

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,
2009 AND 2008

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,
2009 and 2008**



**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, 2009

Term of
Office Ends

Board

Directors

District No. 1 Melanie Hendrickson	June 30, 2010
District No. 2 Aaron Bransky	June 30, 2010
District No. 3 Richard Towey	June 30, 2010
District No. 4 Dennis Birchland	June 30, 2011
District No. 5 Open	
At Large Walter Kramer	June 30, 2012
Alexis Livadaros	June 30, 2010
John Brostrom	June 30, 2012

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

President Aaron Bransky	
Vice President Dennis Birchland	

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 of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2010, on our consideration of the Duluth Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2009. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The Authority continued in its multi-year contracts for the U-Pass college transportation program.
- The Authority introduced two new regular bus routes in the fall of 2007. These new routes were added with a new program called JARC (Job Access Reverse Commute). The JARC program has been funded through fiscal year 2010.
- In 2008, and continuing into 2009, the Duluth Transit Authority improved all the Downtown Bus stops with new locations and shelters. Facility improvements were also included in 2009 capital assets.
- The Authority purchased eight 40-foot buses in 2009, of which four were hybrids. Another improvement the Authority did in 2009 was to purchase new software to consolidate scheduling and operational procedures.
- The Authority's net assets increased from 2008 by 14.3 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 regular route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 20 regular routes and provides service seven days a week. The Authority operated 1,881,345 miles and carried 3,173,485 regular route passengers and 27,290 Para-transit riders during 2009. 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 increased by 14.3 percent in 2009 over 2008 and 1.4 percent in 2008 over 2007. The increase in total net assets for 2009 was due to the capital contributions for the acquisition of four diesel buses and four hybrid buses for regular routes. Other acquisitions included facility improvements and operation software. The increase in total net assets for 2008 included an electrical upgrade for the facility and new bus stops for the downtown area.

Condensed Statements of Net Assets (000s)

	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current assets	\$ 7,141	\$ 6,326	\$ 5,377
Capital assets	\$ 47,679	\$ 42,681	\$ 40,242
Less: depreciation	<u>(29,222)</u>	<u>(26,167)</u>	<u>(23,277)</u>
Capital assets, net	<u>\$ 18,457</u>	<u>\$ 16,514</u>	<u>\$ 16,965</u>
Total Assets	<u>\$ 25,598</u>	<u>\$ 22,840</u>	<u>\$ 22,342</u>
Current Liabilities	<u>\$ 1,094</u>	<u>\$ 1,408</u>	<u>\$ 1,214</u>
Net Assets			
Invested in capital assets	\$ 18,457	\$ 16,514	\$ 16,965
Restricted for transit operations and capital improvement	5,293	4,164	3,409
Unrestricted	<u>754</u>	<u>754</u>	<u>754</u>
Total Net Assets	<u>\$ 24,504</u>	<u>\$ 21,432</u>	<u>\$ 21,128</u>

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

	Fiscal Year 2009 Actual	Fiscal Year 2009 Budget	Fiscal Year 2008 Actual	Fiscal Year 2007 Actual
Operating revenues	\$ 2,237	\$ 2,289	\$ 2,293	\$ 2,227
Nonoperating revenues	11,234	11,480	10,778	10,043
Total Revenues	\$ 13,471	\$ 13,769	\$ 13,071	\$ 12,270
Operating expenses	14,571	16,593	14,718	13,431
Income (Loss) Before Capital Contributions	\$ (1,100)	\$ (2,824)	\$ (1,647)	\$ (1,161)
Capital contributions	4,172	2,341	1,951	3,521
Change in Net Assets	\$ 3,072	\$ (483)	\$ 304	\$ 2,360
Net Assets - January 1	21,432	21,432	21,128	18,768
Net Assets - December 31	<u>\$ 24,504</u>	<u>\$ 20,949</u>	<u>\$ 21,432</u>	<u>\$ 21,128</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 decreased by \$55,989 to \$2.24 million in 2009, down from \$2.29 million in 2008. Passengers also decreased in 2009 from 2008 by 1.4 percent. Nonoperating revenues increased from \$10.78 million in 2008 to \$11.23 million in 2009. This was an increase of 4.23 percent.

Expenses

The Authority's 2009 operating expenses decreased 1.0 percent, or \$146,972, under 2008 operating expenses of \$14.72 million. The 2009 fuel prices were lower when compared with 2008 fuel prices.

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, and this money is not guaranteed.

CAPITAL ASSETS

By the end of fiscal year 2009, the Duluth Transit Authority had invested \$47.68 million in capital assets. The \$5.0 million increase is primarily due to the addition of four 40-foot diesel buses and four 40-foot hybrid buses for regular routes. Upgrades were done on the facilities and bus stops. New software was purchased to consolidate the operational procedures.

The Authority's five-year capital plan includes the replacement of approximately 30 full-size buses and three 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 2009 budget. The Authority continues to promote its U-PASS collegiate pass program. The U-PASS program has increased regular route ridership every year from the start. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 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 2009 budget reflects the state formula that funds up to 80 percent of regular 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 2009 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 A

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 6,524,278	\$ 4,787,309
Accounts receivable	41,496	57,946
Due from federal government	-	80,180
Due from State of Minnesota	175,738	886,863
Taxes receivable	53,980	79,204
Due from other governments	126,701	225,034
Inventory	209,624	197,913
Prepaid items	8,972	11,100
Total current assets	\$ 7,140,789	\$ 6,325,549
Noncurrent assets		
Capital assets	\$ 47,678,753	\$ 42,681,496
Less: allowance for depreciation	(29,221,848)	(26,167,498)
Noncurrent assets - net	\$ 18,456,905	\$ 16,513,998
Total Assets	\$ 25,597,694	\$ 22,839,547
Liabilities		
Current liabilities		
Accounts payable	\$ 197,178	\$ 574,739
Accrued salaries payable	302,832	272,539
Accrued vacation payable	519,195	487,178
Claims and judgments payable	-	4,988
Deferred revenue	74,592	68,340
Total Liabilities	\$ 1,093,797	\$ 1,407,784
Net Assets		
Invested in capital assets	\$ 18,456,905	\$ 16,513,998
Restricted for transit operations and capital improvements	5,292,818	4,163,591
Unrestricted	754,174	754,174
Total Net Assets	\$ 24,503,897	\$ 21,431,763

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues		
Charges for services	\$ 2,236,580	\$ 2,292,569
Operating Expenses		
Personal services	\$ 8,698,370	\$ 8,414,983
Supplies	1,345,310	2,023,333
Utilities	285,547	318,838
Other services and charges	1,187,226	1,070,776
Depreciation and amortization	3,054,351	2,889,846
Total Operating Expenses	\$ 14,570,804	\$ 14,717,776
Operating Income (Loss)	\$ (12,334,224)	\$ (12,425,207)
Nonoperating Revenues		
Investment earnings	\$ 71,048	\$ 125,777
Property taxes	1,316,922	1,316,898
Property tax replacement aid - state	3,426,300	1,707,862
Operating grants		
Federal	1,489,465	1,305,216
State	3,879,030	5,237,412
City of Superior, Wisconsin	1,051,560	1,084,815
Total Nonoperating Revenues	\$ 11,234,325	\$ 10,777,980
Net Income (Loss) Before Capital Contributions	\$ (1,099,899)	\$ (1,647,227)
Capital Contributions		
Federal	4,172,033	1,951,245
Change in Net Assets	\$ 3,072,134	\$ 304,018
Net Assets - January 1	21,431,763	21,127,745
Net Assets - December 31	\$ 24,503,897	\$ 21,431,763

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,276,126	\$ 2,293,737
Payments to suppliers	(3,109,790)	(3,343,079)
Payments to employees	(8,636,060)	(8,370,915)
	\$ (9,469,724)	\$ (9,420,257)
Cash Flows from Noncapital Financing Activities		
Property taxes and aids	\$ 1,342,146	\$ 1,309,194
Property tax replacement aid - state	3,426,300	1,707,862
Federal operating grants	1,458,636	1,305,216
State operating grants	4,620,984	4,440,899
City of Superior, Wisconsin, operating funds	1,133,049	1,074,135
	\$ 11,981,115	\$ 9,837,306
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 4,252,213	\$ 1,871,065
Acquisition or construction of capital assets	(5,097,683)	(2,338,737)
	\$ (845,470)	\$ (467,672)
Cash Flows from Investing Activities		
Interest on investments	\$ 71,048	\$ 125,777
	\$ 1,736,969	\$ 75,154
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,736,969	\$ 75,154
Cash and Cash Equivalents - January 1	4,787,309	4,712,155
Cash and Cash Equivalents - December 31	\$ 6,524,278	\$ 4,787,309
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (12,334,224)	\$ (12,425,207)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	3,054,351	2,889,846
(Increase) decrease in receivables	33,294	(4,152)
(Increase) decrease in inventories	(11,711)	28,646
(Increase) decrease in prepaid items	2,128	(2,250)
Increase (decrease) in payables	(219,814)	87,540
Increase (decrease) in deferred revenue	6,252	5,320
	\$ (9,469,724)	\$ (9,420,257)

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, 2009 AND 2008

1. Summary of Significant Accounting Policies

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

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

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

A. Financial Reporting Entity

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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. 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 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, 2009, net assets restricted for transit operations and capital improvements were \$5,292,818.

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. 2009 and 2008 Budget to Actual

As required by Minn. Laws 1969, 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, 2009 and 2008.

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,289,480	\$ 2,236,580	\$ (52,900)
Operating Expenses			
Personal services	\$ 9,199,693	\$ 8,698,370	\$ 501,323
Supplies	2,794,202	1,345,310	1,448,892
Utilities	315,000	285,547	29,453
Other services and charges	1,230,229	1,187,226	43,003
Depreciation and amortization	3,054,351	3,054,351	-
Total Operating Expenses	\$ 16,593,475	\$ 14,570,804	\$ 2,022,671
Operating Income (Loss)	\$ (14,303,995)	\$ (12,334,224)	\$ 1,969,771
Nonoperating Revenues			
Investment earnings	\$ -	\$ 71,048	\$ 71,048
Property taxes	1,316,900	1,316,922	22
Property tax replacement aid - state	3,426,300	3,426,300	-
Operating grants			
Federal	1,105,000	1,489,465	384,465
State	4,485,900	3,879,030	(606,870)
City of Superior, Wisconsin	1,145,412	1,051,560	(93,852)
Total Nonoperating Revenues	\$ 11,479,512	\$ 11,234,325	\$ (245,187)
Net Income (Loss)	\$ (2,824,483)	\$ (1,099,899)	\$ 1,724,584
Capital contributions			
Federal	2,340,800	4,172,033	1,831,233
Change in Net Assets	\$ (483,683)	\$ 3,072,134	\$ 3,555,817

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2009 and 2008 Budget to Actual (Continued)

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,231,540	\$ 2,292,569	\$ 61,029
Operating Expenses			
Personal services	\$ 8,356,915	\$ 8,414,983	\$ (58,068)
Supplies	1,813,138	2,023,333	(210,195)
Utilities	287,500	318,838	(31,338)
Other services and charges	1,231,400	1,070,776	160,624
Depreciation and amortization	2,889,846	2,889,846	-
Total Operating Expenses	\$ 14,578,799	\$ 14,717,776	\$ (138,977)
Operating Income (Loss)	\$ (12,347,259)	\$ (12,425,207)	\$ (77,948)
Nonoperating Revenues			
Investment earnings	\$ -	\$ 125,777	\$ 125,777
Property taxes	1,316,900	1,316,898	(2)
Property tax replacement aid - state	1,707,861	1,707,862	1
Operating grants			
Federal	1,105,000	1,305,216	200,216
State	4,584,392	5,237,412	653,020
City of Superior, Wisconsin	1,012,016	1,084,815	72,799
Total Nonoperating Revenues	\$ 9,726,169	\$ 10,777,980	\$ 1,051,811
Net Income (Loss)	\$ (2,621,090)	\$ (1,647,227)	\$ 973,863
Capital contributions			
Federal	2,340,800	1,951,245	(389,555)
Change in Net Assets	\$ (280,290)	\$ 304,018	\$ 584,308

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	
	2009	2008
City Treasurer - checking account	\$ 6,493,198	\$ 4,748,200
ATE Management - checking account	4,600	13,914
Petty cash fund and change funds	14,960	14,960
Medical flex account	11,520	10,235
Total Cash and Cash Equivalents	\$ 6,524,278	\$ 4,787,309

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2009 and 2008 follows:

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	16,294,938	858,277	-	17,153,215
Revenue equipment	21,832,151	3,560,007	-	25,392,158
Shop and garage equipment	1,033,636	128,765	-	1,162,401
Office furniture and equipment	3,144,915	450,208	-	3,595,123
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 42,459,129	\$ 4,997,257	\$ -	\$ 47,456,386

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009
Less: accumulated depreciation for				
Land improvements	\$ 49,944	\$ 9,989	\$ -	\$ 59,933
Buildings and structures	10,444,626	586,362	-	11,030,988
Revenue equipment	12,640,965	1,975,464	-	14,616,429
Shop and garage equipment	835,077	63,948	-	899,025
Office furniture and equipment	2,143,282	418,587	-	2,561,869
Other	53,604	-	-	53,604
Total accumulated depreciation	\$ 26,167,498	\$ 3,054,350	\$ -	\$ 29,221,848
Total capital assets depreciated, net	\$ 16,291,631	\$ 1,942,907	\$ -	\$ 18,234,538
Capital Assets, Net	\$ 16,513,998	\$ 1,942,907	\$ -	\$ 18,456,905

	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	15,114,420	1,180,518	-	16,294,938
Revenue equipment	20,696,903	1,135,248	-	21,832,151
Shop and garage equipment	1,033,636	-	-	1,033,636
Office furniture and equipment	3,021,519	123,396	-	3,144,915
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 40,019,967	\$ 2,439,162	\$ -	\$ 42,459,129
Less: accumulated depreciation for				
Land improvements	\$ 39,955	\$ 9,989	\$ -	\$ 49,944
Buildings and structures	9,920,461	524,165	-	10,444,626
Revenue equipment	10,682,202	1,958,763	-	12,640,965
Shop and garage equipment	775,566	59,511	-	835,077
Office furniture and equipment	1,805,864	337,418	-	2,143,282
Other	53,604	-	-	53,604
Total accumulated depreciation	\$ 23,277,652	\$ 2,889,846	\$ -	\$ 26,167,498
Total capital assets depreciated, net	\$ 16,742,315	\$ (450,684)	\$ -	\$ 16,291,631
Capital Assets, Net	\$ 16,964,682	\$ (450,684)	\$ -	\$ 16,513,998

**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 \$158,000. Changes in the balances of the claims and judgments liability for the years ended December 31, 2009 and 2008 were as follows:

	Liability January 1	Claims and Changes in Estimates	Claim Payments	Liability December 31
2009	\$ 4,988	\$ (4,988)	\$ -	\$ -
2008	4,988	-	-	4,988

3. Operations in the City of Superior, Wisconsin

The Authority provides regular and disability transit services to the City of Superior, Wisconsin, for which it charges Superior on a monthly basis. The monthly charge is determined by dividing the total operating expense for the month by the total hours operated in that month to determine an hourly cost. This rate was applied to the following month's hours operated in the City of Superior, reduced by revenues collected in Superior, to arrive at the monthly billing.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

3. Operations in the City of Superior, Wisconsin (Continued)

Charges to the City of Superior totaled \$1,170,393 for the year ended December 31, 2009, and \$1,215,609 for the year ended December 31, 2008. After deduction of the revenue collected in Superior of \$118,833 in 2009 and \$130,793 in 2008, the amounts actually billed were \$1,051,560 in 2009 and \$1,084,816 in 2008, which are included as nonoperating revenues.

4. Management Agreement

Though the Duluth Transit Authority has no employees, it has entered into a Management Agreement with ATE Management and Service Company, Inc., and its subsidiary ATE Management of Duluth, Inc., (collectively referred to as ATE). Under the terms of this agreement, the Authority is liable to ATE on a monthly basis for all employee compensation and benefits under the collective bargaining agreement between ATE and its employees. At 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 \$519,195 and \$487,178 at December 31, 2009 and 2008, 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.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

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

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

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 \$193.60 per full-time employee per week in 2009.

ATE's contributions for the years ending December 31, 2009, 2008, and 2007, were \$999,869, \$910,844, and \$850,048, 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.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans (Continued)

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>2009</u>	<u>2008</u>
Employer	\$ 143,669	\$ 139,628
Employee	23,945	23,272

SUPPLEMENTAL INFORMATION

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,553,906	\$ 1,544,545
Senior citizen fares	138,090	207,495
Student fares	320,350	306,700
Disability fares	15,362	10,921
	\$ 2,027,708	\$ 2,069,661
Total passenger fares for transit service		
	\$ 15,094	\$ 12,244
Charter service revenues		
Auxiliary transportation revenues		
Advertising services	\$ 122,130	\$ 143,276
STRIDE	37,908	36,394
Other	33,740	30,994
	\$ 193,778	\$ 210,664
Total auxiliary transportation revenues		
	\$ 2,236,580	\$ 2,292,569
Total charges for services		
Nonoperating and Other Revenues		
Investment earnings	\$ 71,048	\$ 125,777
Property taxes	1,316,922	1,316,898
Property tax replacement aid - state	3,426,300	1,707,862
Operating grants		
Federal - Section 5307	1,300,000	1,105,000
Federal - Job Access Reverse Commute	188,028	196,240
Federal - other	1,437	3,976
State - regular route	3,642,700	4,906,993
State - disability service	236,330	330,419
City of Superior, Wisconsin - regular route	975,224	1,000,166
City of Superior, Wisconsin - disability service	76,336	84,649
Capital grants		
Federal	4,172,033	1,951,245
	\$ 15,406,358	\$ 12,729,225
Total nonoperating and other revenues		
	\$ 17,642,938	\$ 15,021,794
Total Revenues	\$ 17,642,938	\$ 15,021,794

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
Personal services			
Labor			
Operations - salaries and wages	\$ 3,340,828	\$ -	\$ -
Other salaries and wages	-	874,922	663,063
Fringe benefits	2,614,498	685,420	519,639
Total personal services	\$ 5,955,326	\$ 1,560,342	\$ 1,182,702
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 813,490	\$ 14,452	\$ -
Tires and tubes	70,642	152	-
Other materials and supplies	19,338	330,678	96,558
Total supplies	\$ 903,470	\$ 345,282	\$ 96,558
Utilities	\$ 3,326	\$ -	\$ 282,221
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 210,960
Professional and technical services	110,319	57,975	107,958
Temporary help	-	-	668
Other services	-	62,462	12,127
Casualty and liability costs	-	-	243,469
Taxes and fees	838	8,757	6,808
Miscellaneous			
Dues and subscriptions	-	-	5,686
Travel and meetings	3,770	478	17,885
Advertising and promotional media	-	-	30,200
Purchased transportation service	-	-	304,625
Other	-	512	1,729
Total other services and charges	\$ 114,927	\$ 130,184	\$ 942,115
Depreciation and amortization	\$ 2,393,967	\$ 101,075	\$ 559,309
Total Expenses*	\$ 9,371,016	\$ 2,136,883	\$ 3,062,905

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$637,806 for 2009 and \$655,882 for 2008.

Schedule 2

2008				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 3,340,828	\$ 3,262,166	\$ -	\$ -	\$ 3,262,166
1,537,985	-	860,348	637,101	1,497,449
3,819,557	2,506,364	659,898	489,106	3,655,368
\$ 8,698,370	\$ 5,768,530	\$ 1,520,246	\$ 1,126,207	\$ 8,414,983
\$ 827,942	\$ 1,465,047	\$ 21,218	\$ -	\$ 1,486,265
70,794	59,000	-	-	59,000
446,574	2,022	324,731	151,315	478,068
\$ 1,345,310	\$ 1,526,069	\$ 345,949	\$ 151,315	\$ 2,023,333
\$ 285,547	\$ -	\$ -	\$ 318,838	\$ 318,838
\$ 210,960	\$ -	\$ -	\$ 205,814	\$ 205,814
276,252	5,719	15,316	105,819	126,854
668	-	-	660	660
74,589	-	21,405	45,690	67,095
243,469	-	-	174,569	174,569
16,403	1,431	378	11,476	13,285
5,686	-	-	7,305	7,305
22,133	-	4,258	22,614	26,872
30,200	-	-	40,747	40,747
304,625	-	-	401,928	401,928
2,241	495	1,172	3,980	5,647
\$ 1,187,226	\$ 7,645	\$ 42,529	\$ 1,020,602	\$ 1,070,776
\$ 3,054,351	\$ 2,317,427	\$ 94,096	\$ 478,323	\$ 2,889,846
\$ 14,570,804	\$ 9,619,671	\$ 2,002,820	\$ 3,095,285	\$ 14,717,776

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

Month	2009			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
Regular Route				
January	1,177	\$ 84.44	\$ 99,403	\$ 9,794
February	1,104	83.23	91,886	10,083
March	1,215	74.42	90,450	11,016
April	1,195	74.95	89,595	8,903
May	1,152	72.05	82,966	11,597
June	1,195	83.01	99,230	7,807
July	1,214	74.03	90,672 *	8,187
August	1,197	72.87	87,240	8,723
September	1,150	76.03	87,412	9,029
October	1,223	75.07	91,803	9,270
November	1,124	75.38	84,727	9,512
December	1,195	77.82	93,026	9,264
Total Regular Route	14,141		\$ 1,088,410	\$ 113,185
Disability Service				
January	195	\$ 37.11	\$ 7,634	\$ 496
February	185	38.08	7,461	520
March	196	37.74	7,795	480
April	196	35.47	7,350	559
May	172	35.82	6,559	535
June	158	36.63	6,185	482
July	176	37.13	6,942	488
August	170	35.92	6,522	474
September	156	39.08	6,494	481
October	169	37.01	6,643	467
November	132	38.51	5,471	313
December	170	38.41	6,927	353
Total Disability Service	2,075		\$ 81,983 ***	\$ 5,648

*Monthly charges in 2009 include adjusted services of 11.20 hours for July not applied to the operating charge per hour.

**Monthly charges in 2008 include adjusted services of 45.70 hours for April, 14 hours for July, and 11 hours for December 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.

Schedule 3

2008						
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	
\$ 89,609	1,195	\$ 86.60	\$ 103,522	\$ 11,620	\$ 91,902	
81,803	1,150	76.17	87,573	11,454	76,119	
79,434	1,197	76.82	91,969	8,836	83,133	
80,692	1,195	84.47	97,115 **	10,753	86,362	
71,369	1,177	77.84	91,633	11,350	80,283	
91,423	1,170	83.79	98,009	11,764	86,245	
82,485	1,196	75.43	91,225 **	10,552	80,673	
78,517	1,197	79.56	95,249	9,998	85,251	
78,383	1,150	78.83	90,631	9,901	80,730	
82,533	1,241	80.99	100,517	9,046	91,471	
75,215	1,106	74.11	81,951	9,357	72,594	
83,762	1,195	80.57	95,427 **	10,023	85,404	
\$ 975,225	14,169		\$ 1,124,821	\$ 124,654	\$ 1,000,167	
\$ 7,138	185	\$ 30.15	\$ 5,977	\$ 517	\$ 5,460	
6,941	177	40.43	7,573	544	7,029	
7,315	186	36.86	7,281	497	6,784	
6,791	170	38.46	6,955	369	6,586	
6,024	181	38.91	7,430	507	6,923	
5,703	140	38.15	5,758	414	5,344	
6,454	180	39.82	7,555	491	7,064	
6,048	198	39.92	8,311	537	7,774	
6,013	232	38.71	9,368	622	8,746	
6,176	251	37.55	9,832	721	9,111	
5,158	192	38.03	7,728	484	7,244	
6,574	169	39.13	7,020	436	6,584	
\$ 76,335	2,261		\$ 90,788 ***	\$ 6,139	\$ 84,649	

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 4

**DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Deficit recognized for the City of Superior		
Regular route	\$ 975,225	\$ 1,000,167
Disability service	76,335	84,649
Total	\$ 1,051,560	\$ 1,084,816
Federal funding - lower of the following		
Percentage limit - 50% of regular route deficit	\$ 487,613	\$ 500,084
Maximum federal share per grant agreement	361,617	367,442
	(361,617)	(367,442)
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,051,560	\$ 1,084,816
Less: maximum federal share	(361,617)	(367,442)
Non-Federal Share	\$ 689,943	\$ 717,374
Wisconsin Department of Transportation funding - lower of the following		
Non-federal share	\$ 689,943	\$ 717,374
Percentage limit for 2009 - 25.35% of operating expenses	296,695	N/A
Percentage limit for 2008 - 27.38% of operating expenses	N/A	332,834
Maximum Wisconsin Department of Transportation share per grant agreement	276,928	336,346
	(276,928)	(332,834)
Local Funds Required - City of Superior, Wisconsin	\$ 413,015	\$ 384,540

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 5

**DEFICIT RECOGNIZED FOR FEDERAL AND STATE OPERATING FUNDS
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Regular Route		
Operating revenues in the City of Superior	\$ 113,185	\$ 124,654
Operating expenses in the City of Superior	(1,088,410)	(1,124,821)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (975,225)	\$ (1,000,167)
 Disability Service		
Operating revenues in the City of Superior	\$ 5,648	\$ 6,139
Operating expenses in the City of Superior	(81,983)	(90,788)
Disability Service Deficit Recognized for State Operating Funds	\$ (76,335)	\$ (84,649)

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 6

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. SUMMARY OF AUDITOR'S RESULTS

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Duluth Transit Authority and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Duluth Transit Authority. This decision was based on the availability of the Authority's staff and the cost benefit of using our expertise. During our audit, we formatted information from the Authority's financial records to the financial statements as reported.

We recommend the Authority's Board be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Authority's Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Federal Transit Capital Investment Grants, CFDA #20.500, and Federal Transit Formula Grants, CFDA #20.507 - Davis-Bacon Act Monitoring (08-1)

The Duluth Transit Authority did not have adequate monitoring procedures in place to determine that its contractors were in compliance with the Davis-Bacon Act regarding the payment of prevailing wage rates. Miscommunication between the Authority and its engineers resulted in neither party performing the monitoring.

Resolution

The Authority now internally monitors Davis-Bacon with the assistance of the City of Duluth. Payroll sheets with job classifications are now being collected from contractors and reviewed to ensure that the rates paid meet the prevailing wage requirements of the Davis-Bacon Act.

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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, 2009, and have issued our report thereon dated April 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

April 30, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Mayor and City Council
City of Duluth

Board of Directors
Duluth Transit Authority

Compliance

We have audited the compliance of the Duluth Transit Authority, a component unit of the City of Duluth, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Duluth Transit Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Duluth Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

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 in order to determine our 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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Duluth Transit Authority as of and for the year ended December 31, 2009, and have issued our report thereon dated April 30, 2010. Our audit was performed for the purpose of forming an opinion on the Duluth Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and 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

April 30, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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	\$ 686,560
Federal Transit Capital Assistance Formula Grants	20.507	2,614,167
Federal Transit Capital Assistance Formula Grants - ARRA	20.507	871,306
Federal Transit Operating Assistance Formula Grants	20.507	1,300,000
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas	20.509	1,437
Job Access Reverse Commute	20.516	188,028
Total Federal Awards		\$ 5,661,498

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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, 2009. 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	\$ 1,489,465
Capital Contributions - Federal	<u>4,172,033</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,661,498</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.