

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED DECEMBER 31,
2011 AND 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

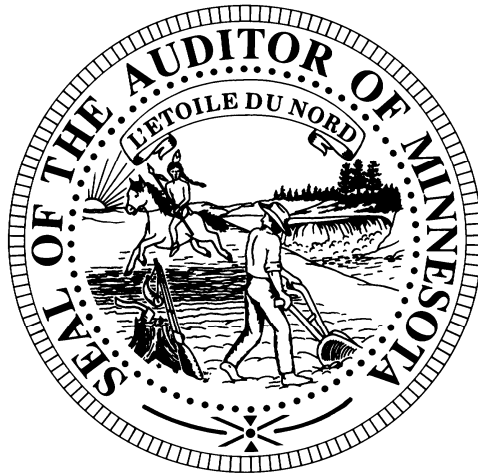
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**For the Years Ended December 31,
2011 and 2010**



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

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2011**

Term of
Office Ends

Board

Directors

District No. 1 Melanie Hendrickson	June 30, 2012
District No. 2 David Schaeffer	June 30, 2014
District No. 3 Richard Towey	December 31, 2011
District No. 4 Brandon Maurisak	June 30, 2014
District No. 5 Donald Simons	June 30, 2014
At Large Walter Kramer	June 30, 2012
Alexis Livadaros	June 30, 2013
John Brostrom	June 30, 2012

Appointed by Mayor, City of Superior, Wisconsin Leslie Evans	June 30, 2012
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Officers

President John Brostrom	
Vice President Melanie Hendrickson	

Management

ATE Management of Duluth, Inc.
Dennis Jensen, General Manager

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

We have audited the accompanying basic financial statements as listed in the table of contents of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by

the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audits were conducted for the purpose of forming an opinion on the Duluth Transit Authority's basic financial statements taken as a whole. The supplemental information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2012, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 25, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2011. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Authority continued in its multi-year contracts for the U-Pass college transportation program.
- The Authority introduced two new regular bus routes in the fall of 2007. These new routes were added with a new program called Job Access Reverse Commute (JARC). The JARC program has been funded through fiscal year 2011.
- The Authority entered into a contract with the Minnesota Department of Transportation for the I-35 construction project. This contract includes increased service on the western corridor of Duluth to help with the traffic mitigation. The construction dates are from May to October 2010 and April to October 2011.
- There was a fare increase that went into effect January 1, 2011. The Authority also increased late night service and holiday service, also effective on January 1, 2011.
- The Authority's net assets decreased from 2010 by 6.7 percent.

OVERVIEW OF ANNUAL FINANCIAL REPORT

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

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

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

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

SUMMARY OF ORGANIZATION AND BUSINESS

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

The Authority provides both fixed route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 20 fixed routes and provides service seven days a week. The Authority operated 1,938,587 miles and carried 3,264,479 fixed route passengers and 25,285 Para-transit riders during 2011. The Authority also provided downtown circulator trolley service during the summer months.

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

FINANCIAL ANALYSIS

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

From the condensed statement of net assets shown below, total net assets decreased by 6.7 percent in 2011 from 2010 and increased 8.7 percent in 2010 over 2009. The decrease in 2011 was due to disposition of vehicles. The increase in total net assets for 2010 was due to the capital contributions for the acquisition of ten diesel buses for fixed route service. The increase in total net assets for 2009 was due to the capital contributions for the acquisition of four diesel buses and four diesel/electric hybrid buses for fixed route service. Other acquisitions included facility improvements for both 2011 and 2010.

Condensed Statement of Net Assets (000s)

	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Assets			
Current assets	\$ 9,435	\$ 8,264	\$ 7,141
Capital assets	\$ 47,379	\$ 49,748	\$ 47,679
Less: depreciation	(30,634)	(29,977)	(29,222)
Capital assets, net	\$ 16,745	\$ 19,771	\$ 18,457
Total Assets	\$ 26,180	\$ 28,035	\$ 25,598
Current Liabilities	\$ 1,320	\$ 1,390	\$ 1,094
Net Assets			
Invested in capital assets	\$ 16,745	\$ 19,771	\$ 18,457
Restricted for transit operations and capital improvement	7,361	6,120	5,293
Unrestricted	754	754	754
Total Net Assets	\$ 24,860	\$ 26,645	\$ 24,504

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

	Fiscal Year 2011 Actual	Fiscal Year 2011 Budget	Fiscal Year 2010 Actual	Fiscal Year 2009 Actual
Operating revenues	\$ 2,596	\$ 2,448	\$ 2,206	\$ 2,237
Nonoperating revenues	11,672	10,356	11,384	11,234
Total Revenues	\$ 14,268	\$ 12,804	\$ 13,590	\$ 13,471
Operating expenses	16,331	16,857	15,571	14,571
Income (Loss) Before Capital Contributions	\$ (2,063)	\$ (4,053)	\$ (1,981)	\$ (1,100)
Capital contributions	278	3,000	4,122	4,172
Change in Net Assets	\$ (1,785)	\$ (1,053)	\$ 2,141	\$ 3,072
Net Assets - January 1	26,645	26,645	24,504	21,432
Net Assets - December 31	<u>\$ 24,860</u>	<u>\$ 25,592</u>	<u>\$ 26,645</u>	<u>\$ 24,504</u>

Revenues

The Authority's operating revenues are derived from various sources: passenger revenue, charter revenue, and other revenues such as transit advertising and subsidies. Operating revenues increased by 17.7 percent to \$2.60 million in 2011, up from \$2.21 million in 2010. Passengers also increased in 2011 from 2010 by 2.9 percent. Nonoperating revenues increased from \$11.38 million in 2010 to \$11.67 million in 2011. This was an increase of 2.53 percent. A fare increase was implemented on January 1, 2011.

Expenses

The Authority's 2011 operating expenses increased 4.88 percent, or \$760,000, over 2010 operating expenses of \$15.57 million. The 2011 fuel prices were higher when compared with 2010 fuel prices. Services were also increased due to holiday service, late night extended service, and the I-35 construction project and traffic mitigation services.

BUDGETARY HIGHLIGHTS

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

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

Future state, federal, and local budget constraints play a large part in the Authority's continued ability to serve the riding public. Nearly 50 percent of the state's subsidy comes from the Motor Vehicle Sales Tax. This money is constitutionally dedicated to transportation. However, it has not increased in recent years as it did in the 1990s. The remaining state share comes from the General Fund and is at the discretion of the Legislature and Governor.

CAPITAL ASSETS

By the end of fiscal year 2011, the Duluth Transit Authority had invested \$47.38 million in capital assets. The \$2.37 million decrease in capital assets is primarily due to the disposition of 11 diesel buses.

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

ECONOMIC AND OTHER FACTORS

The Authority considered many factors when setting the fiscal year 2011 budget. A fare increase was implemented along with increased service hours and adding holiday service. The Authority continues to promote its U-PASS collegiate pass program. The U-PASS program has increased fixed route ridership nearly every year from the start. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 19 transit routes in Duluth and Superior at that time. This information was used to adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2011 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE expenses. The cost of fuel is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2011 budget.

FINANCIAL CONTACT

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

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BASIC FINANCIAL STATEMENTS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2011 AND 2010**

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 8,723,090	\$ 7,539,440
Accounts receivable	63,862	40,323
Due from State of Minnesota	108,380	215,877
Taxes receivable	51,216	51,711
Due from other governments	130,856	122,125
Inventory	260,132	201,777
Prepaid items	97,259	92,145
Total current assets	\$ 9,434,795	\$ 8,263,398
Noncurrent assets		
Capital assets	\$ 47,378,812	\$ 49,748,460
Less: allowance for depreciation	(30,633,846)	(29,976,998)
Noncurrent assets - net	\$ 16,744,966	\$ 19,771,462
Total Assets	\$ 26,179,761	\$ 28,034,860
Liabilities		
Current liabilities		
Accounts payable	\$ 587,469	\$ 419,187
Accrued salaries payable	113,697	347,407
Accrued vacation payable	532,686	541,977
Deferred revenue	85,831	81,208
Total Liabilities	\$ 1,319,683	\$ 1,389,779
Net Assets		
Invested in capital assets	\$ 16,744,966	\$ 19,771,462
Restricted for transit operations and capital improvements	7,360,938	6,119,445
Unrestricted	754,174	754,174
Total Net Assets	\$ 24,860,078	\$ 26,645,081

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Operating Revenues		
Charges for services	<u>\$ 2,595,927</u>	<u>\$ 2,205,569</u>
Operating Expenses		
Personal services	\$ 9,353,670	\$ 9,033,869
Supplies	2,015,061	1,591,876
Utilities	246,351	240,597
Other services and charges	1,357,224	1,179,402
Depreciation and amortization	<u>3,359,087</u>	<u>3,524,912</u>
Total Operating Expenses	<u>\$ 16,331,393</u>	<u>\$ 15,570,656</u>
Operating Income (Loss)	<u>\$ (13,735,466)</u>	<u>\$ (13,365,087)</u>
Nonoperating Revenues		
Investment earnings	\$ 123,452	\$ 70,462
Property taxes	1,316,900	1,316,900
Greater Minnesota Transit Fund	4,984,320	3,419,100
Operating grants		
Federal	1,316,152	1,290,600
State	2,792,332	4,192,574
City of Superior, Wisconsin	<u>1,139,360</u>	<u>1,093,914</u>
Total Nonoperating Revenues	<u>\$ 11,672,516</u>	<u>\$ 11,383,550</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (2,062,950)</u>	<u>\$ (1,981,537)</u>
Capital Contributions		
Federal	<u>277,947</u>	<u>4,122,721</u>
Change in Net Assets	<u>\$ (1,785,003)</u>	<u>\$ 2,141,184</u>
Net Assets - January 1	<u>26,645,081</u>	<u>24,503,897</u>
Net Assets - December 31	<u><u>\$ 24,860,078</u></u>	<u><u>\$ 26,645,081</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,566,594	\$ 2,221,728
Payments to suppliers	(3,513,823)	(2,865,192)
Payments to employees	(9,596,671)	(8,966,512)
	\$ (10,543,900)	\$ (9,609,976)
Cash Flows from Noncapital Financing Activities		
Property taxes and aids	\$ 1,317,395	\$ 1,319,169
Greater Minnesota Transit Fund	4,984,320	3,419,100
Federal operating grants	1,350,002	1,290,600
State operating grants	2,865,979	4,152,435
City of Superior, Wisconsin, operating funds	1,141,046	1,090,120
	\$ 11,658,742	\$ 11,271,424
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 277,947	\$ 4,122,721
Acquisition or construction of capital assets	(332,591)	(4,839,469)
	\$ (54,644)	\$ (716,748)
Cash Flows from Investing Activities		
Interest on investments	\$ 123,452	\$ 70,462
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,183,650	\$ 1,015,162
Cash and Cash Equivalents - January 1	7,539,440	6,524,278
Cash and Cash Equivalents - December 31	\$ 8,723,090	\$ 7,539,440
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (13,735,466)	\$ (13,365,087)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	3,359,087	3,524,912
(Increase) decrease in receivables	(33,956)	9,543
(Increase) decrease in inventories	(58,355)	7,847
(Increase) decrease in prepaid items	(5,114)	(83,173)
Increase (decrease) in payables	(74,719)	289,366
Increase (decrease) in deferred revenue	4,623	6,616
	\$ (10,543,900)	\$ (9,609,976)

The notes to the financial statements are an integral part of this statement.

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. Summary of Significant Accounting Policies

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

Under 1969 Minn. Laws, ch. 720, § 5, subd. 3, the Authority is granted the power to enter into a management contract with any person, firm, or corporation for the management of the transit system. Effective November 1, 2011, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period. ATE Management employs all personnel required to operate the Authority; the Authority has no employees.

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

A. Financial Reporting Entity

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

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting

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

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

C. Basis of Accounting

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

D. Use of Estimates

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Significant Accounting Treatments

1. Cash and Cash Equivalents

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

2. Inventories

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

3. Capital Assets and Depreciation

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

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

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

4. Deferred Revenue

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

5. Property Tax Revenue

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

6. Capital Contributions

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

7. Net Assets Restricted for Transit Operations and Capital Improvements

The Authority received a Public Transit Participation Program grant that requires it to deposit in a reserve account any operating revenues it generates in excess of its local share amount, which is set by statute. This reserve account is to be used for approved operating expenses not covered by the grant or for part of the local share of capital expenses of the transit system. At December 31, 2011, net assets restricted for transit operations and capital improvements were \$7,360,938.

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2011 and 2010 Budget to Actual

As required by 1969 Minn. Laws, ch. 720, the Authority's annual budget is approved by the City Council of Duluth. Following is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2011 and 2010.

	2011		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,448,042	\$ 2,595,927	\$ 147,885
Operating Expenses			
Personal services	\$ 9,842,065	\$ 9,353,670	\$ 488,395
Supplies	2,030,354	2,015,061	15,293
Utilities	350,000	246,351	103,649
Other services and charges	1,276,362	1,357,224	(80,862)
Depreciation and amortization	3,359,087	3,359,087	-
Total Operating Expenses	\$ 16,857,868	\$ 16,331,393	\$ 526,475
Operating Income (Loss)	\$ (14,409,826)	\$ (13,735,466)	\$ 674,360
Nonoperating Revenues			
Investment earnings	\$ -	\$ 123,452	\$ 123,452
Property taxes	1,288,870	1,316,900	28,030
Greater Minnesota Transit Fund	4,670,160	4,984,320	314,160
Operating grants			
Federal	1,105,000	1,316,152	211,152
State	2,270,635	2,792,332	521,697
City of Superior, Wisconsin	1,021,627	1,139,360	117,733
Total Nonoperating Revenues	\$ 10,356,292	\$ 11,672,516	\$ 1,316,224
Net Income (Loss)	\$ (4,053,534)	\$ (2,062,950)	\$ 1,990,584
Capital Contributions			
Federal	3,000,000	277,947	(2,722,053)
Change in Net Assets	\$ (1,053,534)	\$ (1,785,003)	\$ (731,469)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2011 and 2010 Budget to Actual (Continued)

	2010		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,269,014	\$ 2,205,569	\$ (63,445)
Operating Expenses			
Personal services	\$ 9,196,696	\$ 9,033,869	\$ 162,827
Supplies	1,825,484	1,591,876	233,608
Utilities	350,000	240,597	109,403
Other services and charges	1,266,875	1,179,402	87,473
Depreciation and amortization	3,524,912	3,524,912	-
Total Operating Expenses	\$ 16,163,967	\$ 15,570,656	\$ 593,311
Operating Income (Loss)	\$ (13,894,953)	\$ (13,365,087)	\$ 529,866
Nonoperating Revenues			
Investment earnings	\$ -	\$ 70,462	\$ 70,462
Property taxes	1,316,900	1,316,900	-
Greater Minnesota Transit Fund	3,419,100	3,419,100	-
Operating grants			
Federal	1,105,000	1,290,600	185,600
State	4,493,100	4,192,574	(300,526)
City of Superior, Wisconsin	1,029,889	1,093,914	64,025
Total Nonoperating Revenues	\$ 11,363,989	\$ 11,383,550	\$ 19,561
Net Income (Loss)	\$ (2,530,964)	\$ (1,981,537)	\$ 549,427
Capital Contributions			
Federal	2,340,800	4,122,721	1,781,921
Change in Net Assets	\$ (190,164)	\$ 2,141,184	\$ 2,331,348

B. Deposits and Investments

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

B. Deposits and Investments (Continued)

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

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

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

	December 31	
	2011	2010
City Treasurer - checking account	\$ 8,557,002	\$ 7,492,623
ATE Management - checking account	130,285	15,953
Petty cash fund and change funds	14,960	14,960
Medical flex account	20,843	15,904
Total Cash and Cash Equivalents	\$ 8,723,090	\$ 7,539,440

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2011 and 2010, follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	17,769,992	262,319	-	18,032,311
Revenue equipment	26,542,124	-	2,702,239	23,839,885
Shop and garage equipment	1,501,118	5,483	-	1,506,601
Office furniture and equipment	3,612,973	64,789	-	3,677,762
Total capital assets depreciated	\$ 49,526,093	\$ 332,591	\$ 2,702,239	\$ 47,156,445

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011
Less: accumulated depreciation for				
Land improvements	\$ 69,921	\$ 9,988	\$ -	\$ 79,909
Buildings and structures	11,717,839	705,454	-	12,423,293
Revenue equipment	14,274,121	2,287,842	2,702,239	13,859,724
Shop and garage equipment	993,605	95,039	-	1,088,644
Office furniture and equipment	2,921,512	260,764	-	3,182,276
Total accumulated depreciation	\$ 29,976,998	\$ 3,359,087	\$ 2,702,239	\$ 30,633,846
Total capital assets depreciated, net	\$ 19,549,095	\$ (3,026,496)	\$ -	\$ 16,522,599
Capital Assets, Net	\$ 19,771,462	\$ (3,026,496)	\$ -	\$ 16,744,966

	Balance January 1, 2010	Increase	Decrease	Reclassification	Balance December 31, 2010
Capital assets not depreciated					
Land	\$ 222,367	\$ -	\$ -	\$ -	\$ 222,367
Capital assets depreciated					
Land improvements	\$ 99,886	\$ -	\$ -	\$ -	\$ 99,886
Buildings and structures	17,153,215	566,177	50,606	101,206	17,769,992
Revenue equipment	25,392,158	3,815,519	2,665,553	-	26,542,124
Shop and garage equipment	1,162,401	338,717	-	-	1,501,118
Office furniture and equipment	3,595,123	119,056	-	(101,206)	3,612,973
Other	53,603	-	53,603	-	-
Total capital assets depreciated	\$ 47,456,386	\$ 4,839,469	\$ 2,769,762	\$ -	\$ 49,526,093
Less: accumulated depreciation for					
Land improvements	\$ 59,933	\$ 9,988	\$ -	\$ -	\$ 69,921
Buildings and structures	11,030,988	676,731	50,606	60,726	11,717,839
Revenue equipment	14,616,429	2,323,244	2,665,552	-	14,274,121
Shop and garage equipment	899,025	94,580	-	-	993,605
Office furniture and equipment	2,561,869	420,369	-	(60,726)	2,921,512
Other	53,604	-	53,604	-	-
Total accumulated depreciation	\$ 29,221,848	\$ 3,524,912	\$ 2,769,762	\$ -	\$ 29,976,998
Total capital assets depreciated, net	\$ 18,234,538	\$ 1,314,557	\$ -	\$ -	\$ 19,549,095
Capital Assets, Net	\$ 18,456,905	\$ 1,314,557	\$ -	\$ -	\$ 19,771,462

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

D. Risk Management

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

Risk management activities for transit liability and property damage include the purchase of commercial insurance coverage for claims exceeding \$100,000. The Authority retains the risk of loss for the first \$100,000 per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. In addition, several incidents have occurred in the Authority's bus operations that are considered reasonably possible losses to the Authority. Reasonably possible losses are not reflected in the financial statements. The Authority has estimated that its exposure to reasonably possible losses range from \$0 to \$162,000. There were no balances for claims and judgments liability reported on the financial statements for the years ended December 31, 2011 or 2010.

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 \$1,281,931 for the year ended December 31, 2011, and \$1,212,898 for the year ended December 31, 2010. After deduction of the revenue collected in Superior of \$142,571 in 2011 and \$118,984 in 2010, the amounts actually billed were \$1,139,360 in 2011 and \$1,093,914 in 2010, which are included as nonoperating revenues.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

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

A. Vacation and Sick Leave

Employees of ATE are granted from 5 to 30 days of vacation time per year depending on their years of service and union bargaining unit. Vacation earned in one year must be used the following year or it is forfeited. The accrued vacation for all employees had an estimated value of \$532,686 and \$541,977 at December 31, 2011 and 2010, respectively, and is included as accrued vacation payable on the balance sheet.

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

B. Retirement Plans

Defined Benefit Pension Plan

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

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

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

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution was \$225.80 per full-time employee per week in 2011.

ATE's contributions for the years ending December 31, 2011, 2010, and 2009, were \$1,205,457, \$1,098,974, and \$999,869, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

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

Defined Contribution Plan

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

ATE establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed for 120 days and are at least 20-1/2 years of age. ATE contributes 12 percent and the employee 2 percent of each participant's salary. ATE contributions fully vest after 7 years of employment. Benefits depend solely on amounts contributed plus related investment earnings. Contributions were as follows:

	<u>2011</u>	<u>2010</u>
Employer	\$ 142,931	\$ 144,349
Employee	23,822	24,058

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SUPPLEMENTARY INFORMATION

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,782,770	\$ 1,471,417
Senior citizen fares	155,297	134,612
Student fares	390,425	331,438
Disability fares	27,405	14,957
	\$ 2,355,897	\$ 1,952,424
Total passenger fares for transit service	\$ 2,355,897	\$ 1,952,424
Charter service revenues	\$ 18,000	\$ 16,844
Auxiliary transportation revenues		
Advertising services	\$ 112,692	\$ 99,574
STRIDE	48,736	39,974
Other	60,602	96,753
	\$ 222,030	\$ 236,301
Total auxiliary transportation revenues	\$ 222,030	\$ 236,301
Total charges for services	\$ 2,595,927	\$ 2,205,569
Nonoperating and Other Revenues		
Investment earnings	\$ 123,452	\$ 70,462
Property taxes	1,316,900	1,316,900
Greater Minnesota Transit Fund	4,984,320	3,419,100
Operating grants		
Federal - Section 5307	1,200,000	1,105,000
Federal - Job Access Reverse Commute	113,085	182,046
Federal - other	3,067	3,554
State - regular route	2,630,492	3,944,674
State - disability service	161,840	247,900
City of Superior, Wisconsin - regular route	1,059,605	1,015,578
City of Superior, Wisconsin - disability service	79,755	78,336
Capital grants		
Federal	277,947	4,122,721
	\$ 11,950,463	\$ 15,506,271
Total nonoperating and other revenues	\$ 11,950,463	\$ 15,506,271
Total Revenues	\$ 14,546,390	\$ 17,711,840

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
Personal services			
Labor			
Operations - salaries and wages	\$ 3,566,629	\$ -	\$ -
Other salaries and wages	-	911,339	658,439
Fringe benefits	2,930,105	747,233	539,925
Total personal services	\$ 6,496,734	\$ 1,658,572	\$ 1,198,364
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,425,939	\$ 26,110	\$ -
Tires and tubes	79,601	479	-
Other materials and supplies	18,576	375,521	88,835
Total supplies	\$ 1,524,116	\$ 402,110	\$ 88,835
Utilities	\$ 24,526	\$ -	\$ 221,825
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 215,340
Professional and technical services	134,251	41,153	174,268
Temporary help	-	-	-
Other services	143	135,177	35,259
Casualty and liability costs	-	-	229,288
Taxes and fees	89	1,020	13,902
Miscellaneous			
Dues and subscriptions	-	-	5,605
Travel and meetings	1,652	5,426	9,336
Advertising and promotional media	-	-	42,341
Purchased transportation service	-	-	306,956
Other	-	126	5,892
Total other services and charges	\$ 136,135	\$ 182,902	\$ 1,038,187
Depreciation and amortization	\$ 2,747,055	\$ 157,272	\$ 454,760
Total Expenses*	\$ 10,928,566	\$ 2,400,856	\$ 3,001,971

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$695,879 for 2011 and \$637,692 for 2010.

EXHIBIT A-2

2010				
Total	Vehicle Operations	Vehicle Maintenance	General Administration	Total
\$ 3,566,629	\$ 3,417,198	\$ -	\$ -	\$ 3,417,198
1,569,778	-	911,241	639,667	1,550,908
4,217,263	2,797,117	745,135	523,511	4,065,763
\$ 9,353,670	\$ 6,214,315	\$ 1,656,376	\$ 1,163,178	\$ 9,033,869
\$ 1,452,049	\$ 1,056,260	\$ 15,570	\$ -	\$ 1,071,830
80,080	76,448	660	-	77,108
482,932	22,715	317,850	102,373	442,938
\$ 2,015,061	\$ 1,155,423	\$ 334,080	\$ 102,373	\$ 1,591,876
\$ 246,351	\$ 26,990	\$ -	\$ 213,607	\$ 240,597
\$ 215,340	\$ -	\$ -	\$ 215,340	\$ 215,340
349,672	113,713	38,406	150,968	303,087
-	-	-	2,460	2,460
170,579	664	60,745	5,349	66,758
229,288	-	-	206,031	206,031
15,011	1,063	170	14,098	15,331
5,605	-	-	6,269	6,269
16,414	-	3,325	20,397	23,722
42,341	-	-	45,518	45,518
306,956	-	-	290,388	290,388
6,018	689	750	3,059	4,498
\$ 1,357,224	\$ 116,129	\$ 103,396	\$ 959,877	\$ 1,179,402
\$ 3,359,087	\$ 2,774,042	\$ 140,108	\$ 610,762	\$ 3,524,912
\$ 16,331,393	\$ 10,286,899	\$ 2,233,960	\$ 3,049,797	\$ 15,570,656

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

<u>Month</u>	<u>2011</u>			
	<u>Total Hours Operating in Superior</u>	<u>Operating Charge Per Hour</u>	<u>Total Charge</u>	<u>Income from Runs in Superior</u>
Regular Route				
January	1,170	\$ 86.48	\$ 101,156	\$ 14,159
February	1,104	91.96	101,524	10,229
March	1,241	82.34	102,192	11,531
April	1,177	83.52	98,320	15,917
May	1,170	92.64	108,361	11,474
June	1,195	81.54	97,473	11,765
July	1,152	80.15	93,190 *	8,454
August	1,241	86.01	106,747	12,998
September	1,150	79.97	91,942	10,161
October	1,197	83.69	100,194	10,363
November	1,150	84.92	97,632	10,443
December	1,203	82.54	99,287	10,919
Total Regular Route	<u>14,150</u>		<u>\$ 1,198,018</u>	<u>\$ 138,413</u>
Disability Service				
January	158	\$ 42.08	\$ 7,066	\$ 501
February	157	45.69	7,603	468
March	168	44.49	7,892	444
April	158	40.49	6,784	350
May	181	43.36	8,277	403
June	174	43.28	7,949	391
July	166	47.50	8,280	381
August	142	45.20	6,814	284
September	131	44.34	6,204	221
October	127	44.17	6,028	249
November	142	44.40	6,712	238
December	124	31.49	4,304	228
Total Disability Service	<u>1,828</u>		<u>\$ 83,913 **</u>	<u>\$ 4,158</u>

*Monthly charges in 2011 include adjusted services of 11.20 hours for July not applied to the operating charge per hour.

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

EXHIBIT A-3

2010						
<u>Net Charges to the City of Superior</u>	<u>Total Hours Operating in Superior</u>	<u>Operating Charge Per Hour</u>	<u>Total Charge</u>	<u>Income from Runs in Superior</u>	<u>Net Charges to the City of Superior</u>	
\$ 86,997	1,152	\$ 83.91	\$ 96,622	\$ 7,938	\$ 88,684	
91,295	1,104	85.12	93,972	9,275	84,697	
90,661	1,241	79.65	98,854	12,356	86,498	
82,403	1,195	80.13	95,787	9,530	86,257	
96,887	1,152	77.30	89,011	9,086	79,925	
85,708	1,195	82.21	98,274	9,555	88,719	
84,736	1,203	74.69	89,845	8,193	81,652	
93,749	1,215	79.48	96,600	8,429	88,171	
81,781	1,150	74.69	85,871	9,490	76,381	
89,831	1,197	79.77	95,501	9,338	86,163	
87,189	1,150	80.17	92,172	10,767	81,405	
88,368	1,214	80.67	97,901	10,875	87,026	
\$ 1,059,605	14,168		\$ 1,130,410	\$ 114,832	\$ 1,015,578	
\$ 6,565	157	\$ 37.60	\$ 6,320	\$ 372	\$ 5,948	
7,135	148	37.81	5,984	293	5,691	
7,448	176	39.57	7,381	327	7,054	
6,434	117	40.05	5,083	267	4,816	
7,874	156	41.28	6,857	331	6,526	
7,558	158	41.43	6,974	341	6,633	
7,899	163	41.49	7,180	348	6,832	
6,530	178	40.78	7,666	371	7,295	
5,983	160	40.62	6,886	370	6,516	
5,779	172	41.21	7,505	388	7,117	
6,474	173	39.33	7,201	397	6,804	
4,076	175	40.31	7,451	347	7,104	
\$ 79,755	1,933		\$ 82,488 **	\$ 4,152	\$ 78,336	

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-4

**DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Deficit recognized for the City of Superior		
Regular route	\$ 1,059,605	\$ 1,015,578
Disability service	79,755	78,336
Total	\$ 1,139,360	\$ 1,093,914
Federal funding - lower of the following		
Percentage limit - 50% of regular route deficit	\$ 529,803	\$ 507,789
Maximum federal share per grant agreement	408,520 (408,520)	426,266 (426,266)
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,139,360	\$ 1,093,914
Less: maximum federal share	(408,520)	(426,266)
Non-Federal Share	\$ 730,840	\$ 667,648
Wisconsin Department of Transportation funding - lower of the following		
Non-federal share	\$ 730,840	\$ 667,648
Percentage limit for 2011 - 26.60% of operating expenses	340,994	N/A
Percentage limit for 2010 - 26.10% of operating expenses	N/A	316,566
Maximum Wisconsin Department of Transportation share per grant agreement	352,588 (340,994)	342,930 (316,566)
Local Funds Required - City of Superior, Wisconsin	\$ 389,846	\$ 351,082

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-5

**DEFICIT RECOGNIZED FOR FEDERAL AND STATE OPERATING FUNDS
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Regular Route		
Operating revenues in the City of Superior	\$ 138,413	\$ 114,832
Operating expenses in the City of Superior	(1,198,018)	(1,130,410)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,059,605)	\$ (1,015,578)
Disability Service		
Operating revenues in the City of Superior	\$ 4,158	\$ 4,152
Operating expenses in the City of Superior	(83,913)	(82,488)
Disability Service Deficit Recognized for State Operating Funds	\$ (79,755)	\$ (78,336)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Direct		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	\$ 6,247
Federal Transit Capital Assistance Formula Grants	20.507	193,031
Federal Transit Capital Assistance Formula Grants - ARRA	20.507	78,669
Federal Transit Operating Assistance Formula Grants	20.507	1,200,000
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas	20.509	3,067
Job Access Reverse Commute	20.516	113,085
Total Federal Awards		\$ 1,594,099

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. 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.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Transit Authority under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Duluth Transit Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Duluth Transit Authority.

3. Summary of Significant Accounting Policies

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

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

Nonoperating revenues: operating grants - federal	\$ 1,316,152
Capital contributions - federal	<u>277,947</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,594,099</u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, the Duluth Transit Authority did not provide federal awards to any subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of “ARRA” to the program name.

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified.**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program cluster is:

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

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Due to the small number of office personnel within the Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is limited.

Context: This is not unusual in operations the size of the Duluth Transit Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a small number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of the Duluth Transit Authority and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend that the Authority's management be aware of the limited segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

Oversight procedures are in place to ensure that our internal control policies and procedures are being followed. During 2010, the DTA added the position of Finance Assistant to allow for the further segregation of accounting duties. This individual is being trained to assume additional responsibilities.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



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

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

We have audited the basic financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 04-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, the Duluth Transit Authority complied with the material terms and conditions of applicable legal provisions.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 25, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

Compliance

We have audited the compliance of the Duluth Transit Authority, a component unit of the City of Duluth, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Duluth Transit Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Duluth Transit Authority's compliance with those requirements and performing such other procedures as we

considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Duluth Transit Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

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

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 25, 2012