

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,
2013 AND 2012

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,
2013 and 2012**



**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, 2013**

	<u>Term of Office Ends</u>
<u>Board</u>	
Directors	
District No. 1 Tony Orman	June 30, 2015
District No. 2 David Schaeffer	June 30, 2014
District No. 3 John Brostrom	June 30, 2016
District No. 4 Anna Marie Friesen	June 30, 2016
District No. 5 Donald Simons	June 30, 2014
At Large	
Thomas Griffin	June 30, 2016
Walter Kramer	June 30, 2015
Wayne Nelson	June 30, 2015
Appointed by Mayor, City of Superior, Wisconsin Leslie Evans	June 30, 2015
Officers	
President John Brostrom	
Vice President Donald Simons	
<u>Management</u>	
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

Board of Directors
Duluth Transit Authority

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, as of and for the years ended December 31, 2013 and 2012, 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 of 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, 2013 and 2012, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our 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, 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 audits 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 May 30, 2014, on our consideration of the Duluth Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Transit Authority's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 30, 2014

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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, 2013
(Unaudited)**

This section presents management's analysis of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2013. This information should be read in conjunction with the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Authority continued in its multi-year contracts for the U-Pass college transportation program.
- The Authority introduced two new regular bus routes in the fall of 2007. These new routes were added with a new program called Job Access Reverse Commute (JARC). The JARC program has been funded through fiscal year 2013.
- A fare increase went into effect January 1, 2011. The Authority also increased late night service and holiday service, also effective on January 1, 2011.
- The Authority's net position increased from 2012 by 12.3 percent.
- The Authority has been preparing for a multimodal facility which will be located in downtown Duluth. The facility will allow for safe and secure transfers between Duluth Transit Authority routes as well as the other transit providers, rail riders, pedestrians, and cyclists. The project design began in 2012 and 2013, with construction beginning in 2014 and completion for late 2015. The off-street location and design will improve the effectiveness of the current and future transportation demand, and to provide connectivity to the overall transportation system. The total cost of the facility is estimated to be \$28.9 million. Funding for the project will be derived from several sources including the Duluth Transit Authority; the City of Duluth; and federal, state, and local grants.

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 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 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 supplementary information section elaborates on the above-noted financial statements and also examines the transit services provided to the City of Superior, Wisconsin.

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

SUMMARY OF ORGANIZATION AND BUSINESS

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

The Authority provides both fixed route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 20 fixed routes and provides service seven days a week. The Authority operated 1,876,484 miles and carried 3,195,020 fixed route passengers and 25,790 paratransit riders during 2013. 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 12.3 percent in 2013 from 2012 and decreased 6.8 percent in 2012 from 2011. The acquisition of ten fixed route buses and nine paratransit buses in 2013 increased the net position for that year along with facility upgrades and the design work for the new multimodal facility.

Condensed Statement of Net Position (000s)

	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Assets			
Current assets	\$ 10,039	\$ 9,898	\$ 9,435
Capital assets	\$ 54,626	\$ 48,330	\$ 47,379
Less: depreciation	(37,315)	(33,774)	(30,634)
Capital assets, net	\$ 17,311	\$ 14,556	\$ 16,745
Total Assets	\$ 27,350	\$ 24,454	\$ 26,180
Current Liabilities	\$ 1,346	\$ 1,287	\$ 1,320
Net Position			
Investment in capital assets	\$ 17,311	\$ 14,556	\$ 16,745
Restricted for transit operations and capital improvement	7,939	7,857	7,361
Unrestricted	754	754	754
Total Net Position	\$ 26,004	\$ 23,167	\$ 24,860

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

	Fiscal Year 2013 Actual	Fiscal Year 2013 Budget	Fiscal Year 2012 Actual	Fiscal Year 2011 Actual
Operating revenues	\$ 2,654	\$ 2,726	\$ 2,664	\$ 2,596
Nonoperating revenues	12,177	10,561	11,547	11,672
Total Revenues	\$ 14,831	\$ 13,287	\$ 14,211	\$ 14,268
Operating expenses	17,017	17,572	16,599	16,331
Income (Loss) Before Capital Contributions	\$ (2,186)	\$ (4,285)	\$ (2,388)	\$ (2,063)
Capital contributions	5,023	6,651	695	278
Change in net position	\$ 2,837	\$ 2,366	\$ (1,693)	\$ (1,785)
Net Position - January 1	23,167	23,167	24,860	26,645
Net Position - December 31	<u>\$ 26,004</u>	<u>\$ 25,533</u>	<u>\$ 23,167</u>	<u>\$ 24,860</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 .4 percent to \$2.65 million in 2013, down from \$2.66 million in 2012. Nonoperating revenues increased from \$11.55 million in 2012 to \$12.18 million in 2013. This was an increase of 5.5 percent. The number of passengers decreased from 3,261,494 in 2012 to 3,195,020 in 2013.

Expenses

The Authority's 2013 operating expenses increased 2.5 percent, or \$418,000, over 2012 operating expenses of \$16.60 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. Nearly 50 percent of the state's subsidy comes from the Motor Vehicle Sales Tax. This money is constitutionally dedicated to transportation. However, it has not increased in recent years as it did in the 1990s. The remaining state share comes from the General Fund and is at the discretion of the Legislature and Governor.

CAPITAL ASSETS

By the end of fiscal year 2013, the Duluth Transit Authority had invested \$54.63 million in capital assets. The \$6,296,653 increase in capital assets is primarily due to the design and preparation for the new multimodal facility and acquisition of vehicles for fixed routes and paratransit.

The Authority's five-year capital plan includes a multimodal transportation center in downtown Duluth. The plan also includes replacement of full-size buses for fixed routes. 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 2013 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. The U-PASS program has increased fixed route ridership nearly every year from the start. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 19 transit routes in Duluth and Superior at that time. This information was used to adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2013 budget reflects the state formula that funds up to 80 percent of fixed route expenses and 85 percent of STRIDE expenses. The cost of fuel is always a concern and hard to budget. The State of Minnesota has supplied this line item cost for the 2013 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, 2013 AND 2012**

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 9,375,093	\$ 9,262,568
Accounts receivable	60,979	65,047
Due from State of Minnesota	117,599	146,637
Taxes receivable	40,202	40,277
Due from other governments	147,000	129,693
Inventory	191,967	205,127
Prepaid items	105,791	48,897
Total current assets	\$ 10,038,631	\$ 9,898,246
Noncurrent assets		
Capital assets	\$ 54,626,546	\$ 48,329,893
Less: allowance for depreciation	(37,315,189)	(33,773,979)
Noncurrent assets - net	\$ 17,311,357	\$ 14,555,914
Total Assets	\$ 27,349,988	\$ 24,454,160
Liabilities		
Current liabilities		
Accounts payable	\$ 517,221	\$ 527,657
Accrued salaries payable	151,837	131,963
Accrued vacation payable	544,661	535,819
Unearned revenue	132,259	91,760
Total Liabilities	\$ 1,345,978	\$ 1,287,199
Net Position		
Net investment in capital assets	\$ 17,311,357	\$ 14,555,914
Restricted for transit operations and capital improvements	7,938,479	7,856,873
Unrestricted	754,174	754,174
Total Net Position	\$ 26,004,010	\$ 23,166,961

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Operating Revenues		
Charges for services	<u>\$ 2,653,723</u>	<u>\$ 2,663,846</u>
Operating Expenses		
Personal services	\$ 9,739,251	\$ 9,630,423
Supplies	2,123,793	2,064,385
Utilities	229,393	214,916
Other services and charges	1,369,856	1,548,449
Depreciation and amortization	<u>3,555,141</u>	<u>3,140,133</u>
Total Operating Expenses	<u>\$ 17,017,434</u>	<u>\$ 16,598,306</u>
Operating Income (Loss)	<u>\$ (14,363,711)</u>	<u>\$ (13,934,460)</u>
Nonoperating Revenues		
Investment earnings	\$ 84,671	\$ 77,331
Property taxes	1,391,900	1,316,900
Greater Minnesota Transit Fund	4,998,285	4,175,800
Operating grants		
Federal	1,404,037	1,360,016
State	3,063,463	3,418,200
City of Superior, Wisconsin	<u>1,234,443</u>	<u>1,198,421</u>
Total Nonoperating Revenues	<u>\$ 12,176,799</u>	<u>\$ 11,546,668</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (2,186,912)</u>	<u>\$ (2,387,792)</u>
Capital Contributions		
Federal	<u>5,023,961</u>	<u>694,675</u>
Change in Net Position	<u>\$ 2,837,049</u>	<u>\$ (1,693,117)</u>
Net Position - January 1	<u>23,166,961</u>	<u>24,860,078</u>
Net Position - December 31	<u><u>\$ 26,004,010</u></u>	<u><u>\$ 23,166,961</u></u>

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,696,810	\$ 2,671,357
Payments to suppliers	(3,777,212)	(3,784,195)
Payments to employees	(9,710,535)	(9,609,024)
	\$ (10,790,937)	\$ (10,721,862)
Cash Flows from Noncapital Financing Activities		
Property taxes and aids	\$ 1,391,975	\$ 1,327,839
Greater Minnesota Transit Fund	4,998,285	4,175,800
Federal operating grants	1,412,073	1,357,560
State operating grants	3,084,464	3,382,399
City of Superior, Wisconsin, operating funds	1,218,616	1,196,817
	\$ 12,105,413	\$ 11,440,415
Cash Flows from Capital and Related Financing Activities		
Capital grants and contributions	\$ 5,023,961	\$ 694,675
Acquisition or construction of capital assets	(6,310,583)	(951,081)
	\$ (1,286,622)	\$ (256,406)
Cash Flows from Investing Activities		
Interest on investments	\$ 84,671	\$ 77,331
	\$ 112,525	\$ 539,478
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 112,525	\$ 539,478
Cash and Cash Equivalents - January 1	9,262,568	8,723,090
Cash and Cash Equivalents - December 31	\$ 9,375,093	\$ 9,262,568
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (14,363,711)	\$ (13,934,460)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	3,555,141	3,140,133
(Increase) decrease in receivables	2,588	1,582
(Increase) decrease in inventories	13,160	55,005
(Increase) decrease in prepaid items	(56,894)	48,362
Increase (decrease) in payables	18,280	(38,413)
Increase (decrease) in unearned revenue	40,499	5,929
	3,555,141	3,140,133
Net Cash Provided by (Used in) Operating Activities	\$ (10,790,937)	\$ (10,721,862)

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, 2013 AND 2012

1. Summary of Significant Accounting Policies

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

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

The accounting policies of the Authority conform to generally accepted accounting principles (GAAP). During 2013, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. 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 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.

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. 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, 2013, net position restricted for transit operations and capital improvements was \$7,938,479.

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. 2013 and 2012 Budget to Actual

As required by 1969 Minn. Laws, ch. 720, the Authority's annual budget is approved by the City Council of Duluth. Following is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2013 and 2012.

	2013		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,726,239	\$ 2,653,723	\$ (72,516)
Operating Expenses			
Personal services	\$ 10,055,483	\$ 9,739,251	\$ 316,232
Supplies	2,278,884	2,123,793	155,091
Utilities	300,000	229,393	70,607
Other services and charges	1,382,849	1,369,856	12,993
Depreciation and amortization	3,555,141	3,555,141	-
Total Operating Expenses	\$ 17,572,357	\$ 17,017,434	\$ 554,923
Operating Income (Loss)	\$ (14,846,118)	\$ (14,363,711)	\$ 482,407
Nonoperating Revenues			
Investment earnings	\$ -	\$ 84,671	\$ 84,671
Property taxes	868,139	1,391,900	523,761
Greater Minnesota Transit Fund	4,998,285	4,998,285	-
Operating grants			
Federal	1,452,932	1,404,037	(48,895)
State	2,077,715	3,063,463	985,748
City of Superior, Wisconsin	1,164,291	1,234,443	70,152
Total Nonoperating Revenues	\$ 10,561,362	\$ 12,176,799	\$ 1,615,437
Net Income (Loss)	\$ (4,284,756)	\$ (2,186,912)	\$ 2,097,844
Capital Contributions			
Federal	6,651,104	5,023,961	(1,627,143)
Change in Net Position	\$ 2,366,348	\$ 2,837,049	\$ 470,701

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2013 and 2012 Budget to Actual (Continued)

	2012		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 2,628,739	\$ 2,663,846	\$ 35,107
Operating Expenses			
Personal services	\$ 9,647,319	\$ 9,630,423	\$ 16,896
Supplies	2,224,797	2,064,385	160,412
Utilities	350,000	214,916	135,084
Other services and charges	1,266,174	1,548,449	(282,275)
Depreciation and amortization	3,140,133	3,140,133	-
Total Operating Expenses	\$ 16,628,423	\$ 16,598,306	\$ 30,117
Operating Income (Loss)	\$ (13,999,684)	\$ (13,934,460)	\$ 65,224
Nonoperating Revenues			
Investment earnings	\$ -	\$ 77,331	\$ 77,331
Property taxes	710,451	1,316,900	606,449
Greater Minnesota Transit Fund	4,175,800	4,175,800	-
Operating grants			
Federal	1,257,932	1,360,016	102,084
State	2,900,200	3,418,200	518,000
City of Superior, Wisconsin	1,140,994	1,198,421	57,427
Total Nonoperating Revenues	\$ 10,185,377	\$ 11,546,668	\$ 1,361,291
Net Income (Loss)	\$ (3,814,307)	\$ (2,387,792)	\$ 1,426,515
Capital Contributions			
Federal	430,000	694,675	264,675
Change in Net Position	\$ (3,384,307)	\$ (1,693,117)	\$ 1,691,190

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	
	2013	2012
City Treasurer - checking account	\$ 9,311,164	\$ 9,166,132
ATE Management - checking account	28,652	59,417
Petty cash fund and change funds	14,960	14,960
Medical flex account	20,317	22,059
Total Cash and Cash Equivalents	\$ 9,375,093	\$ 9,262,568

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2013 and 2012, follows:

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	18,728,263	1,204,993	-	19,933,256
Revenue equipment	23,839,885	5,006,056	-	28,845,941
Shop and garage equipment	1,653,359	175	-	1,653,534
Office furniture and equipment	3,786,133	85,429	-	3,871,562
Total capital assets depreciated	\$ 48,107,526	\$ 6,296,653	\$ -	\$ 54,404,179

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013
Less: accumulated depreciation for				
Land improvements	\$ 89,897	\$ 9,989	\$ -	\$ 99,886
Buildings and structures	13,252,892	842,342	-	14,095,234
Revenue equipment	15,850,923	2,429,899	-	18,280,822
Shop and garage equipment	1,177,140	80,262	-	1,257,402
Office furniture and equipment	3,403,127	178,718	-	3,581,845
Total accumulated depreciation	<u>\$ 33,773,979</u>	<u>\$ 3,541,210</u>	<u>\$ -</u>	<u>\$ 37,315,189</u>
Total capital assets depreciated, net	<u>\$ 14,333,547</u>	<u>\$ 2,755,443</u>	<u>\$ -</u>	<u>\$ 17,088,990</u>
Capital Assets, Net	<u>\$ 14,555,914</u>	<u>\$ 2,755,443</u>	<u>\$ -</u>	<u>\$ 17,311,357</u>

	Balance January 1, 2012	Increase	Decrease	Balance December 31, 2012
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	18,032,311	695,952	-	18,728,263
Revenue equipment	23,839,885	-	-	23,839,885
Shop and garage equipment	1,506,601	146,758	-	1,653,359
Office furniture and equipment	3,677,762	108,371	-	3,786,133
Total capital assets depreciated	<u>\$ 47,156,445</u>	<u>\$ 951,081</u>	<u>\$ -</u>	<u>\$ 48,107,526</u>
Less: accumulated depreciation for				
Land improvements	\$ 79,909	\$ 9,988	\$ -	\$ 89,897
Buildings and structures	12,423,293	829,599	-	13,252,892
Revenue equipment	13,859,724	1,991,199	-	15,850,923
Shop and garage equipment	1,088,644	88,496	-	1,177,140
Office furniture and equipment	3,182,276	220,851	-	3,403,127
Total accumulated depreciation	<u>\$ 30,633,846</u>	<u>\$ 3,140,133</u>	<u>\$ -</u>	<u>\$ 33,773,979</u>
Total capital assets depreciated, net	<u>\$ 16,522,599</u>	<u>\$ (2,189,052)</u>	<u>\$ -</u>	<u>\$ 14,333,547</u>
Capital Assets, Net	<u>\$ 16,744,966</u>	<u>\$ (2,189,052)</u>	<u>\$ -</u>	<u>\$ 14,555,914</u>

**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 \$5,000 to \$256,000. There were no balances for claims and judgments liability reported on the financial statements for the years ended December 31, 2013 or 2012.

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 \$1,353,942 for the year ended December 31, 2013, and \$1,330,050 for the year ended December 31, 2012. After deduction of the revenue collected in Superior of \$119,499 in 2013 and \$131,629 in 2012, the amounts actually billed were \$1,234,443 in 2013 and \$1,198,421 in 2012, which are included as nonoperating revenues.

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

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

A. Vacation and Sick Leave

Employees of ATE are granted from 5 to 30 days of vacation time per year depending on their years of service and union bargaining unit. Vacation earned in one year must be used the following year or it is forfeited. The accrued vacation for all employees had an estimated value of \$544,661 and \$535,819 at December 31, 2013 and 2012, respectively, and is included as accrued vacation payable on the balance sheet.

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

B. Retirement Plans

Defined Benefit Pension Plan

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

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

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

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

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution was \$258.50 per full-time employee per week in 2013.

ATE's contributions for the years ending December 31, 2013, 2012, and 2011, were \$1,336,445, \$1,268,624, and \$1,205,457, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

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

Defined Contribution Plan

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

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

	<u>2013</u>	<u>2012</u>
Employer	\$ 152,405	\$ 149,742
Employee	25,401	24,957

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

5. Subsequent Events Note

The Duluth Transit Authority has entered into agreements with several organizations relating to the construction of a new multi-modal transportation facility in downtown Duluth.

The total cost of the facility is estimated to be \$28.9 million. Funding for the project will be derived from several sources including the Duluth Transit Authority, the City of Duluth, and state and local grants.

Construction work on the facility is expected to commence in spring 2014 and be completed in 2015.

SUPPLEMENTARY INFORMATION

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Charges for Services		
Passenger fares for transit service		
Adult fares	\$ 1,898,235	\$ 1,799,111
Senior citizen fares	156,751	161,683
Student fares	373,936	462,954
Disability fares	27,662	28,533
	\$ 2,456,584	\$ 2,452,281
Charter service revenues	\$ 13,275	\$ 15,806
Auxiliary transportation revenues		
Advertising services	\$ 119,585	\$ 114,689
STRIDE	51,648	52,041
Other	12,631	29,029
	\$ 183,864	\$ 195,759
Total charges for services	\$ 2,653,723	\$ 2,663,846
Nonoperating and Other Revenues		
Investment earnings	\$ 84,671	\$ 77,331
Property taxes	1,391,900	1,316,900
Greater Minnesota Transit Fund	4,998,285	4,175,800
Operating grants		
Federal - Section 5307	1,260,000	1,200,000
Federal - Job Access Reverse Commute	141,422	156,000
Federal - other	2,615	4,016
State - regular route	2,864,820	3,204,000
State - disability service	198,643	214,200
City of Superior, Wisconsin - regular route	1,152,962	1,119,081
City of Superior, Wisconsin - disability service	81,481	79,340
Capital grants		
Federal	5,023,961	694,675
	\$ 17,200,760	\$ 12,241,343
Total Revenues	\$ 19,854,483	\$ 14,905,189

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013		
	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>
Personal services			
Labor			
Operations - salaries and wages	\$ 3,697,354	\$ -	\$ -
Other salaries and wages	-	862,025	723,776
Fringe benefits	3,120,189	725,909	609,998
Total personal services	\$ 6,817,543	\$ 1,587,934	\$ 1,333,774
Supplies			
Materials and supplies consumed			
Fuel and lubricants	\$ 1,438,917	\$ 20,380	\$ -
Tires and tubes	85,174	1,432	-
Other materials and supplies	19,148	454,354	104,388
Total supplies	\$ 1,543,239	\$ 476,166	\$ 104,388
Utilities	\$ 24,579	\$ -	\$ 204,814
Other services and charges			
Services			
Management service fee	\$ -	\$ -	\$ 220,380
Professional and technical services	212,093	21,724	213,244
Temporary help	-	-	-
Other services	143	54,935	2,821
Casualty and liability costs	-	-	181,616
Taxes and fees	1,692	-	16,858
Miscellaneous			
Dues and subscriptions	-	-	6,422
Travel and meetings	3,584	610	14,759
Advertising and promotional media	-	-	45,293
Purchased transportation service	-	-	367,563
Other	85	129	5,905
Total other services and charges	\$ 217,597	\$ 77,398	\$ 1,074,861
Depreciation and amortization	\$ 2,886,385	\$ 163,204	\$ 505,552
Total Expenses*	\$ 11,489,343	\$ 2,304,702	\$ 3,223,389

*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$764,533 for 2013 and \$741,183 for 2012.

EXHIBIT A-2

2012				
Total	Vehicle Operations	Vehicle Maintenance	General Administration	Total
\$ 3,697,354	\$ 3,617,306	\$ -	\$ -	\$ 3,617,306
1,585,801	-	866,453	696,444	1,562,897
4,456,096	3,111,397	742,434	596,389	4,450,220
\$ 9,739,251	\$ 6,728,703	\$ 1,608,887	\$ 1,292,833	\$ 9,630,423
\$ 1,459,297	\$ 1,478,767	\$ 18,144	\$ -	\$ 1,496,911
86,606	92,530	8	-	92,538
577,890	20,181	396,742	58,013	474,936
\$ 2,123,793	\$ 1,591,478	\$ 414,894	\$ 58,013	\$ 2,064,385
\$ 229,393	\$ 20,076	\$ -	\$ 194,840	\$ 214,916
\$ 220,380	\$ -	\$ -	\$ 216,058	\$ 216,058
447,061	310,109	34,483	218,360	562,952
-	-	-	120	120
57,899	143	55,919	4,716	60,778
181,616	-	-	273,538	273,538
18,550	83	412	18,776	19,271
6,422	-	-	5,523	5,523
18,953	4,743	1,576	13,156	19,475
45,293	-	-	44,832	44,832
367,563	-	-	339,112	339,112
6,119	-	696	6,094	6,790
\$ 1,369,856	\$ 315,078	\$ 93,086	\$ 1,140,285	\$ 1,548,449
\$ 3,555,141	\$ 2,463,725	\$ 185,867	\$ 490,541	\$ 3,140,133
\$ 17,017,434	\$ 11,119,060	\$ 2,302,734	\$ 3,176,512	\$ 16,598,306

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

<u>Month</u>	<u>2013</u>			
	<u>Total Hours Operating in Superior</u>	<u>Operating Charge Per Hour</u>	<u>Total Charge</u>	<u>Income from Runs in Superior</u>
Regular Route				
January	1,195	\$ 99.01	\$ 118,357	\$ 7,629
February	1,104	88.90	98,146	9,629
March	1,197	89.66	107,341	9,989
April	1,195	89.78	107,143	9,916
May	1,195	88.30	105,554	11,786
June	1,152	85.17	98,073	9,335
July	1,195	89.67	107,191	9,183
August	1,223	86.98	107,342	10,410
September	1,124	86.06	96,731	8,231
October	1,241	91.07	113,027	10,693
November	1,132	85.74	97,015	9,294
December	1,170	96.24	112,572	9,435
Total Regular Route	<u>14,123</u>		<u>\$ 1,268,492</u>	<u>\$ 115,530</u>
Disability Service				
January	137	\$ 43.99	\$ 6,434	\$ 295
February	131	44.80	6,287	266
March	156	41.67	6,897	321
April	164	42.39	7,348	243
May	171	42.35	7,638	333
June	151	41.63	6,683	257
July	146	44.13	6,850	253
August	149	43.14	6,824	290
September	170	41.61	7,501	357
October	190	41.19	8,233	483
November	176	40.88	7,592	448
December	165	40.76	7,163	423
Total Disability Service	<u>1,906</u>		<u>\$ 85,450</u> *	<u>\$ 3,969</u>

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

EXHIBIT A-3

		2012				
<u>Net Charges to the City of Superior</u>	<u>Total Hours Operating in Superior</u>	<u>Operating Charge Per Hour</u>	<u>Total Charge</u>	<u>Income from Runs in Superior</u>	<u>Net Charges to the City of Superior</u>	
\$ 110,728	1,195	\$ 91.45	\$ 109,317	\$ 11,288	\$ 98,029	
88,517	1,141	87.57	99,937	11,147	88,790	
97,352	1,222	86.35	105,598	12,914	92,684	
97,227	1,170	90.33	105,657	10,309	95,348	
93,768	1,195	87.95	105,138	14,008	91,130	
88,738	1,177	88.13	103,742	9,786	93,956	
98,008	1,170	85.37	99,856	9,564	90,292	
96,932	1,241	91.94	114,110	8,226	105,884	
88,500	1,117	84.92	94,852	10,158	84,694	
102,334	1,241	93.79	116,407	9,625	106,782	
87,721	1,150	81.47	93,670	10,625	83,045	
103,137	1,152	85.63	98,605	10,155	88,450	
\$ 1,152,962	14,171		\$ 1,246,889	\$ 127,805	\$ 1,119,084	
\$ 6,139	138	\$ 42.31	\$ 6,246	\$ 294	\$ 5,952	
6,021	143	43.40	6,602	290	6,312	
6,576	144	44.14	6,763	312	6,451	
7,105	160	42.51	7,187	326	6,861	
7,305	156	42.32	7,009	267	6,742	
6,426	174	41.68	7,670	359	7,311	
6,597	155	43.10	7,066	353	6,713	
6,534	170	43.93	7,864	378	7,486	
7,144	149	42.96	6,787	329	6,458	
7,750	143	46.98	7,125	345	6,780	
7,144	153	43.24	7,023	353	6,670	
6,740	127	42.78	5,819	218	5,601	
\$ 81,481	1,812		\$ 83,161 *	\$ 3,824	\$ 79,337	

**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, 2013 AND 2012**

	2013	2012
Deficit recognized for the City of Superior		
Regular route	\$ 1,152,962	\$ 1,119,084
Disability service	81,481	79,337
Total	\$ 1,234,443	\$ 1,198,421
Federal funding - lower of the following		
Percentage limit - 50% of regular route deficit	\$ 576,481	\$ 559,542
Maximum federal share per grant agreement	434,841 (434,841)	408,771 (408,771)
Deficit recognized by the Wisconsin Department of Transportation		
Net charges to the City of Superior	\$ 1,234,443	\$ 1,198,421
Less: maximum federal share	(434,841)	(408,771)
Non-Federal Share	\$ 799,602	\$ 789,650
Wisconsin Department of Transportation funding - lower of the following		
Non-federal share	\$ 799,602	\$ 789,650
Maximum Wisconsin Department of Transportation share per grant agreement	331,036 (331,036)	341,573 (341,573)
Local Funds Required - City of Superior, Wisconsin	\$ 468,566	\$ 448,077

**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, 2013 AND 2012**

	2013	2012
Regular Route		
Operating revenues in the City of Superior	\$ 115,530	\$ 127,805
Operating expenses in the City of Superior	(1,268,492)	(1,246,889)
Regular Route Deficit Recognized for Federal and State Operating Funds	\$ (1,152,962)	\$ (1,119,084)
Disability Service		
Operating revenues in the City of Superior	\$ 3,969	\$ 3,824
Operating expenses in the City of Superior	(85,450)	(83,161)
Disability Service Deficit Recognized for State Operating Funds	\$ (81,481)	\$ (79,337)

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	\$ 521,361
Federal Transit Capital Assistance Formula Grants	20.507	4,502,600
Federal Transit Operating Assistance Formula Grants	20.507	1,260,000
(Total Transit Formula Grants CFDA 20.507 \$5,762,600)		
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas	20.509	2,615
Job Access Reverse Commute	20.516	141,422
Total Federal Awards		\$ 6,427,998

**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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. 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, 2013. 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 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 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenses by cluster are:

Federal Transit Cluster	\$ 6,283,961
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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

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

Nonoperating revenues: operating grants - federal	\$ 1,404,037
Capital contributions - federal	<u>5,023,961</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 6,427,998</u>

6. Subrecipients

The Duluth Transit Authority did not pass any federal awards through to subrecipients during the year ended December 31, 2013.

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**DULUTH TRANSIT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program cluster is:

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

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

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

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



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

Board of Directors
Duluth Transit Authority

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, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 30, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for 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, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the Authority has no long-term debt.

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 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 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

May 30, 2014

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REBECCA OTTO
STATE AUDITOR

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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

Board of Directors
Duluth Transit Authority

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) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2013. The Duluth Transit Authority is a component unit of the City of Duluth. 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 the requirements of laws, regulations, contracts, and grants applicable to each of 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 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 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, 2013.

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 our opinion on compliance for the major federal program 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 30, 2014