable will be reduced as repayments are received. Principal and interest totaling \$31,089 and \$6,111, respectively, were received during the year ended December 31, 2023. Inflows of resources recognized during the year ended December 31, 2023, consisted of lease revenue of \$32,204 and interest revenue of \$6,111.

Duluth Transit Authority

Duluth, Minnesota

Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2023, follows:

Changes in Capital Assets for the Year Ending December 31, 2023

	Balance January 1, 2023, as Restated	Additions	Deductions	Balance December 31, 2023
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 253,797	\$ 400,423	\$ -	\$ 654,220
Buildings and structures	57,860,130	1,933,244	-	59,793,374
Revenue equipment	41,941,161	5,967,960	1,235,578	46,673,543
Shop and garage equipment	1,978,692	55,907	-	2,034,599
Office furniture and equipment	6,480,770	48,075	-	6,528,845
Total capital assets depreciated	\$ 108,514,550	\$ 8,405,609	\$ 1,235,578	\$ 115,684,581
Less: accumulated depreciation for				
Land improvements	\$ 174,893	\$ 40,042	\$ -	\$ 214,935
Buildings and structures	34,447,290	2,513,148	-	36,960,438
Revenue equipment	27,382,286	3,476,566	1,235,578	29,623,274
Shop and garage equipment	1,581,206	60,354	-	1,641,560
Office furniture and equipment	5,947,870	274,184	-	6,222,054
Total accumulated depreciation	\$ 69,533,545	\$ 6,364,294	\$ 1,235,578	\$ 74,662,261
Total capital assets depreciated, net	\$ 38,981,005	\$ 2,041,315	\$ -	\$ 41,022,320
Capital assets amortized				
Leased office furniture and equipment	\$ 3,321	\$ -	\$ -	\$ 3,321
Software subscriptions	104,432	27,500	-	131,932
Total capital assets amortized	\$ 107,753	\$ 27,500	\$ -	\$ 135,253
Less: accumulated amortization for				
Leased office furniture and equipment	\$ 1,476	\$ 738	\$ -	\$ 2,214
Software subscriptions	-	41,170	-	41,170
Total accumulated amortization	\$ 1,476	\$ 41,908	\$ -	\$ 43,384
Total capital assets amortized, net	\$ 106,277	\$ (14,408)	\$ -	\$ 91,869
Capital Assets, Net	\$ 39,309,649	\$ 2,026,907	\$ -	\$ 41,336,556

Leases Payable

The Authority has entered into lease agreements with two vendors for transit bus tire leasing services. The leases remained 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. On July 1, 2023, the Authority entered into a new lease agreement with a vendor for transit bus tire leasing services to replace the

Duluth Transit Authority Duluth, Minnesota

lease agreements that ended on June 30, 2023. For all bus tire lease agreements, 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, 2023. Payments for transit bus tire leasing services totaled \$138,731 during the year ending December 31, 2023.

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 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 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, 2023

Year Ending December 31	Principal	Interest
2024	\$ 760	\$ 26
2025	389	5
Total Lease Payments	\$ 1,149	\$ 31

Software Subscriptions Liability

The Authority has entered into several subscription-based information technology arrangements for financing the acquisition of a cloud-based payroll and human resources system, material safety data sheet (MSDS) software, a transit planning software platform, and a fleet management system. These arrangements are for one to five years each. These arrangements have been recorded at the present value of their future minimum software subscription payments as of the inception date.

The future minimum software subscription obligations and the net present value of these minimum subscription payments as of December 31, 2023, were as follows:

Future Minimum Subscription Obligations and the Net Present Value of These Minimum Subscription Payments for the Year Ending December 31, 2023

Year Ending December 31	Principal	Interest
2024	\$ 29,515	\$ 1,814
2025	22,524	1,005
2026	21,248	320
Total Subscription Payments	\$ 73,287	\$ 3,139

Duluth Transit Authority

Duluth, Minnesota

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2023, was as follows:

Changes in Long-Term Liabilities for the Year Ending December 31, 2023

	Beginning Balance, as Restated	Additions	Reductions	Ending Balance	Due Within One Year
Subscription liability	\$ 104,432	\$ 27,500	\$ 58,645	\$ 73,287	\$ 29,515
Lease liability	1,886	-	737	1,149	760
Total Long-Term Liabilities	\$ 106,318	\$ 27,500	\$ 59,382	\$ 74,436	\$ 30,275

Risk Management

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

Risk management activities for transit liability and property damage include the purchase of commercial insurance coverage for claims exceeding \$200,000. The Authority retains the risk of loss for the first \$200,000 per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. A liability for claims and judgments payable of \$522,136 is reported within accounts payable on the financial statements for the year ended December 31, 2023, for claims considered "probable" losses to the Authority.

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 \$1,881,247 for the year ended December 31, 2023. After deduction of the revenue collected in Superior of \$78,111 and federal assistance received from the Wisconsin Department of Transportation of \$649,711 in 2023, the amounts actually billed totaled \$1,153,425 in 2023, which is included as nonoperating revenues.

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

On October 28, 2022, the Duluth Transit Authority 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

Duluth Transit Authority

Duluth, Minnesota

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.

Condensed Financial Statements

The following is the Condensed Statement of Net Position for ATE Management of Duluth, Inc., as of December 31, 2023:

Condensed Statement of Net Position December 31, 2023

Assets		
Current assets		
Due from the Duluth Transit Authority	\$	<u>886,544</u>
Liabilities		
Current liabilities		
Wages payable	\$	274,594
Vacation payable – current		<u>611,950</u>
Total Liabilities	\$	<u>886,544</u>

The following is the Condensed Statement of Activities for ATE Management of Duluth, Inc., for the year ended December 31, 2023:

Condensed Statement of Activities for the Year Ended December 31, 2023

Operating Revenues		
Charges for services	\$	15,919,011
Operating Expenses		
Personnel services		<u>15,919,011</u>
Change in Net Position	\$	-
Net Position – November 1		<u>-</u>
Net Position – December 31	\$	<u>-</u>

Duluth Transit Authority

Duluth, Minnesota

The following is the Condensed Statement of Cash Flows for ATE Management of Duluth, Inc., for the year ended December 31, 2023:

Condensed Statement of Cash Flows for the Year Ended December 31, 2023

Net cash provided (used) by	
Operating activities	
Payments from the Duluth Transit Authority for employee services	\$ 16,309,651
Payments to employees	(16,309,651)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents – January 1	-
Cash and Cash Equivalents – December 31	\$ -

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 \$611,950 as of December 31, 2023.

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

Duluth Transit Authority

Duluth, Minnesota

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 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 year ending December 31, 2023, was \$331. Total contributions to the Health and Welfare Plan by ATE Management totaled \$2,854,137 for the year ending December 31, 2023.

Covered employees who retire, are age 57 or older, and have accumulated at least 20 years of service; or those who are age 60 or older and have completed at least ten years of service, are 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.

Duluth Transit Authority Duluth, Minnesota

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 2023. As of December 31, 2023, there were 119 employees enrolled in the plan.

ATE Management's contributions for the years ending December 31, 2023, 2022, and 2021, were \$2,089,854, \$2,023,606, and \$2,098,801, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

On March 31, 2023, the plan actuary certified to the U.S. Department of the Treasury, and also to the plan sponsor, that the plan was in critical status for the plan year beginning January 1, 2023. The plan will be considered to be in critical status until 2051 because it received special financial assistance during 2023 as required by federal pension law. 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 2023. As of December 31, 2023, there were 119 employees enrolled in the plan;
- On January 12, 2023, the plan's application for Special Financial Assistance available through the American Rescue Plan Act of 2021 was approved by the Pension Benefit Guaranty Corporation. Subsequently, the plan received \$35,764,910,110 of special financial assistance. Due to this, the plan is no longer expected to become insolvent in the near future. The plan will still be considered as being in critical status until 2051 due to receiving the special financial assistance as required by federal pension law.
- Without considering the special financial assistance, the funded percentage of the plan as of January 1, 2023, was 14 percent. With the special financial assistance included, the funded percentage as of January 1, 2023, was 98.5 percent.

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

Duluth Transit Authority Duluth, Minnesota

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 Year Ending December 31, 2023

Employer	\$	247,113
Employee		41,104

Required Supplementary Information

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit A-1

**Schedule of Contributions
Central States, Southeast and Southwest Areas Pension Fund
December 31, 2023**

<u>Year Ending</u>	<u>Contractually Required Contributions (a)</u>	<u>Actual Contributions in Relation to Contractually Required Contributions (b)</u>	<u>Contribution (Deficiency) Excess (b - a)</u>
2023	\$ 2,089,854	\$ 2,089,854	\$ -
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, 2023

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

2023

- ATE Management of Duluth, Inc.'s, contribution was \$338 per full-time employee per week in 2023, which is unchanged from 2022. As of December 31, 2023, there were 119 employees enrolled in the plan compared to 140 employees enrolled in the plan as of December 31, 2022.

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. 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

**Schedule of Revenues
For the Year Ended December 31, 2023**

Operating Revenues	
Charges for services	
Passenger fares for transit service	
Adult fares	\$ 1,532,306
College student passes	348,353
	<hr/>
Total passenger fares for transit service	\$ 1,880,659
	<hr/>
Charter service revenues	\$ 14,563
	<hr/>
Auxiliary transportation revenues	
Advertising services	\$ 202,081
STRIDE	117,474
Other	289,218
	<hr/>
Total auxiliary transportation revenues	\$ 608,773
	<hr/>
Total charges for services	\$ 2,503,995
	<hr/>
Miscellaneous revenue	\$ 60,506
	<hr/>
Total operating revenues	\$ 2,564,501
	<hr/>
Nonoperating and Other Revenues	
Investment earnings	\$ 324,672
Property taxes	2,174,416
Operating grants	
Federal – Section 5307	10,137,762
State – regular route	14,371,216
State – disability service	932,790
City of Superior, Wisconsin – regular route	1,085,235
City of Superior, Wisconsin – disability service	68,190
Capital contributions	
Federal	6,367,873
State	517,920
	<hr/>
Total nonoperating and other revenues	\$ 35,980,074
	<hr/>
Total Revenues	\$ 38,544,575
	<hr/>

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit B-2

**Schedule of Operating Expenses
For the Year Ended December 31, 2023**

	Vehicle Operations	Vehicle Maintenance	General Administration	Total
Personnel services				
Labor				
Operations – salaries and wages	\$ 6,110,978	\$ -	\$ -	\$ 6,110,978
Other salaries and wages	-	1,474,981	872,773	2,347,754
Fringe benefits	5,556,208	1,285,893	618,178	7,460,279
Total personnel services	\$ 11,667,186	\$ 2,760,874	\$ 1,490,951	\$ 15,919,011
Supplies				
Materials and supplies consumed				
Fuel and lubricants	\$ 1,407,231	\$ 21,315	\$ -	\$ 1,428,546
Tires and tubes	142,059	2,847	-	144,906
Other materials and supplies	3,693	796,663	75,297	875,653
Total supplies	\$ 1,552,983	\$ 820,825	\$ 75,297	\$ 2,449,105
Utilities	\$ 63,934	\$ 96,680	\$ 303,577	\$ 464,191
Other services and charges				
Services				
Management service fee	\$ -	\$ -	\$ 26,812	\$ 26,812
Professional and technical services	17,347	269,561	307,246	594,154
Other services	8,229	926	663,616	672,771
Casualty and liability costs	-	-	982,040	982,040
Taxes and fees	1,437	100	5,059	6,596
Miscellaneous				
Dues and subscriptions	1,735	-	7,520	9,255
Travel and meetings	3,500	2,498	15,452	21,450
Advertising and promotional media	-	-	183,208	183,208
Other	-	-	54,949	54,949
Total other services and charges	\$ 32,248	\$ 273,085	\$ 2,245,902	\$ 2,551,235
Depreciation and amortization	\$ 3,693,828	\$ 241,519	\$ 2,470,855	\$ 6,406,202
Total Operating Expenses	\$ 17,010,179	\$ 4,192,983	\$ 6,586,582	\$ 27,789,744

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit B-3

**Allocation of Income and Expense to the City of Superior, Wisconsin
For the Year Ended December 31, 2023**

Month	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior	Net Charges to the City of Superior
Regular Route					
January	1,152	\$ 143.58	\$ 165,347	5,072	\$ 160,275
February	1,065	135.25	144,068	5,247	138,821
March	1,174	124.68	146,362	6,578	139,784
April	1,116	123.87	138,177	5,743	132,434
May	1,158	136.99	158,682	7,410	151,272
June	1,152	141.41	162,848	9,211	153,637
July	1,116	149.84	167,147	4,927	162,220
August	1,186	143.48	170,210	5,272	164,938
September	1,041	128.70	134,002	4,181	129,821
October	1,119	133.29	149,205	4,054	145,151
November	1,097	118.96	130,524	4,982	125,542
December	1,103	128.77	142,059	4,612	137,447
Total Regular Route	<u>13,479</u>		<u>\$ 1,808,631</u>	<u>\$ 67,289</u>	<u>\$ 1,741,342</u> **
Disability Service					
January	56	\$ 48.82	\$ 3,121	\$ 378	\$ 2,743
February	55	60.94	3,788	449	3,339
March	55	68.55	4,155	372	3,783
April	50	62.39	3,505	388	3,117
May	64	76.09	5,235	372	4,863
June	146	62.39	9,515	401	9,114
July	133	62.42	8,737	343	8,394
August	127	61.44	8,199	248	7,951
September	120	58.34	7,422	230	7,192
October	39	65.88	2,992	332	2,660
November	116	65.13	7,979	382	7,597
December	120	63.01	7,968	531	7,437
Total Disability Service	<u>1,081</u>		<u>\$ 72,616</u> *	<u>\$ 4,426</u>	<u>\$ 68,190</u>

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

**Beginning in May 2023, the Duluth Transit Authority received \$81,214 per month (total \$649,711) from the Wisconsin Department of Transportation for transit service in Superior, which directly reduced the charges to the City of Superior. This reduction is not reflected above.

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit B-4

**Deficit Distribution Among the Subsidy Grantors
For Operations in the City of Superior, Wisconsin
For the Year Ended December 31, 2023**

Deficit recognized for the City of Superior, Wisconsin

Regular route	\$ 1,741,342
Disability service	<u>68,190</u>
Total	<u>\$ 1,809,532</u>

Deficit recognized by the Wisconsin Department of Transportation

Net charges to the City of Superior	\$ 1,809,532
Less: maximum federal share per grant agreement	<u>(649,711)</u>
Non-Federal Share	<u>\$ 1,159,821</u>

Wisconsin Department of Transportation funding – lower of the following

Non-federal share	\$ 1,159,821
Maximum Wisconsin Department of Transportation share per grant agreement	<u>(297,711)</u>

Local Funds Required – City of Superior, Wisconsin	<u><u>\$ 862,110</u></u>
---	---------------------------------

**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 Year Ended December 31, 2023**

Regular Route

Operating revenues in the City of Superior	\$ 67,289
Operating expenses in the City of Superior	<u>(1,808,631)</u>

**Regular Route Deficit Recognized for Federal and State
Operating Funds**

\$ (1,741,342)

Disability Service

Operating revenues in the City of Superior	\$ 4,426
Operating expenses in the City of Superior	<u>(72,616)</u>

**Disability Service Deficit Recognized for State Operating
Funds**

\$ (68,190)

**Duluth Transit Authority
Duluth, Minnesota**

Exhibit C-1

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

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	\$ 7,854,085
COVID-19 – Federal Transit – Formula Grants	20.507	7,756,992
(Total Federal Transit – Formula Grants 20.507 \$15,611,077)		
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	885,497
Total Federal Awards		\$ 16,496,574

The Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2023.

Totals by Cluster		
Total expenditures for Federal Transit Cluster		\$ 16,496,574

Duluth Transit Authority

Duluth, Minnesota

Notes to the Schedule of Expenditures of Federal Awards As of and for the Year Ended December 31, 2023

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, 2023. 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 Statement of Revenues, Expenses, and Changes in Net Position

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

Nonoperating revenues: operating grants – federal	\$ 10,137,762
Capital contributions – federal	6,367,873
Differences between expenditures incurred in previous years and related reimbursements	(9,061)
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 16,496,574</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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 14, 2024.

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 our 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 over financial reporting, 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 an other matter reported as item 2023-001.

Duluth Transit Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Duluth Transit Authority's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and 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

June 14, 2024

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor



**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, 2023. 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, 2023.

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

June 14, 2024

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Duluth Transit Authority Duluth, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2023

Section I – Summary of Auditor’s Results

Financial Statements

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

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

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

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Duluth Transit Authority

Duluth, Minnesota

Section IV – Other Findings and Recommendations

2023-001 Unauthorized Purchase of Corporation

Prior Year Finding Number: 2022-001

Year of Finding Origination: 2022

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.

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. The statutes that regulate the conduct of government entities include such things as protection for public deposits, uniform municipal contracting requirements, claim processing requirements, restrictions on methods of fund disbursement, prohibitions on conflicts of interest, open meeting requirements, unclaimed property requirements, restrictions on destruction of public records, public purpose requirements for all expenditures, and out-of-state travel restrictions to name just a few.

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. (ATED), a business corporation formed under the Minnesota Business Corporation Act, Minn. Stat. ch. 302A, by purchasing 100 percent of its common stock.

Through amendments to ATED’s Articles of Incorporation as well as contract changes with ATED, the Authority addressed, in part, some of the concerns identified in the prior year’s audit finding. Specifically, in the management agreement, ATED agreed: to limit investments to those authorized in Minn. Stat. § 118A.04 and 118A.05, to limit debt to that approved by the Authority and the Duluth City Council, and to comply with the Minnesota Government Data Practices Act. Additionally, ATED amended its Articles of Incorporation, governed by Minn. Stat. ch. 302A (Business Corporations), to also include requirements of Minn. Stat. ch. 304A (Minnesota Public Benefit Corporation Act). ATED’s name is now ATE Management of Duluth SBC, Inc.

Context: The parent company of ATED no longer wished to operate the Duluth transit system. ATED is now headed by a three-person Board of Directors who are appointed by the Board of Directors of the Duluth Transit Authority. ATED employs all staff and is responsible for daily operations and maintenance of the bus transportation system in accordance with the management agreement with the Authority. ATED is reported as a

Duluth Transit Authority Duluth, Minnesota

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 we appreciate the steps taken by the Authority to address those examples of requirements imposed on government entities cited in last year's audit, the fact remains that a private business corporation cannot be transformed into a government entity through amendments to its Articles of Incorporation or through contractual agreement.

Cause: The parent company of ATED decided to no longer operate the Duluth transit system. In an effort to continue providing bus transportation services with limited disruption of service, the Duluth Transit Authority purchased ATED.

Recommendation: The Authority has stated that it has been advised by counsel that it cannot transfer operational responsibility from ATED to the Authority. We again recommend the Authority 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.") to own ATED.

View of Responsible Official: Disagree

The OSA disagrees with the Authority's position that Minn. Stat. § 458A.25 provides legislative authority to acquire 100 percent of a corporation's stock, as asserted in the Authority's Corrective Action Plan.



**Representation of the Duluth Transit Authority
Duluth, Minnesota**

Corrective Action Plan
For the Year Ended December 31, 2023

Finding Number: 2023-001

Finding Title: Unauthorized Purchase of Corporation

Program: N/A

The DTA disagrees with the purchase of the ATE Management of Duluth SBC stock was an unauthorized purchase of a corporation. Minnesota law does not prohibit a political subdivision to acquire a corporation, and Minnesota law allows a political subdivision to own a corporation. This summary provides the basis for the DTA's disagreement in lieu of a planned corrective action.

1. The Office of the State Auditor ("OSA") declared their basis for their determination of an unauthorized purchase in their Criteria:

***"Criteria:** In Minnesota, government entities lack the authority to incorporate themselves or to create or own corporations. Minn. Stat. § 465.717, Op Atty Gen 92a-30 (J), 29 1986), and Op. Att'y Gen. 733, (July 29, 1988)."*

The DTA agrees that Minn. Stat. §465.717 prohibits a political subdivision from creating a corporation, but the statute is silent on acquiring or owning a corporation: "Subd. 1. **Statutory authorization required.** A ...political subdivision...may not create a corporation, whether for profit or nonprofit, unless explicitly authorized to do so by law."

The DTA did not create a corporation, it acquired an existing corporation, ATE Management of Duluth, Inc., now known as ATED Management of Duluth, SBC, ("ATED") by purchasing 100% of its stock. DTA asserts that if the legislature had intended to prohibit acquisition of an existing corporation, it would have modeled its statute after the federal legislation at 31 U.S.C. §9102: **"Establishing and acquiring a corporation.** An agency may establish or acquire a corporation to act as an agency only by or under a law of the United States specifically authorizing the action." Note this parallel federal statute is specific in barring both establishing (creating) and acquiring a corporation.

Minnesota law allows political subdivisions to own a corporation. Minn Stat. §465.719 details the regulations that govern corporations owned by a political subdivision prior to May 31, 1997. The law is not applicable to the DTA and ATED, but the limited authority of the corporation in Minn. Stat. §465.719 is fully consistent with the restrictions on ATED via the DTA ATE Management Agreement.

The OSA notes two Attorney General opinions as its support for its position. Neither opinion finds that a political subdivision is barred from owning a corporation.

OP Atty Gen 92a-30(j), 29 1986 does not address the allowability of a political subdivision owning a corporation but does endorse the concept that we cannot read into the legislative intent of Minn. Stat. 465.717, stating the following: "Moreover, had the legislature intended to include nonprofit corporations it could have easily manifested its intent." If the legislature wanted Minn. Stat. §465.717 to



preclude a political subdivision from acquiring a corporation, it would likely have included “acquire” in the statute like the analogous statute does.

OSA also asserts the following: *“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. The statutes that regulate the conduct of government entities include such things as protection for public deposits, uniform municipal contracting requirements, claim processing requirements, restrictions on methods of fund disbursement, prohibitions on conflicts of interest, open meeting requirements, unclaimed property requirements, restrictions on destruction of public records, public purpose requirements for all expenditures, and out of state travel restrictions to name just a few.”*

DTA acted within its legislative authority to acquire 100% of ATED stock. Minn. Stat. §458A.25(2) authorizes the DTA “(2) to enter into and execute agreements, instruments and other arrangements which are necessary and proper and convenient to exercise its powers;”, and “(3) to acquire by purchase, lease, or gift any real or personal property, franchises, easements, or other rights which may be necessary or proper for the operation of a bus transit system;” and “(4) to acquire by purchase, lease or gift all or any part of the plant, equipment, property, real personal or mixed, rights and property, revenue, funds,... all with the approval of the city council evidenced by resolution”. DTA sought and received approval to purchase the ATED stock by resolution of the DTA Board of Directors and of the Duluth City Council, see Resolution 22-0668R. DTA also sought and received approval from the Duluth City Council to enter into a Management Agreement with ATED as allowed under Minn. Stat. §458A.25(3), see Resolution 22-0669R.

Limitations on ATED’s authority are consistent with the OSA’s comments. ATED may only undertake those actions authorized by the DTA ATED Management Agreement. The Agreement limit ATED to only serve the DTA, to not accrue any funds, to avoid conflicts of interest, and to comply with all applicable laws and regulations applied to the DTA. Examples include restrictions on public deposits, methods of fund disbursements, etc. that are governed by Minn. Stat. ch. 458A. as was noted in DTA’s response to OSA in December 2023. ATED is also required to comply with the DTA’s uniform contracting requirements, as well as maintenance of public records and travel policy.

In December 2023, the ATED Board undertook further action to address OSA’s concerns by amending ATE Management of Duluth’s Articles of Incorporation to become a specific benefit corporation for the purpose of operating a transit system in the DTA service area under Minn. Stat. ch. 304A. This designation adds further responsibility for ATED to adhere to the stated public purpose of the DTA.

Purchasing the ATED stock protects the long-term stability of the DTA transit system and prevents the DTA from facing a potential \$136 million pension withdrawal liability that can be levied under the Multi-Employer Pension Plan Amendment Act of 1980 (Public Law 96-364-Sept. 26, 1980) if ATED ceases to operate. The Act levies the liability if the transit system’s employer fails to make the required pension payments to the Central States Pension Fund on behalf of its covered employees. The multimillion-dollar liability was and is the entire motive for purchasing the ATED stock, and is “necessary and proper” for the operation of the transit system. The Act does not allow the DTA to take over the payments on behalf of ATED since the DTA is not the employer. Transitioning the employees to the DTA will incur the pension withdrawal liability since ATED would then be deemed as withdrawing from the pension plan.



The OSA assertions included the following statement: ***“Effect: The Authority exceeded its statutory authority and is now a government entity operating a private for profit business corporation.”***

The DTA vigorously disagrees that it exceeded its statutory authority, and asserts that it is adhering to its founding legislation to acquire that property that is necessary and proper to operate the transit system.

OSA statement: *“While we appreciate the steps taken by the Authority to address those examples of requirements imposed on government entities cited in last year’s audit, the fact remains that a private business corporation cannot be transformed into a government entity through amendments to its Articles of Incorporation or through contractual agreement.”*

The statement that ATED has been “transformed into a government entity through amendments to its Articles of Incorporation or through contractual agreement.” is incorrect. The amended Articles refined ATED’s purpose as a private corporation to serve a public benefit. It does not in and of itself transform ATED into a government entity. ATED remains a private company under contract with the DTA and has no intention of becoming a government entity. The DTA is the only transit system in the state of Minnesota whose employees are prohibited from being civil service employees of the city they serve (Minn. Stat §458A.29.) The DTA ATED Management Agreement ensures that covered employees retain their rights to collective bargaining and to provide employee benefits that were commensurate with all other transit agencies in the state. It does not establish ATED as a government entity.

OSA’s recommendation was as follows: ***“Recommendation: The Authority has stated that it has been advised by counsel that it cannot transfer operational responsibility from ATED to the Authority. We again recommend the Authority 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.”) to own ATED.”***

Minn. Stat. 465.717(2) relates to a joint powers entity, which is not applicable to the DTA and ATED; any Joint Powers entity has at least two government entities involved. ATED does not have greater authority or power than the DTA has due to the restrictions in the DTA ATED Management Agreement and ATED becoming a specific benefit corporation. Specifically, the DTA is the obligee on federal and state grants, the City of Duluth is the Treasurer for the DTA, all assets used to operate the transit system are owned by the DTA, all revenues generated by the transit system are owned by the DTA and treated as public funds, only the DTA can issue revenue or general obligation bonds (with city council approval), and all bids are conducted on behalf of the DTA in accordance federal, state and local requirements. The appropriate safeguards are in place to ensure that the governmental nature and purpose are met; the City of Duluth is the Treasurer for the DTA, the management contract was approved by the Duluth City Council, the acquisition of the ATED stock was approved by the Duluth City Council, all restrictions in the DTA Founding legislation are adhered to and passed on to ATED along with additional limitations and safeguards in the DTA ATED Management Agreement. ATED does not have the authority in the DTA ATED Management Agreement to override these restrictions or to act contrary to them.

The DTA stated to OSA that it cannot transfer operational responsibility from ATED to the DTA without incurring the \$136 million pension withdrawal liability that could cause the transit system to become



Duluth Transit Authority

2402 West Michigan Street • Duluth, Minnesota 55806-1988 • 218/722-4426 • Fax 218/722-4428
www.duluthtransit.com • general e-mail: dta@duluthtransit.com

insolvent and cease operations. We have a fiduciary responsibility to prevent a catastrophic financial event, and we do not believe that triggering the pension withdrawal liability is the OSA's objective.

View of Responsible Authority:

With the guidance of our legal counsel, the above constitutes the DTA's view and our goal of protecting the Authority's ability to function and avoid the pension liability issue. The DTA vigorously disagrees with the Office of the State Auditor assertions and recommendations. The DTA has not violated Minn. Stat. 465.717 and has acted within its authority to acquire the ATED stock as is permitted under Minn. Stat. 458A.25. The facts presented by OSA do not support compelling the DTA to request statutory authority in this matter.

The DTA's position should be clear at this point. The DTA ATED Management Agreement already has requirements that ATED must comply with all applicable federal, state and local statutes and regulations, **and** there is no basis to compel the DTA to seek legislative authority in this matter.



Duluth Transit Authority

2402 West Michigan Street • Duluth, Minnesota 55806-1988 • 218/722-4426 • Fax 218/722-4428
www.duluthtransit.com • general e-mail: dta@duluthtransit.com

Representation of the Duluth Transit Authority Duluth, Minnesota

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2023

Finding Number: 2022-001

Year of Finding Origination: 2022

Finding Title: Unauthorized Purchase of Corporation

Program: N/A

Summary of 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.

Summary of Corrective Action Previously Reported: 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.

Status: With guidance from our legal counsel, we believe that appropriate corrective action was taken. We understand that OSA disagrees.

On December 29, 2023, the DTA provided a written summary of the guidelines and rules that were adopted as additional measures for operation of ATE Management of Duluth SBC in response to the Prior Audit Finding for the year ended December 31, 2022. See the DTA's response to the OSA preliminary findings and recommendations in the DTA Corrective Action Plan.

Signed: 

DTA General Manager