

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEARS ENDED DECEMBER 31, 2016 AND 2015

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 150 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 650 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)**

Years Ended December 31, 2016 and 2015



**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, 2016

Term of
Office Ends

Board

Directors

District No. 1

Open

District No. 2

Aaron Bransky

June 30, 2019

District No. 3

John Brostrom

December 31, 2016

District No. 4

Open

District No. 5

Don Simmons

June 30, 2017

At Large

Thomas Griffen

December 31, 2016

Rondi Watson

June 30, 2018

Wayne Nelson

June 30, 2018

Appointed by Mayor, City of Superior, Wisconsin

Leslie Evans

Indefinite

Officers

President

John Brostrom

Vice President

Aaron Bransky

Management

ATE Management of Duluth, Inc.

Dennis Jensen, General Manager

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REBECCA OTTO
STATE AUDITOR

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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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 March 23, 2017, 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* 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 Duluth Transit 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 23, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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, 2016
(Unaudited)**

This section presents management's analysis of Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2016. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Authority's net position increased from 2015 by 0.9 percent.
- The Authority finished the construction phase for the multimodal facility which is in downtown Duluth. The new facility allows for safe and secure transfers between Duluth Transit Authority routes as well as the other transit providers, pedestrians, and cyclists and for future rail passengers. The project design began in 2012 and 2013, with construction beginning in 2014, and completion in early 2016. The off-street location and design will improve the effectiveness of the current and future transportation demand and provide connectivity to the overall transportation system. The total cost of the facility was approximately \$30 million. Funding for the project was derived from several sources, including the Duluth Transit Authority; the City of Duluth; and federal, state, and local grants and a private partner. The grand opening for the Duluth Transportation Center was held February 4, 2016.
- The Authority also engaged in a signal prioritization project in downtown Duluth that is tied to the multimodal facility. The sequencing of traffic signals allows buses to exit the multimodal facility and to move through the downtown area on a smooth and timely schedule.
- The Authority was awarded a Lo-No Grant to purchase six quick charge electric buses and two charging stations. 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 first quarter of 2018.
- Other substantial asset purchases for 2016 were fixed route buses, facility upgrades, and the buy-out of the private partner interest in the multimodal facility.

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 acquired by contributions. 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 and adjusted 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 voting Board member.

The Authority provides both fixed route bus transportation and STRIDE paratransit transportation for disabled passengers. The Authority operates buses on 18 fixed routes with 33 unique variations and provides service seven days a week. The Authority operated 1,907,629 miles and carried 2,804,354 fixed route passengers and 30,693 paratransit riders during 2016. 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 position shown below, total net position increased by 0.9 percent in 2016 from 2015 and increased 61.1 percent in 2015 from 2014. The design work and the construction for the new multimodal facility increased the net position in 2014 through 2016 along with the acquisition of fixed route buses, signal priority construction, and the project planning for the new electric bus acquisition.

Condensed Statement of Net Position (000s)

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Assets			
Current assets	\$ 5,913	\$ 10,586	\$ 11,831
Capital assets	\$ 87,787	\$ 83,221	\$ 57,758
Less: depreciation	(43,760)	(41,204)	(36,932)
Capital assets, net	\$ 44,027	\$ 42,017	\$ 20,826
Total Assets	\$ 49,940	\$ 52,603	\$ 32,657
Current Liabilities	\$ 1,940	\$ 5,036	\$ 3,125
Net Position			
Investment in capital assets	\$ 44,027	\$ 42,017	\$ 20,826
Restricted for transit operations and capital improvements	3,219	4,796	7,952
Unrestricted	754	754	754
Total Net Position	\$ 48,000	\$ 47,567	\$ 29,532

(Unaudited)

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

	Fiscal Year 2016 Actual	Fiscal Year 2016 Budget	Fiscal Year 2015 Actual	Fiscal Year 2014 Actual
Operating Revenues	\$ 2,787	\$ 2,467	\$ 2,814	\$ 2,911
Nonoperating Revenues	14,300	14,203	13,402	12,839
Total Revenues	\$ 17,087	\$ 16,670	\$ 16,216	\$ 15,750
Operating Expenses	20,162	20,617	18,942	17,732
Net Income (Loss) Before Capital Contributions	\$ (3,075)	\$ (3,947)	\$ (2,726)	\$ (1,982)
Capital Contributions	3,508	5,214	20,761	5,510
Change in Net Position	\$ 433	\$ 1,267	\$ 18,035	\$ 3,528
Net Position - January 1	47,567	47,567	29,532	26,004
Net Position - December 31	<u>\$ 48,000</u>	<u>\$ 48,834</u>	<u>\$ 47,567</u>	<u>\$ 29,532</u>

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 decreased by 0.97 percent to \$2.79 million in 2016, down from \$2.81 million in 2015. Nonoperating revenues increased from \$13.4 million in 2015 to \$14.3 million in 2016. This was an increase of 6.70 percent. The number of passengers decreased from 3,051,665 in 2015 to 2,804,354 in 2016.

Expenses

The Authority's 2016 operating expenses increased 6.44 percent, or \$1.2 million, over 2015 operating expenses of \$18.9 million.

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.

CAPITAL ASSETS

By the end of fiscal year 2016, the Duluth Transit Authority had invested \$87.8 million in capital assets. The \$4,565,020 increase in capital assets is primarily due to the construction of the new multimodal facility, along with the signalization around the multimodal facility, acquisition of six buses for fixed route and the implementation of the Lo-No Grant.

The Authority's five-year capital plan includes replacement of full-size diesel buses as well as seven electric buses for fixed route and replacement buses for paratransit services. Additional capital improvements are also scheduled for facility updates, IT upgrades, and an updated fare collection system.

ECONOMIC AND OTHER FACTORS

The Authority considered many factors when setting the fiscal year 2016 budget. A fare increase was implemented on January 1, 2011, along with increased service hours and adding holiday service. The Authority continues to promote its U-PASS collegiate pass program along with general ridership for safe and affordable public transportation. The 2016 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 2015 and 2016 was a reprieve, it is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2016 budget.

FINANCIAL CONTACT

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

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BASIC FINANCIAL STATEMENTS

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,131,098	\$ 4,778,737
Accounts receivable	164,751	119,090
Taxes receivable	12,237	2,763
Due from other governments	302,806	5,411,359
Inventory	171,308	188,867
Prepaid items	130,681	84,956
	<u>5,912,881</u>	<u>10,585,772</u>
Total current assets	\$ 5,912,881	\$ 10,585,772
Noncurrent assets		
Capital assets		
Not depreciated	\$ 222,367	\$ 222,367
Depreciated	87,563,983	82,998,963
Less: accumulated depreciation	<u>(43,759,562)</u>	<u>(41,204,167)</u>
	<u>44,026,788</u>	<u>42,017,163</u>
Noncurrent assets - net	\$ 44,026,788	\$ 42,017,163
	<u>\$ 49,939,669</u>	<u>\$ 52,602,935</u>
Total Assets	\$ 49,939,669	\$ 52,602,935
Liabilities		
Current liabilities		
Accounts payable	\$ 973,616	\$ 560,389
Payable to ATE Management for employee services	828,565	775,303
Contracts payable	-	3,610,631
Unearned revenue	137,879	89,595
	<u>1,940,060</u>	<u>5,035,918</u>
Total Liabilities	\$ 1,940,060	\$ 5,035,918
Net Position		
Investment in capital assets	\$ 44,026,788	\$ 42,017,163
Restricted for transit operations and capital improvements	3,218,647	4,795,680
Unrestricted	<u>754,174</u>	<u>754,174</u>
	<u>\$ 47,999,609</u>	<u>\$ 47,567,017</u>
Total Net Position	\$ 47,999,609	\$ 47,567,017

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Charges for services	<u>\$ 2,787,220</u>	<u>\$ 2,814,672</u>
Operating Expenses		
Personal services	\$ 11,187,228	\$ 10,630,129
Supplies	1,498,422	1,540,041
Utilities	274,433	222,688
Other services and charges	1,889,783	1,842,158
Depreciation	<u>5,312,438</u>	<u>4,707,408</u>
Total Operating Expenses	<u>\$ 20,162,304</u>	<u>\$ 18,942,424</u>
Operating Income (Loss)	<u>\$ (17,375,084)</u>	<u>\$ (16,127,752)</u>
Nonoperating Revenues		
Investment earnings	\$ 50,598	\$ 58,983
Property taxes	1,491,900	1,391,900
Greater Minnesota Transit Fund	8,378,212	4,680,050
Operating grants		
Federal	344,496	1,300,000
State	2,792,738	4,680,050
City of Superior, Wisconsin	<u>1,242,041</u>	<u>1,291,175</u>
Total Nonoperating Revenues	<u>\$ 14,299,985</u>	<u>\$ 13,402,158</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (3,075,099)</u>	<u>\$ (2,725,594)</u>
Capital Contributions		
Federal	\$ 2,535,767	\$ 13,230,004
State	<u>971,924</u>	<u>7,530,971</u>
Total Capital Contributions	<u>\$ 3,507,691</u>	<u>\$ 20,760,975</u>
Change in Net Position	<u>\$ 432,592</u>	<u>\$ 18,035,381</u>
Net Position - January 1	<u>47,567,017</u>	<u>29,531,636</u>
Net Position - December 31	<u><u>\$ 47,999,609</u></u>	<u><u>\$ 47,567,017</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,842,643	\$ 2,760,922
Payments to suppliers	(3,277,577)	(3,521,193)
Payments to ATE Management for employee services	(11,133,966)	(10,573,401)
Net cash provided by (used in) operating activities	<u>\$ (11,568,900)</u>	<u>\$ (11,333,672)</u>
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 1,482,426	\$ 1,428,951
Greater Minnesota Transit Fund	8,378,212	4,680,050
Federal operating grants	344,496	1,300,000
State operating grants	2,792,738	4,757,053
City of Superior, Wisconsin, operating grants	1,349,678	1,200,591
Net cash provided by (used in) noncapital financing activities	<u>\$ 14,347,550</u>	<u>\$ 13,366,645</u>
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 8,455,807	\$ 16,812,353
Acquisition or construction of capital assets	(10,932,694)	(24,041,413)
Net cash provided by (used in) capital and related financing activities	<u>\$ (2,476,887)</u>	<u>\$ (7,229,060)</u>
Cash Flows from Investing Activities		
Interest on investments	\$ 50,598	\$ 58,983
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 352,361</u>	<u>\$ (5,137,104)</u>
Cash and Cash Equivalents - January 1	<u>4,778,737</u>	<u>9,915,841</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 5,131,098</u></u>	<u><u>\$ 4,778,737</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	<u>\$ (17,375,084)</u>	<u>\$ (16,127,752)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	5,312,438	4,707,408
(Increase) decrease in receivables	7,139	(8,794)
(Increase) decrease in inventory	17,559	11,195
(Increase) decrease in prepaid items	(45,725)	31,240
Increase (decrease) in payables	466,489	97,987
Increase (decrease) in unearned revenue	48,284	(44,956)
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (11,568,900)</u></u>	<u><u>\$ (11,333,672)</u></u>
Noncash Capital Financing Activities		
Acquisition of capital assets by contracts payable	<u>\$ -</u>	<u>\$ 3,610,631</u>

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, 2016 AND 2015**

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 generally accepted accounting principles (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**

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 accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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. 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 (entry price) 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>
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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

4. Unearned Revenue

Unredeemed ride tickets and tokens are reported as unearned 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 Position - 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, 2016 and 2015, net position restricted for transit operations and capital improvements was \$3,218,647 and \$4,795,680, respectively.

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. 2016 and 2015 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, 2016 and 2015.

	2016		Variance
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 2,466,900	\$ 2,787,220	\$ 320,320
Operating Expenses			
Personal services	\$ 11,662,295	\$ 11,187,228	\$ 475,067
Supplies	2,142,574	1,498,422	644,152
Utilities	300,000	274,433	25,567
Other services and charges	1,199,817	1,889,783	(689,966)
Depreciation	5,312,438	5,312,438	-
Total Operating Expenses	\$ 20,617,124	\$ 20,162,304	\$ 454,820
Operating Income (Loss)	\$ (18,150,224)	\$ (17,375,084)	\$ 775,140
Nonoperating Revenues			
Investment earnings	\$ -	\$ 50,598	\$ 50,598
Property taxes	1,208,075	1,491,900	283,825
Greater Minnesota Transit Fund	7,800,000	8,378,212	578,212
Operating grants			
Federal	1,300,000	344,496	(955,504)
State	2,600,000	2,792,738	192,738
City of Superior, Wisconsin	1,295,335	1,242,041	(53,294)
Total Nonoperating Revenues	\$ 14,203,410	\$ 14,299,985	\$ 96,575
Net Income (Loss) Before Capital Contributions	\$ (3,946,814)	\$ (3,075,099)	\$ 871,715
Capital Contributions			
Federal	\$ 2,159,016	\$ 2,535,767	\$ 376,751
State	3,055,000	971,924	(2,083,076)
Total Capital Contributions	\$ 5,214,016	\$ 3,507,691	\$ (1,706,325)
Change in Net Position	\$ 1,267,202	\$ 432,592	\$ (834,610)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2016 and 2015 Budget to Actual (Continued)

	2015		Variance
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 2,536,500	\$ 2,814,672	\$ 278,172
Operating Expenses			
Personal services	\$ 11,098,753	\$ 10,630,129	\$ 468,624
Supplies	2,384,375	1,540,041	844,334
Utilities	300,000	222,688	77,312
Other services and charges	1,065,078	1,842,158	(777,080)
Depreciation	4,707,408	4,707,408	-
Total Operating Expenses	\$ 19,555,614	\$ 18,942,424	\$ 613,190
Operating Income (Loss)	\$ (17,019,114)	\$ (16,127,752)	\$ 891,362
Nonoperating Revenues			
Investment earnings	\$ -	\$ 58,983	\$ 58,983
Property taxes	77,731	1,391,900	1,314,169
Greater Minnesota Transit Fund	4,680,050	4,680,050	-
Operating grants			
Federal	1,300,000	1,300,000	-
State	3,930,350	4,680,050	749,700
City of Superior, Wisconsin	1,261,362	1,291,175	29,813
Total Nonoperating Revenues	\$ 11,249,493	\$ 13,402,158	\$ 2,152,665
Net Income (Loss) Before Capital Contributions	\$ (5,769,621)	\$ (2,725,594)	\$ 3,044,027
Capital Contributions			
Federal	\$ 1,100,000	\$ 13,230,004	\$ 12,130,004
State	-	7,530,971	7,530,971
Total Capital Contributions	\$ 1,100,000	\$ 20,760,975	\$ 19,660,975
Change in Net Position	\$ (4,669,621)	\$ 18,035,381	\$ 22,705,002

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.

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	
	2016	2015
City Treasurer - accounts	\$ 4,982,719	\$ 4,750,808
ATE Management - checking account	112,582	(8,337)
Petty cash fund and change funds	14,960	14,960
Medical flex account	20,837	21,306
Total Cash and Cash Equivalents	<u>\$ 5,131,098</u>	<u>\$ 4,778,737</u>

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2016 and 2015, follows:

	Balance January 1, 2016	Increase	Decrease	Balance December 31, 2016
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	47,256,482	4,208,353	-	51,464,835
Revenue equipment	28,693,385	2,666,416	2,757,043	28,602,758
Shop and garage equipment	1,627,868	49,237	-	1,677,105
Office furniture and equipment	5,321,342	398,057	-	5,719,399
Total capital assets depreciated	<u>\$ 82,998,963</u>	<u>\$ 7,322,063</u>	<u>\$ 2,757,043</u>	<u>\$ 87,563,983</u>

DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2016	Increase	Decrease	Balance December 31, 2016
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	17,514,649	2,504,131	-	20,018,780
Revenue equipment	18,363,246	2,443,728	2,757,043	18,049,931
Shop and garage equipment	1,302,325	80,836	-	1,383,161
Office furniture and equipment	3,924,061	283,743	-	4,207,804
Total accumulated depreciation	\$ 41,204,167	\$ 5,312,438	\$ 2,757,043	\$ 43,759,562
Total capital assets depreciated, net	\$ 41,794,796	\$ 2,009,625	\$ -	\$ 43,804,421
Capital Assets, Net	\$ 42,017,163	\$ 2,009,625	\$ -	\$ 44,026,788

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Construction in progress	4,083,875	-	4,083,875	-
Total capital assets not depreciated	\$ 4,306,242	\$ -	\$ 4,083,875	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	21,740,780	25,515,702	-	47,256,482
Revenue equipment	24,819,103	4,430,249	555,967	28,693,385
Shop and garage equipment	1,679,175	57,416	108,723	1,627,868
Office furniture and equipment	5,112,794	341,526	132,978	5,321,342
Total capital assets depreciated	\$ 53,451,738	\$ 30,344,893	\$ 797,668	\$ 82,998,963
Less: accumulated depreciation for				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	15,286,305	2,228,344	-	17,514,649
Revenue equipment	16,408,177	2,149,383	194,314	18,363,246
Shop and garage equipment	1,333,984	77,064	108,723	1,302,325
Office furniture and equipment	3,804,422	252,617	132,978	3,924,061
Total accumulated depreciation	\$ 36,932,774	\$ 4,707,408	\$ 436,015	\$ 41,204,167
Total capital assets depreciated, net	\$ 16,518,964	\$ 25,637,485	\$ 361,653	\$ 41,794,796
Capital Assets, Net	\$ 20,825,206	\$ 25,637,485	\$ 4,445,528	\$ 42,017,163

**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 \$91,500. There were no balances for claims and judgments liability reported on the financial statements for the years ended December 31, 2016 or 2015.

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 \$1,362,860 for the year ended December 31, 2016, and \$1,419,712 for the year ended December 31, 2015. After deduction of the revenue collected in Superior of \$120,819 in 2016 and \$128,537 in 2015, the amounts actually billed were \$1,242,041 in 2016 and \$1,291,175 in 2015, which are included as nonoperating revenues.

DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA

4. Management Agreement

Though the Duluth Transit Authority has no employees, it has entered into a management agreement with ATE Management and Service Company, Inc., and its subsidiary ATE Management of Duluth, Inc., (collectively referred to as ATE). Under the terms of this agreement, the Authority is liable to ATE on a monthly basis for all employee compensation and benefits under the collective bargaining agreement between ATE and its employees. 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 \$567,864 and \$565,643 at December 31, 2016 and 2015, respectively, and is included with salaries payable of \$260,701 and \$209,660 for December 31, 2016 and 2015, 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 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 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 5 years of participation or on reaching 10 years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

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

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution was \$290.60 per full-time employee per week in 2016.

ATE's contributions for the years ending December 31, 2016, 2015, and 2014, were \$1,553,286, \$1,466,842, and \$1,386,739, 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.

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>2016</u>	<u>2015</u>
Employer	\$ 187,746	\$ 174,277
Employee	31,077	29,316

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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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,904,425	\$ 1,927,396
Senior citizen fares	139,700	151,717
Student fares	410,908	400,004
Disability fares	24,654	26,775
	<u>2,479,687</u>	<u>2,505,892</u>
Total passenger fares for transit service	\$ 2,479,687	\$ 2,505,892
Charter service revenues	\$ 9,719	\$ 8,812
Auxiliary transportation revenues		
Advertising services	\$ 151,991	\$ 145,824
STRIDE	61,508	62,196
Other	84,315	91,948
	<u>297,814</u>	<u>299,968</u>
Total auxiliary transportation revenues	\$ 297,814	\$ 299,968
Total charges for services	\$ 2,787,220	\$ 2,814,672
Nonoperating and Other Revenues		
Investment earnings	\$ 50,598	\$ 58,983
Property taxes	1,491,900	1,391,900
Greater Minnesota Transit Fund	8,378,212	4,680,050
Operating grants		
Federal - Section 5307	336,201	1,300,000
Federal - other	8,295	-
State - regular route	2,600,000	4,305,200
State - disability service	192,738	374,850
City of Superior, Wisconsin - regular route	1,159,431	1,200,068
City of Superior, Wisconsin - disability service	82,610	91,107
Capital contributions		
Federal	2,535,767	13,230,004
State	971,924	7,530,971
	<u>17,807,676</u>	<u>34,163,133</u>
Total nonoperating and other revenues	\$ 17,807,676	\$ 34,163,133
Total Revenues	\$ 20,594,896	\$ 36,977,805

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016		
	Vehicle Operations	Vehicle Maintenance	General Administration
Personal services			
Labor			
Operations - salaries and wages	\$ 4,107,805	\$ -	\$ -
Other salaries and wages	-	967,989	794,054
Fringe benefits	3,723,930	875,582	717,868
Total personal services	\$ 7,831,735	\$ 1,843,571	\$ 1,511,922
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 660,347	\$ 9,416	\$ -
Tires and tubes	73,891	833	-
Other materials and supplies	16,695	616,898	120,342
Total supplies	\$ 750,933	\$ 627,147	\$ 120,342
Utilities	\$ 76,083	\$ -	\$ 198,350
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 235,650
Professional and technical services	297,686	68,932	197,699
Other services	142	127,778	83,575
Casualty and liability costs	-	-	313,370
Taxes and fees	655	776	1,805
Miscellaneous			
Dues and subscriptions	-	-	5,167
Travel and meetings	1,139	3,927	13,175
Advertising and promotional media	-	-	57,988
Purchased transportation service	-	-	463,757
Other	952	2,793	12,817
Total other services and charges	\$ 300,574	\$ 204,206	\$ 1,385,003
Depreciation	\$ 3,143,123	\$ 156,309	\$ 2,013,006
Total Expenses*	\$ 12,102,448	\$ 2,831,233	\$ 5,228,623

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$876,345 for 2016 and \$855,908 for 2015.

EXHIBIT A-2

2015				
Total	Vehicle Operations	Vehicle Maintenance	General Administration	Total
\$ 4,107,805	\$ 3,848,959	\$ -	\$ -	\$ 3,848,959
1,762,043	-	950,343	819,321	1,769,664
5,317,380	3,433,237	846,983	731,286	5,011,506
\$ 11,187,228	\$ 7,282,196	\$ 1,797,326	\$ 1,550,607	\$ 10,630,129
\$ 669,763	\$ 855,202	\$ 10,629	\$ -	\$ 865,831
74,724	74,153	-	-	74,153
753,935	21,506	490,937	87,614	600,057
\$ 1,498,422	\$ 950,861	\$ 501,566	\$ 87,614	\$ 1,540,041
\$ 274,433	\$ 24,164	\$ -	\$ 198,524	\$ 222,688
\$ 235,650	\$ -	\$ -	\$ 229,280	\$ 229,280
564,317	273,665	39,552	315,874	629,091
211,495	143	68,021	43,186	111,350
313,370	-	-	326,035	326,035
3,236	1,097	316	10,853	12,266
5,167	-	-	6,496	6,496
18,241	505	3,179	19,602	23,286
57,988	-	-	52,293	52,293
463,757	-	-	444,124	444,124
16,562	-	120	7,817	7,937
\$ 1,889,783	\$ 275,410	\$ 111,188	\$ 1,455,560	\$ 1,842,158
\$ 5,312,438	\$ 2,790,906	\$ 152,385	\$ 1,764,117	\$ 4,707,408
\$ 20,162,304	\$ 11,323,537	\$ 2,562,465	\$ 5,056,422	\$ 18,942,424

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

Month	2016			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
Regular Route				
January	1,131	\$ 99.12	\$ 112,105	\$ 9,360
February	1,125	102.89	115,731	9,841
March	1,181	93.80	110,756	6,982
April	1,124	92.56	104,021	11,442
May	1,115	93.82	104,638	9,082
June	1,138	94.24	103,609	11,251
July	1,101	90.52	99,680	8,755
August	1,192	102.17	121,783	9,994
September	1,095	85.81	93,974	8,956
October	1,144	89.32	102,185	9,911
November	1,095	93.19	102,053	11,192
December	1,146	92.05	105,532	9,870
Total Regular Route	13,587		\$ 1,276,067	\$ 116,636
Disability Service				
January	164	\$ 44.67	\$ 7,710	\$ 321
February	170	41.71	7,519	357
March	140	41.90	6,262	292
April	165	43.60	7,645	360
May	161	41.51	7,069	390
June	185	42.76	8,307	411
July	149	40.57	6,442	304
August	156	42.11	6,955	294
September	140	41.68	6,221	281
October	169	43.01	7,697	367
November	159	41.53	7,021	389
December	175	42.95	7,945	417
Total Disability Service	1,933		\$ 86,793 *	\$ 4,183

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

EXHIBIT A-3

2015					
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
\$ 102,745	1,177	\$ 90.16	\$ 106,136	\$ 13,771	\$ 92,365
105,890	1,104	104.31	115,158	7,953	107,205
103,774	1,215	92.85	112,850	9,894	102,956
92,579	1,195	94.78	113,300	10,651	102,649
95,556	1,152	90.70	104,441	8,072	96,369
92,358	1,195	97.02	115,978	8,831	107,147
90,925	1,214	93.00	112,865	13,241	99,624
111,789	1,197	85.85	103,741	10,045	93,696
85,018	1,150	91.46	105,152	11,219	93,933
92,274	1,223	94.85	115,992	9,556	106,436
90,861	1,124	92.59	104,071	10,611	93,460
95,662	1,195	95.61	114,292	10,064	104,228
\$ 1,159,431	14,141		\$ 1,323,976	\$ 123,908	\$ 1,200,068
\$ 7,389	206	\$ 39.35	\$ 8,513	\$ 406	\$ 8,107
7,162	174	39.83	7,348	359	6,989
5,970	219	40.96	9,377	478	8,899
7,285	193	40.67	8,256	432	7,824
6,679	165	41.18	7,222	383	6,839
7,896	196	41.59	8,548	385	8,163
6,138	164	42.61	7,395	350	7,045
6,661	202	41.62	8,825	426	8,399
5,940	192	41.62	8,398	357	8,041
7,330	177	43.27	8,044	381	7,663
6,632	156	41.90	6,944	344	6,600
7,528	155	41.67	6,866	328	6,538
\$ 82,610	2,199		\$ 95,736 *	\$ 4,629	\$ 91,107

**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, 2016 AND 2015**

	<u>2016</u>		<u>2015</u>
Deficit recognized for the City of Superior			
Regular route	\$ 1,159,431		\$ 1,200,068
Disability service	<u>82,610</u>		<u>91,107</u>
Total	\$ 1,242,041		\$ 1,291,175
Federal funding - lower of the following			
Percentage limit - 50% of regular route deficit	\$ 579,716		\$ 600,034
Maximum federal share per grant agreement	458,085	(458,085)	452,811
			(452,811)
Deficit recognized by the Wisconsin Department of Transportation			
Net charges to the City of Superior	\$ 1,242,041		\$ 1,291,175
Less: maximum federal share	<u>(458,085)</u>		<u>(452,811)</u>
Non-Federal Share	<u>\$ 783,956</u>		<u>\$ 838,364</u>
Wisconsin Department of Transportation funding - lower of the following			
Non-federal share	\$ 783,956		\$ 838,364
Maximum Wisconsin Department of Transportation share per grant agreement	355,713	<u>(355,713)</u>	357,470
			<u>(357,470)</u>
Local Funds Required - City of Superior, Wisconsin	<u>\$ 428,243</u>		<u>\$ 480,894</u>

**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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Regular Route		
Operating revenues in the City of Superior	\$ 116,636	\$ 123,908
Operating expenses in the City of Superior	<u>(1,276,067)</u>	<u>(1,323,976)</u>
 Regular Route Deficit Recognized for Federal and State Operating Funds	 <u><u>\$ (1,159,431)</u></u>	 <u><u>\$ (1,200,068)</u></u>
 Disability Service		
Operating revenues in the City of Superior	\$ 4,183	\$ 4,629
Operating expenses in the City of Superior	<u>(86,793)</u>	<u>(95,736)</u>
 Disability Service Deficit Recognized for State Operating Funds	 <u><u>\$ (82,610)</u></u>	 <u><u>\$ (91,107)</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Transportation			
Direct			
Federal Transit Cluster			
Federal Transit Capital Assistance Formula Grants	20.507	*	\$ 2,498,056
Federal Transit Operating Assistance Formula Grants	20.507	*	336,201
(Total Transit Formula Grants CFDA 20.507 and total Federal Transit Cluster \$2,834,257)			
Public Transportation Research, Technical Assistance, and Training	20.514	*	37,711
(Total Public Transportation Research, Technical Assistance, and Training CFDA 20.514 \$46,006)			
Passed Through Minnesota Department of Transportation			
Public Transportation Research, Technical Assistance, and Training	20.514	MN 26-0010 & 0011	<u>8,295</u>
(Total Public Transportation Research, Technical Assistance, and Training CFDA 20.514 \$46,006)			
Total Federal Awards			<u>\$ 2,880,263</u>

*Not applicable, direct funding.

The Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. 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.

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, 2016. 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.

3. Summary of Significant Accounting Policies

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. No indirect costs were charged to these grants.

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

Nonoperating revenues: operating grants - federal	\$ 344,496
Capital contributions - federal	<u>2,535,767</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,880,263</u>

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REBECCA OTTO
STATE AUDITOR

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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*

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 23, 2017.

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 or significant deficiencies. However, material weaknesses or significant deficiencies 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

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Authority does not administer any tax increment financing districts. The provisions for deposits and investments were tested in conjunction with our audit of the City of Duluth, Minnesota, which holds the Authority's cash and investments.

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 *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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.

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 Other Political Subdivisions* 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 23, 2017

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REBECCA OTTO
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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 Each 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, 2016. 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 with those requirements.

Opinion on Each 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, 2016.

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.

Purpose of This Report

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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 23, 2017

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program cluster is:

Federal Transit Cluster

Federal Transit Formula Grants

CFDA No. 20.507

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

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

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.