

State of Minnesota



**Office of the State Auditor**

Julie Blaha  
State Auditor

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

Years Ended December 31, 2019 and 2018

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

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** – monitors investment, financial, and actuarial reporting for Minnesota’s local 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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

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

Years Ended December 31, 2019 and 2018



**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, 2019**

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1 Julie Zaruba Fountaine	June 30, 2020
District No. 2 Aaron Bransky	June 30, 2022
District No. 3 Edmund Gleeson	June 30, 2022
District No. 4 Rondi Watson	June 30, 2021
District No. 5 Michael Casey	June 30, 2022
At Large Joshua Smerdon	June 30, 2020
Henry Banks	June 30, 2020
Tom Szukis	June 30, 2021
Appointed by Mayor, City of Superior, Wisconsin Krystal Brandstatter	Indefinite
Officers	
President Aaron Bransky	
Vice President Rondi Watson	

Management

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

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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Duluth, Minnesota

Board of Directors  
Duluth Transit Authority  
Duluth, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, Minnesota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Subsequent Event***

As discussed in Note 5 to the financial statements, subsequent to year-end, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic, resulting in reduced ridership. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Transit Authority's basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the

underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2020, on our consideration of the Duluth Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Duluth Transit Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Transit Authority's internal control over financial reporting and compliance.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 14, 2020

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

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019  
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2019. This information should be read in conjunction with the financial statements.

**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

- The Authority's net position decreased from 2018 by 1.6 percent.
- The Authority was awarded a Lo-No Grant to purchase six quick charge electric buses. This grant also included project planning and initiation, infrastructure procurement, design and build, public relations, data collection, analysis, and reporting. The project planning started in 2015 and was amended in 2016 to change from the limited range, quick charge batteries, to an extended range battery and one additional bus. After extensive research and modeling for cold weather operations, additional changes included the design and installation of auxiliary heaters. The cold weather research and battery changes resulted in a delay in the delivery date to the last quarter of 2018. The Authority upgraded the infrastructure to accommodate the electric chargers with increased electrical power and a back-up generator. The Authority continues to work with the manufacturer to increase the performance of the electric buses.
- The Authority had facility upgrades in 2019, which included EIFS (exterior insulation and finish system) along with repairs on the facility.
- Replacement vehicles were also purchased in 2019, which included seven vehicles for paratransit service and two trolleys.
- The Authority solicited engineering service for projects to be done in 2020 - 2021, which include replacing fuel tanks and a facility roof.

## **OVERVIEW OF ANNUAL FINANCIAL REPORT**

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

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

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

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

## **SUMMARY OF ORGANIZATION AND BUSINESS**

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

The Authority provides both fixed route bus transportation and STRIDE paratransit transportation for disabled passengers. The Authority operates buses on 22 fixed routes, with 33 unique variations, and provides service seven days a week. The Authority operated 2,166,592 miles and carried 2,645,307 fixed route passengers and 37,876 paratransit riders during 2019. The Authority also provided downtown circulator trolley service during the summer months.

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

## **FINANCIAL ANALYSIS**

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

From the condensed statement of net position shown below, total net position decreased by 1.6 percent in 2019 from 2018 and increased 15 percent in 2018 from 2017. The electric bus project, which included design and purchase of seven electric buses with chargers and facility infrastructure, increased the net position along with replacement vehicles for fixed route and paratransit in fiscal year 2018. The decrease in 2019 from 2018 would be due to depreciation of capital assets. Typically, the Authority has a capital plan to replace revenue vehicles every other year, which drives the net position from year to year.

**Condensed Statement of Net Position**  
(000s)

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Assets			
Current assets	\$ 9,517	\$ 13,904	\$ 7,082
Capital assets	\$ 100,834	\$ 102,022	\$ 88,608
Less: depreciation	(56,851)	(54,515)	(48,680)
Capital assets, net	\$ 43,983	\$ 47,507	\$ 39,928
Total Assets	\$ 53,500	\$ 61,411	\$ 47,010
Current Liabilities	\$ 2,177	\$ 9,278	\$ 1,713
Net Position			
Investment in capital assets	\$ 43,983	\$ 47,507	\$ 39,928
Restricted for transit operations and capital improvements	6,586	3,872	4,615
Unrestricted	754	754	754
Total Net Position	\$ 51,323	\$ 52,133	\$ 45,297

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

	Fiscal Year 2019 Actual	Fiscal Year 2019 Budget	Fiscal Year 2018 Actual	Fiscal Year 2017 Actual
Operating Revenues	\$ 3,027	\$ 3,276	\$ 2,992	\$ 2,834
Nonoperating Revenues	18,453	16,442	15,669	15,413
Total Revenues	\$ 21,480	\$ 19,718	\$ 18,661	\$ 18,247
Operating Expenses	24,213	23,982	23,541	21,525
Net Income (Loss) Before Capital Contributions	\$ (2,733)	\$ (4,264)	\$ (4,880)	\$ (3,278)
Capital Contributions	1,923	2,089	11,716	575
Change in Net Position	\$ (810)	\$ (2,175)	\$ 6,836	\$ (2,703)
Net Position – January 1	52,133	52,133	45,297	48,000
Net Position – December 31	\$ 51,323	\$ 49,958	\$ 52,133	\$ 45,297

(Unaudited)

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## **Revenues**

The Authority's operating revenues are derived from various sources: passenger revenues, charter revenues, and other revenues such as transit advertising and subsidies. Operating revenues increased by 1.2 percent to \$3.03 million in 2019, up from \$2.99 million in 2018. Nonoperating revenues increased from \$15.7 million in 2018 to \$18.5 million in 2019. This was an increase of 17.8 percent. The number of passengers decreased from 2,760,475 in 2018 to 2,645,307 in 2019 for fixed route, but increased for paratransit from 34,311 in 2018 to 37,876 in 2019.

## **Expenses**

The Authority's 2019 operating expenses increased 2.9 percent, or \$672,460, over 2018 operating expenses of \$23.5 million.

## **BUDGETARY HIGHLIGHTS**

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

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

## **CAPITAL ASSETS**

By the end of fiscal year 2019, the Duluth Transit Authority had invested \$101 million in capital assets. This is down by \$1 million from 2018. The decrease reflects depreciation expense.

The Authority's five-year capital plan includes replacement of full-size buses, whether they are diesel or electric, as well as replacement buses for paratransit services. Additional capital improvements are also scheduled for facility updates, IT upgrades, and an updated fare collection system along with a mobile application.

## **ECONOMIC AND OTHER FACTORS**

The Authority considered many factors when setting the fiscal year 2019 budget. The Authority continues to promote its U-PASS collegiate pass program along with general ridership for safe and affordable public transportation. The 2019 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE expenses. Although the cost of fuel for 2018 and 2019 was a reprieve, it is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2019 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.



## **BASIC FINANCIAL STATEMENTS**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 1**

**COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,971,523	\$ 4,905,618
Accounts receivable	137,980	134,049
Taxes receivable	-	10,268
Due from other governments	1,068,845	8,480,697
Inventory	269,040	221,873
Prepaid items	69,992	151,989
<b>Total current assets</b>	<b>\$ 9,517,380</b>	<b>\$ 13,904,494</b>
Noncurrent assets		
Capital assets		
Not depreciated	\$ 222,367	\$ 222,367
Depreciated	100,611,577	101,799,127
Less: accumulated depreciation	(56,850,910)	(54,514,707)
<b>Noncurrent assets – net</b>	<b>\$ 43,983,034</b>	<b>\$ 47,506,787</b>
<b>Total Assets</b>	<b>\$ 53,500,414</b>	<b>\$ 61,411,281</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 1,138,836	\$ 8,226,604
Payable to ATE Management for employee services	919,970	945,395
Unearned revenue	118,635	106,177
<b>Total Liabilities</b>	<b>\$ 2,177,441</b>	<b>\$ 9,278,176</b>
<b>Net Position</b>		
Investment in capital assets	\$ 43,983,034	\$ 47,506,787
Restricted for transit operations and capital improvements	6,585,765	3,872,144
Unrestricted	754,174	754,174
<b>Total Net Position</b>	<b>\$ 51,322,973</b>	<b>\$ 52,133,105</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT 2*

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
Charges for services	<b>\$ 3,026,839</b>	<b>\$ 2,992,124</b>
<b>Operating Expenses</b>		
Personal services	\$ 13,130,859	\$ 13,014,032
Supplies	2,014,313	2,218,651
Utilities	326,629	321,703
Other services and charges	2,927,150	2,151,809
Depreciation	5,814,333	5,834,629
<b>Total Operating Expenses</b>	<b>\$ 24,213,284</b>	<b>\$ 23,540,824</b>
<b>Operating Income (Loss)</b>	<b>\$ (21,186,445)</b>	<b>\$ (20,548,700)</b>
<b>Nonoperating Revenues</b>		
Investment earnings	\$ 100,468	\$ 89,732
Property taxes	1,497,209	1,491,900
Operating grants		
Federal	1,991,000	1,013,657
State	13,492,073	11,785,349
City of Superior, Wisconsin	1,372,060	1,288,629
<b>Total Nonoperating Revenues</b>	<b>\$ 18,452,810</b>	<b>\$ 15,669,267</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ (2,733,635)</b>	<b>\$ (4,879,433)</b>
<b>Capital Contributions</b>		
Federal	\$ 1,119,945	\$ 10,898,671
State	803,558	817,266
<b>Total Capital Contributions</b>	<b>\$ 1,923,503</b>	<b>\$ 11,715,937</b>
<b>Change in Net Position</b>	<b>\$ (810,132)</b>	<b>\$ 6,836,504</b>
<b>Net Position – January 1</b>	<b>52,133,105</b>	<b>45,296,601</b>
<b>Net Position – December 31</b>	<b>\$ 51,322,973</b>	<b>\$ 52,133,105</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 3**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 3,035,145	\$ 2,954,147
Payments to suppliers	(5,270,907)	(4,690,207)
Payments to ATE Management for employee services	(13,156,284)	(12,954,060)
	<b>\$ (15,392,046)</b>	<b>\$ (14,690,120)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes	\$ 1,507,477	\$ 1,494,175
Federal operating grants	1,991,000	1,013,657
State operating grants	13,492,073	11,785,349
City of Superior, Wisconsin, operating grants	1,357,059	1,379,874
	<b>\$ 18,347,609</b>	<b>\$ 15,673,055</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants and contributions	\$ 9,350,577	\$ 4,115,504
Acquisition or construction of capital assets	(9,340,703)	(6,019,862)
	<b>\$ 9,874</b>	<b>\$ (1,904,358)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	<b>\$ 100,468</b>	<b>\$ 89,732</b>
	<b>\$ 3,065,905</b>	<b>\$ (831,691)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
	<b>4,905,618</b>	<b>5,737,309</b>
<b>Cash and Cash Equivalents – January 1</b>		
	<b>\$ 7,971,523</b>	<b>\$ 4,905,618</b>
<b>Cash and Cash Equivalents – December 31</b>		
	<b>\$ 7,971,523</b>	<b>\$ 4,905,618</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
<b>Operating income (loss)</b>	<b>\$ (21,186,445)</b>	<b>\$ (20,548,700)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>		
Depreciation	5,814,333	5,834,629
(Increase) decrease in receivables	(4,152)	(37,662)
(Increase) decrease in inventory	(47,167)	(28,262)
(Increase) decrease in prepaid items	81,997	(81,682)
Increase (decrease) in payables	(63,070)	171,872
Increase (decrease) in unearned revenue	12,458	(315)
	<b>\$ (15,392,046)</b>	<b>\$ (14,690,120)</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>		
	<b>\$ (15,392,046)</b>	<b>\$ (14,690,120)</b>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Capital assets acquired by accounts payable	\$ 343,428	\$ 7,393,551

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

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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1. Summary of Significant Accounting Policies

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

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

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

A. Financial Reporting Entity

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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

B. Basis of Presentation – Fund Accounting

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

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

C. Basis of Accounting

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

D. Use of Estimates

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



**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

E. Significant Accounting Treatments

1. Cash and Cash Equivalents

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

2. Inventory

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

3. Capital Assets and Depreciation

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

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

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

4. Unearned Revenue

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

5. Property Tax Revenue

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

6. Capital Contributions

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

7. Classification of Net Position

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

Investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, and reduced where applicable, by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted for transit operations and capital improvements – The Authority received a Public Transit Participation Program grant that requires it to deposit in a reserve account any operating revenues it generates in excess of its local share amount, which is set by statute. This reserve account is to be used for approved operating expenses not covered by the grant or for part of the local share of capital expenses of the transit system. At December 31, 2019 and 2018, net position restricted for transit operations and capital improvements was \$6,585,765 and \$3,872,144, respectively.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2019 and 2018 Budget to Actual

As required by 1969 Minn. Laws, ch. 720, the Authority's annual budget is approved by the Duluth City Council. Following is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2019 and 2018.

	2019		Variance
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 3,276,372	\$ 3,026,839	\$ (249,533)
Operating Expenses			
Personal services	\$ 13,907,363	\$ 13,130,859	\$ 776,504
Supplies	2,403,067	2,014,313	388,754
Utilities	275,000	326,629	(51,629)
Other services and charges	1,582,251	2,927,150	(1,344,899)
Depreciation	5,814,333	5,814,333	-
Total Operating Expenses	\$ 23,982,014	\$ 24,213,284	\$ (231,270)
Operating Income (Loss)	\$ (20,705,642)	\$ (21,186,445)	\$ (480,803)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 100,468	\$ 100,468
Property taxes	1,695,376	1,497,209	(198,167)
Operating grants			
Federal	1,000,000	1,991,000	991,000
State	12,385,129	13,492,073	1,106,944
City of Superior, Wisconsin	1,361,083	1,372,060	10,977
Total Nonoperating Revenues	\$ 16,441,588	\$ 18,452,810	\$ 2,011,222
Net Income (Loss) Before Capital Contributions	\$ (4,264,054)	\$ (2,733,635)	\$ 1,530,419
Capital Contributions			
Federal	\$ 1,574,959	\$ 1,119,945	\$ (455,014)
State	514,159	803,558	289,399
Total Capital Contributions	\$ 2,089,118	\$ 1,923,503	\$ (165,615)
Change in Net Position	\$ (2,174,936)	\$ (810,132)	\$ 1,364,804

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2019 and 2018 Budget to Actual (Continued)

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts (Continued)

B. Deposits and Investments

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

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

The Authority invests funds in the City of Duluth’s investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations.

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

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

	December 31	
	2019	2018
City Treasurer – accounts	\$ 7,755,456	\$ 4,832,087
ATE Management – checking account	188,097	38,220
Petty cash fund and change funds	12,960	14,960
Medical flex account	15,010	20,351
Total Cash and Cash Equivalents	\$ 7,971,523	\$ 4,905,618

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2019 and 2018, follows:

	Balance January 1, 2019	Increase	Decrease	Balance December 31, 2019
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	52,219,105	218,054	-	52,437,159
Revenue equipment	41,711,330	1,783,240	3,343,809	40,150,761
Shop and garage equipment	1,745,671	283,112	134,322	1,894,461
Office furniture and equipment	6,023,135	6,175	-	6,029,310
Total capital assets depreciated	\$ 101,799,127	\$ 2,290,581	\$ 3,478,131	\$ 100,611,577
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	24,842,586	2,378,764	-	27,221,350
Revenue equipment	23,271,782	3,077,739	3,343,809	23,005,712
Shop and garage equipment	1,547,929	91,260	134,322	1,504,867
Office furniture and equipment	4,752,524	266,571	-	5,019,095
Total accumulated depreciation	\$ 54,514,707	\$ 5,814,334	\$ 3,478,131	\$ 56,850,910
Total capital assets depreciated, net	\$ 47,284,420	\$ (3,523,753)	\$ -	\$ 43,760,667
Capital Assets, Net	\$ 47,506,787	\$ (3,523,753)	\$ -	\$ 43,983,034

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

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

D. Risk Management

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts

D. Risk Management (Continued)

Risk management activities for transit liability and property damage include the purchase of commercial insurance coverage for claims exceeding \$100,000. The Authority retains the risk of loss for the first \$100,000 per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. A liability for claims and judgments payable of \$140,000 is reported within Accounts Payable on the financial statements for the year ended December 31, 2019, for claims considered “probable” losses to the Authority. No liability was reported at December 31, 2018. In addition, several incidents have occurred in the Authority’s bus operations that are considered reasonably possible losses to the Authority. These are not reflected in the financial statements. The Authority has estimated that its exposure to reasonably possible losses ranges from \$0 to \$103,244 at December 31, 2019.

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 \$1,498,331 for the year ended December 31, 2019, and \$1,402,010 for the year ended December 31, 2018. After deduction of the revenue collected in Superior of \$126,271 in 2019 and \$113,381 in 2018, the amounts actually billed were \$1,372,060 in 2019 and \$1,288,629 in 2018, which are included as nonoperating revenues.

4. Management Agreement

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



**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement (Continued)

A. Vacation and Sick Leave

Employees of ATE are granted from five to 30 days of vacation time per year depending on their years of service and union bargaining unit. Vacation earned in one year must be used the following year or it is forfeited. The accrued vacation for all employees had an estimated value of \$569,138 and \$603,777 at December 31, 2019 and 2018, respectively, and is included with salaries payable of \$350,832 and \$341,618 for December 31, 2019 and 2018, respectively, and is reported as payable to ATE for employee services on the balance sheet.

Sick leave is earned at the rate of 30 days per year and may be accumulated to 60 days for employees with less than 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.

B. Retirement Plans

1. Defined Benefit Pension Plan

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

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

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement

B. Retirement Plans

1. Defined Benefit Pension Plan (Continued)

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution was \$326.90 per full-time employee per week in 2019.

ATE's contributions for the years ending December 31, 2019, 2018, and 2017, were \$1,970,263, \$1,859,399, and \$1,719,820, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

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

2. Defined Contribution Plan

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

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

	<u>2019</u>	<u>2018</u>
Employer	\$ 193,846	\$ 195,850
Employee	32,308	32,635

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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5. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. As a result, the number of routes has been reduced and the Authority has seen a decrease in ridership which will impact net position. The total impact is unknown at this time.

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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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Charges for Services</b>		
<b>Passenger fares for transit service</b>		
Adult fares	\$ 1,801,902	\$ 1,822,771
Senior citizen fares	118,397	107,279
College student passes	527,750	515,745
Disability fares	6,229	18,932
<b>Total passenger fares for transit service</b>	<b>\$ 2,454,278</b>	<b>\$ 2,464,727</b>
<b>Charter service revenues</b>	<b>\$ 14,969</b>	<b>\$ 10,406</b>
<b>Auxiliary transportation revenues</b>		
Advertising services	\$ 120,923	\$ 123,927
STRIDE	98,818	80,140
Other	337,851	312,924
<b>Total auxiliary transportation revenues</b>	<b>\$ 557,592</b>	<b>\$ 516,991</b>
<b>Total charges for services</b>	<b>\$ 3,026,839</b>	<b>\$ 2,992,124</b>
<b>Nonoperating and Other Revenues</b>		
Investment earnings	\$ 100,468	\$ 89,732
Property taxes	1,497,209	1,491,900
Operating grants		
Federal – Section 5307	1,991,000	1,000,000
Federal – other	-	13,657
State – regular route	12,737,642	10,969,349
State – disability service	754,431	816,000
City of Superior, Wisconsin – regular route	1,275,319	1,189,593
City of Superior, Wisconsin – disability service	96,741	99,036
Capital contributions		
Federal	1,119,945	10,898,671
State	803,558	817,266
<b>Total nonoperating and other revenues</b>	<b>\$ 20,376,313</b>	<b>\$ 27,385,204</b>
<b>Total Revenues</b>	<b>\$ 23,403,152</b>	<b>\$ 30,377,328</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
<b>Personal services</b>			
Labor			
Operations – salaries and wages	\$ 4,803,683	\$ -	\$ -
Other salaries and wages	-	1,221,232	765,801
Fringe benefits	4,484,063	1,141,346	714,734
<b>Total personal services</b>	<b>\$ 9,287,746</b>	<b>\$ 2,362,578</b>	<b>\$ 1,480,535</b>
<b>Supplies</b>			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,080,227	\$ 12,143	\$ -
Tires and tubes	79,336	4,077	-
Other materials and supplies	15,161	650,483	172,886
<b>Total supplies</b>	<b>\$ 1,174,724</b>	<b>\$ 666,703</b>	<b>\$ 172,886</b>
<b>Utilities</b>	<b>\$ 95,590</b>	<b>\$ -</b>	<b>\$ 231,039</b>
<b>Other services and charges</b>			
Services			
Management service fee	\$ -	\$ -	\$ 248,824
Professional and technical services	454,842	168,051	256,201
Other services	-	223,884	168,430
Casualty and liability costs	-	-	772,852
Taxes and fees	1,742	1,072	3,974
Miscellaneous			
Dues and subscriptions	-	-	10,436
Travel and meetings	295	2,658	25,539
Advertising and promotional media	-	-	81,319
Purchased transportation service	-	-	503,305
Other	-	2,191	1,535
<b>Total other services and charges</b>	<b>\$ 456,879</b>	<b>\$ 397,856</b>	<b>\$ 2,072,415</b>
<b>Depreciation</b>	<b>\$ 3,686,839</b>	<b>\$ 196,754</b>	<b>\$ 1,930,740</b>
<b>Total Expenses*</b>	<b>\$ 14,701,778</b>	<b>\$ 3,623,891</b>	<b>\$ 5,887,615</b>

\*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$1,105,731 for 2019 and \$990,975 for 2018.



**EXHIBIT A-2**

<b>2018</b>				
<b>Total</b>	<b>Vehicle Operations</b>	<b>Vehicle Maintenance</b>	<b>General Administration</b>	<b>Total</b>
\$ 4,803,683	\$ 4,914,536	\$ -	\$ -	\$ 4,914,536
1,987,033	-	1,189,280	695,576	1,884,856
6,340,143	4,492,657	1,086,838	635,145	6,214,640
<b>\$ 13,130,859</b>	<b>\$ 9,407,193</b>	<b>\$ 2,276,118</b>	<b>\$ 1,330,721</b>	<b>\$ 13,014,032</b>
\$ 1,092,370	\$ 1,209,649	\$ 13,757	\$ -	\$ 1,223,406
83,413	98,939	1,558	-	100,497
838,530	19,106	754,967	120,675	894,748
<b>\$ 2,014,313</b>	<b>\$ 1,327,694</b>	<b>\$ 770,282</b>	<b>\$ 120,675</b>	<b>\$ 2,218,651</b>
<b>\$ 326,629</b>	<b>\$ 80,037</b>	<b>\$ -</b>	<b>\$ 241,666</b>	<b>\$ 321,703</b>
\$ 248,824	\$ -	\$ -	\$ 241,533	\$ 241,533
879,094	362,973	135,766	211,062	709,801
392,314	-	137,977	108,915	246,892
772,852	-	-	384,869	384,869
6,788	1,204	1,070	21,645	23,919
10,436	-	-	7,190	7,190
28,492	3,208	4,293	29,822	37,323
81,319	-	-	66,572	66,572
503,305	-	-	430,839	430,839
3,726	85	159	2,627	2,871
<b>\$ 2,927,150</b>	<b>\$ 367,470</b>	<b>\$ 279,265</b>	<b>\$ 1,505,074</b>	<b>\$ 2,151,809</b>
<b>\$ 5,814,333</b>	<b>\$ 3,720,261</b>	<b>\$ 174,642</b>	<b>\$ 1,939,726</b>	<b>\$ 5,834,629</b>
<b>\$ 24,213,284</b>	<b>\$ 14,902,655</b>	<b>\$ 3,500,307</b>	<b>\$ 5,137,862</b>	<b>\$ 23,540,824</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

<u>Month</u>	<u>2019</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>
<b>Regular Route</b>				
January	1,152	\$ 111.54	\$ 128,487	\$ 6,979
February	1,052	100.51	105,765	14,215
March	1,144	102.39	117,137	8,272
April	1,138	101.96	116,024	9,444
May	1,145	103.32	118,270	8,790
June	1,101	96.03	105,748	9,710
July	1,149	105.31	121,016	13,257
August	1,167	103.78	121,076	10,887
September	1,072	104.86	112,460	8,879
October	1,181	99.01	116,908	9,207
November	1,081	101.32	109,527	11,732
December	1,072	115.17	123,518	9,245
<b>Total Regular Route</b>	<b><u>13,454</u></b>		<b><u>\$ 1,395,936</u></b>	<b><u>\$ 120,617</u></b>
<b>Disability Service</b>				
January	184	\$ 44.13	\$ 8,538	\$ 386
February	164	45.50	7,858	388
March	173	48.18	8,754	404
April	176	42.83	7,945	417
May	201	43.49	9,159	522
June	186	43.50	8,487	560
July	203	45.83	9,688	645
August	205	43.37	9,309	573
September	175	44.16	8,124	454
October	203	45.41	9,637	539
November	175	43.02	7,914	429
December	143	45.98	6,982	337
<b>Total Disability Service</b>	<b><u>2,188</u></b>		<b><u>\$ 102,395</u></b> *	<b><u>\$ 5,654</u></b>

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

EXHIBIT A-3

							2018	
Net Charges to the City of Superior	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior	Net Charges to the City of Superior			
\$ 121,508	1,138	\$ 107.26	\$ 122,055	\$ 8,535	\$ 113,520			
91,550	1,052	96.27	101,440	9,900	91,540			
108,865	1,167	98.18	114,543	10,902	103,641			
106,580	1,115	97.05	108,241	8,657	99,584			
109,480	1,145	93.81	107,383	9,120	98,263			
96,038	1,124	95.73	107,584	10,399	97,185			
107,759	1,126	97.83	110,207	8,046	102,161			
110,189	1,181	92.25	108,926	9,181	99,745			
103,581	1,058	88.58	93,750	8,419	85,331			
107,701	1,181	101.20	119,494	8,745	110,749			
97,795	1,095	90.28	98,867	8,195	90,672			
114,273	1,101	95.20	104,834	7,632	97,202			
<b>\$ 1,275,319</b>	<b>13,483</b>		<b>\$ 1,297,324</b>	<b>\$ 107,731</b>	<b>\$ 1,189,593</b>			
\$ 8,152	174	\$ 44.96	\$ 8,219	\$ 515	\$ 7,704			
7,470	147	46.21	7,200	419	6,781			
8,350	198	45.92	9,511	567	8,944			
7,528	174	43.62	8,008	483	7,525			
8,637	190	46.92	9,334	531	8,803			
7,927	194	45.33	9,212	432	8,780			
9,043	184	45.58	8,759	475	8,284			
8,736	191	45.51	9,111	608	8,503			
7,670	184	49.82	9,574	447	9,127			
9,098	173	47.20	8,537	425	8,112			
7,485	177	43.55	8,126	367	7,759			
6,645	182	47.67	9,095	381	8,714			
<b>\$ 96,741</b>	<b>2,168</b>		<b>\$ 104,686</b> *	<b>\$ 5,650</b>	<b>\$ 99,036</b>			

**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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Deficit recognized for the City of Superior, Wisconsin</b>		
Regular route	\$ 1,275,319	\$ 1,189,593
Disability service	96,741	99,036
<b>Total</b>	<b>\$ 1,372,060</b>	<b>\$ 1,288,629</b>
<b>Deficit recognized by the Wisconsin Department of Transportation</b>		
Net charges to the City of Superior	\$ 1,372,060	\$ 1,288,629
Less: maximum federal share per grant agreement	(489,660)	(472,192)
<b>Non-Federal Share</b>	<b>\$ 882,400</b>	<b>\$ 816,437</b>
<b>Wisconsin Department of Transportation funding – lower of the following</b>		
Non-federal share	\$ 882,400	\$ 816,437
Maximum Wisconsin Department of Transportation share per grant agreement	(361,122)	(370,166)
<b>Local Funds Required – City of Superior, Wisconsin</b>	<b>\$ 521,278</b>	<b>\$ 446,271</b>

**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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Regular Route</b>		
Operating revenues in the City of Superior	\$ 120,617	\$ 107,731
Operating expenses in the City of Superior	(1,395,936)	(1,297,324)
<b>Regular Route Deficit Recognized for Federal and State Operating Funds</b>	<b>\$ (1,275,319)</b>	<b>\$ (1,189,593)</b>
 <b>Disability Service</b>		
Operating revenues in the City of Superior	\$ 5,654	\$ 5,650
Operating expenses in the City of Superior	(102,395)	(104,686)
<b>Disability Service Deficit Recognized for State Operating Funds</b>	<b>\$ (96,741)</b>	<b>\$ (99,036)</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT B-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>			
Direct			
Federal Transit Cluster			
Federal Transit Capital Assistance Formula Grants	20.507		\$ 332,752
Federal Transit Operating Assistance Formula Grants	20.507		1,991,000
(Total Transit Formula Grants 20.507 \$2,323,752)			
Public Transportation Research, Technical Assistance, and Training	20.514		123,664
Federal Transit Cluster			
Bus and Bus Facilities Formula Program	20.526		652,800
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	1025905	<u>10,729</u>
<b>Total Federal Awards</b>			<b><u>\$ 3,110,945</u></b>

The Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2019.

**Totals by Cluster**

Total expenditures for Federal Transit Cluster	\$ 2,976,552
Total expenditures for Highway Planning and Construction Cluster	10,729

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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1. Summary of Significant Accounting Policies

A. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Duluth Transit Authority, a discretely presented component unit of the City of Duluth, Minnesota. The Authority's reporting entity is defined in Note 1 to the financial statements.

B. 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, 2019. 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, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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

Nonoperating revenues: operating grants – federal	\$ 1,991,000
Capital contributions – federal	<u>1,119,945</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 3,110,945</u>





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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## 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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 14, 2020.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

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 and bidding, deposits and 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.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 14, 2020



JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Mayor and City Council  
City of Duluth, Minnesota

Board of Directors  
Duluth Transit Authority  
Duluth, Minnesota

### **Report on Compliance for the Major Federal Program**

We have audited the Duluth Transit Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2019. The Duluth Transit Authority is a component unit of the City of Duluth, Minnesota. The Duluth Transit Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Duluth Transit Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Duluth Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Duluth Transit Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

### **Report on Internal Control Over Compliance**

Management of the Duluth Transit Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

April 14, 2020

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

**Federal Awards**

Internal control over the major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major program is:

Federal Transit Cluster	
Federal Transit Formula Grants	CFDA No. 20.507
Bus and Bus Facilities Formula Program	CFDA No. 20.526

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

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

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

None.

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

None.

**IV. PREVIOUSLY REPORTED ITEM RESOLVED**

2018-001 Withholding Affidavit for Contractors (Form IC-134)



**REPRESENTATION OF THE DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**Finding Number: 2018-001**

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

**Summary of Condition:** Final payments to contractors were made on contracts that involved employment of employees for wages prior to obtaining a Form IC-134 from the contractor. This form certifies withholding compliance by the contractor, and is required by Minnesota Statutes, section 270C.66.

**Summary of Corrective Action Previously Reported:** In instances where this statute applies, the Authority will add to the standard terms and specifications for the contract that obtaining a Form IC-134 is a condition of final payment.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

