

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

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

Year Ended December 31, 2019

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

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

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

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

Year Ended December 31, 2019



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

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2019

	<u>Term Ending</u>
Directors	
Jeff Anderson	July 1, 2022
Todd Fedora	July 1, 2022
Craig Fellman	July 1, 2022
Kimberly Maki	July 1, 2021
Don McIsaac	July 1, 2021
Richard Stewart	July 1, 2020
Anna Tanski	July 1, 2021
 Executive Director	
Thomas Werner	
 Officers	
President	
Anna Tanski	
Vice President	
Craig Fellman	
Secretary	
Todd Fedora	

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JULIE BLAHA
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Airport Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Airport Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Airport Authority as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Subsequent Event

As discussed in Note 3 to the financial statements, subsequent to year-end, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic, resulting in a reduction of flights and passengers. 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 and Required Supplementary Information as listed in the table of contents 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Airport Authority's basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2020, on our consideration of the Duluth Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Duluth Airport Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Airport 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 Airport Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 22, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

Our discussion and analysis of the Duluth Airport Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Operating expenses (before depreciation and amortization) increased about \$300 thousand, or 7 percent, compared to fiscal year 2018, due to increases in supplies, personal services and other services and charges.
- Operating revenues increased \$698 thousand, or 12.0 percent, primarily due to increased non-aeronautical revenues including concession payments received as well as aeronautical revenue from increased passenger air service.
- Nonoperating federal and state grant revenues increased \$4 million, or 42.5 percent, from 2018; the increases are due to increased airfield construction in 2019.
- Total net position increased \$5.8 million, or 5.2 percent, compared to fiscal year 2018.
- Total number of passengers including charters increased 37.9 thousand, or 13.5 percent, for a total of 318.8 thousand in 2019. The increase is due, in part, to the addition of American Airlines service.
- Total traffic count as recorded by the Federal Aviation Administration tower decreased by five thousand, or 7.9 percent, to 58.6 thousand.
- Landing fee revenues for 2019 increased by \$25.1 thousand, or 6.3 percent.
- Passenger facility charge revenue increased by \$105.3 thousand in 2019, or 19.2 percent, compared to 2018, which is attributed to the passenger count increases in 2019.
- Customer facility charges collected in 2019 increased by \$35.5 thousand, or 12 percent, from 2018.
- Total parking lot sales increased by \$196.6 thousand, or 15.4 percent, for 2019.

- Total car rental concession sales increased by \$100.9 thousand, or 19 percent, for 2019.
- The 2018/2019 State Maintenance and Operations Agreements provided for a total of \$222.5 thousand of state aid, with \$201.6 thousand for Duluth International Airport and \$20.9 thousand for Sky Harbor Airport, which was an overall increase of \$5.8 thousand from 2018.
- The Transportation Security Administration's agreement with the Authority reimbursed the Authority approximately 14.6 hours per day for contracted law enforcement personnel, or approximately \$8.1 thousand per month.

OVERVIEW OF ANNUAL FINANCIAL REPORT

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

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the Authority on a full accrual, economic resource basis of accounting. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipt 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 that are 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 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

The Legislative Act of 1969, Chapter 577, as approved on May 22, 1969, authorized the organization of the Authority. The purpose of this act was to promote the public welfare and to serve the public interest, convenience and necessity, promote air navigation and transportation, national, state, and local; and to these ends, to develop full potentials of aviation in the City of Duluth as an aviation center; and to provide for the most economical and effective use of aeronautical facilities and services in the City of Duluth; and to this end, the Authority shall cooperate with and assist the federal government and the Director of Aeronautics of this state, and shall seek to coordinate its aeronautic activities with these bodies. This Legislative Act established a Board of seven Directors appointed by the Mayor and conferred upon this Board the power and duty to administer, promote, control, direct, and manage and operate all airports owned. On October 9, 1985, the Bylaws were adopted and have been amended several times since. These Bylaws established regular monthly meetings, a term for officers, and the appointment of an Executive Director.

The Duluth Airport Authority's vision is to be a world-class aviation center that drives economic development and connects the region to the global economy. The mission statement is, "The Duluth Airport Authority is committed to delivering a superior airport experience in a safe and secure environment, while enriching the region's economy."

The Duluth International Airport consists of two runways, which provide take-off and landing facilities for all types of commercial and general aviation aircraft, as well as military aircraft. The main runway 9-27 is 10,591 feet long by 150 feet wide and can handle the world's largest aircraft. The cross runway 3-21 is 5,699 feet long by 150 feet wide. The Duluth International Airport is located on 3,294 acres of land and encompasses approximately one-half of the old Duluth Air Force Base. The Authority also operates Sky Harbor Airport, which is both a sea plane base and a general aviation airport. The landside runway is 3,050 feet long by 75 feet wide. The landside runway length will be reduced at the completion of the current runway construction. In the bay, there is also a 10,000-foot by 2,000-foot water runway.

Operating revenue for the Authority comes from a variety of sources, including: car rental concessions, parking, space and land rentals, Fixed Base Operator (FBO) concessions, Transportation Security Administration reimbursement for law enforcement, maintenance and operations grant funds from the State of Minnesota, and landing fees. The Authority is self-sufficient and is not subsidized by the City of Duluth for operations or capital improvement costs.

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.

Condensed Statement of Net Position (000s)

	FY 2019	FY 2018
Current and other assets	\$ 8,336	\$ 6,909
Capital assets	123,556	119,452
Construction in progress	837	704
Total Assets	\$ 132,729	\$ 127,065
Deferred Outflows of Resources	\$ 135	\$ 221
Current liabilities	\$ 2,555	\$ 1,870
Long-term liabilities	11,660	12,726
Total Liabilities	\$ 14,215	\$ 14,596
Deferred Inflows of Resources	\$ 442	\$ 345
Net Position		
Net investment in capital assets	\$ 115,969	\$ 110,795
Unrestricted	2,238	1,550
Total Net Position	\$ 118,207	\$ 112,345

As the table illustrates, net position increased by \$5.86 million to \$118.2 million in 2019. The increase in net position was primarily due to an increase in capital assets as well as construction in progress and increased cash on hand.

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

	FY 2019		FY 2018
	Budget	Actual	Actual
Total operating revenues	\$ 5,570	\$ 6,492	\$ 5,794
Total operating expenses	(13,905)	(14,583)	(14,480)
Income (Loss)	\$ (8,335)	\$ (8,091)	\$ (8,686)
Nonoperating revenues	524	685	590
Capital contributions	18,244	13,571	9,534
Nonoperating expenses	(380)	(304)	(345)
Change in Net Position	\$ 10,053	\$ 5,861	\$ 1,093

(Unaudited)

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REVENUES

Operating revenues increased by \$698 thousand, or 12.0 percent, in 2019 relative to 2018. The increase is due primarily to increases in passenger related non-aeronautical or concession revenue and aeronautical revenue. Continued efforts are being made to draw more commercial air service traffic and increase aeronautical revenues as well as the non-aeronautical revenues associated with the increased passenger traffic. The Authority had been fortunate to have most all vacant space occupied, which had led to increases in rent revenues over the past few years. As buildings have had associated expenses or safety concerns, the Authority has decided to close them down with hopes of future redevelopment. The Authority is advertising all marketable space in hopes of continuing to have minimal vacant space and increased rent revenues.

EXPENSES

The Duluth Airport Authority's operating expenses increased by \$103.9 thousand to \$14.58 million in 2019, up from \$14.48 million in 2018. This increase is partially due to the increased depreciation expenses as portions of runway projects are completed and have begun to depreciate. There were increases in supplies of \$125.5 thousand as well as an increase of \$105.6 thousand in services and charges. Personal services expenses increased by \$108.6 thousand, or 5.1 percent. Utilities expenses decreased by only \$39.8 thousand, or 8.3 percent, compared to 2018 due to energy savings projects as well as a credit received to offset power expenses.

BUDGETARY HIGHLIGHTS

The Duluth Airport Authority develops an annual operating budget which includes proposed expenses as well as proposed sources of revenue to pay for them. The Authority's Board approves the operating budget, and it also receives final approval from the Duluth City Council. The Authority's operating budget is adjusted as needed when noticeable changes in business are known to affect the budget. Management and the Board of Directors are presented detailed monthly financial statements, an in-depth quarterly analysis, and an annual analysis of key indicators and budgetary progress.

The airline industry remains competitive and fluid, while adverse to risk. Though fuel prices had become much more attractive, airlines had seized the opportunity to strengthen their balance sheets, not passing the savings on to the passenger. In addition, an industry pilot shortage due to regulations has made it increasingly difficult to attract new or existing air carriers to add flights to new destinations, as regional air carriers do not have the pilots to fly their existing fleets. This issue is being monitored and considered as the establishment of additional air service to our market is continually being pursued. Positive for Duluth, daily flights from United Airlines between Duluth and its Chicago O'Hare hub have been successfully in place for more than nine years. American Airlines was welcomed in to the market with flights to Chicago in May of 2019. Additional competition has increased growth and opportunity. Unfortunately, American Airlines will suspend service in April 2020. Finally, Monaco Air Duluth continues to have

productive and successful operations as the FBO offering quality service with a well-respected reputation. Monaco's services and operations have led to more activity for international, corporate, charter, and general aviation users of the Duluth Airport as well as increased revenues for the Authority. Though 2019 was a successful year, new challenges related to COVID-19 are affecting air travel and, therefore, all related operations as of early 2020. The Authority is working diligently to continue to offer safe operations, mitigate financial impacts to the best of its ability, and take advantage of programs which help support the operation of the airports.

The Authority continues to make improvements to facilities and infrastructure and respond to new security directives. In 2019, the following projects or additions to projects reached completion and were transferred to capital asset records: (1) runway and taxiway renovations and Duluth International and Sky Harbor Airports – \$13.8 million; (2) vehicle and equipment acquisition or repair – \$56.8 thousand; (3) triggering event master plan – \$27.9 thousand, as well as land conveyance, parking equipment, obstruction removal, and land appraisals.

Groundbreaking began in 2009 for the \$78 million passenger terminal building and supporting infrastructure, which consisted of multiple phases. Construction concluded in the fall of 2013. Federal, state, and local airport dollars funded the project. The parking structure groundbreaking began in early 2014 and was completed in the fall of 2014. Renovations to Hangar 103 for Lake Superior College's (LSC) Center for Advanced Aviation began in early 2015 and were completed for fall session classes to begin. In 2017 - 2019 and beyond, the major focus at both airports has and will be runway and taxiway reconstruction. The Authority includes in the next ten years of their Capital Improvement Plan, the completion of reconstruction of all three runways and most of the taxiway network at both airports. The Duluth Airport Authority is always searching for opportunities to update and improve infrastructure as well as for new funding sources for those opportunities.

The union contract between the Authority and AFSCME Local 66 was negotiated in 2016 and was effective for 2017 through December 31, 2019. A new agreement was negotiated in early 2020, which retroactively went in to effect January 1, 2020, and runs through December 31, 2022.

Capital Assets
(000s)

	FY 2019	FY 2018	Dollar Change Increase (Decrease)	Total Percent (%) Change
Land	\$ 3,376	\$ 3,361	\$ 15	0.45
Land improvements	26,262	26,261	1	-
Runway	114,951	101,105	13,846	13.69
Buildings	87,833	87,833	-	-
Equipment	11,542	11,470	72	0.63
Construction in progress	837	704	133	18.89
Total capital assets	\$ 244,801	\$ 230,734	\$ 14,067	6.10
Less: accumulated depreciation	(120,408)	(110,578)	(9,830)	8.89
Net Capital Assets	\$ 124,393	\$ 120,156	\$ 4,237	3.53

By the end of 2019, the Authority had invested approximately \$244.8 million in capital assets since its inception.

The Authority updates its Airport Capital Improvement Program annually each spring, which provides an itemized list of all anticipated future projects and funding sources for the next 20 years.

DEBT ADMINISTRATION

The City of Duluth obtained a \$500,000 loan from the Minnesota Investment Fund to remedy soil conditions on Duluth Airport Authority property in support of new business development. On December 20, 2005, the Authority entered into an agreement with the Duluth Economic Development Authority that provided the Authority make payments due on the loan in the amount of \$400,000. The loan is noninterest-bearing, payable in 180 monthly installments of \$2,222 beginning February 2006. The noncurrent portion of the loan payable is \$2,223.

The Authority entered into a Lease Acquisition Agreement with North Country Aviation (NCA) on November 1, 2005. The agreement required the Authority pay NCA \$497,379 in order to acquire NCA's FBO lease agreement and facilitate its transfer to Monaco Air Duluth. The note was payable by the Authority as Airport Facility Revenue Note, Series 2005A. The note was for a term of 13 years, payable each June 1 and December 1 commencing June 1, 2007. Interest was compounded at 8.85 percent per annum. The final payment on this note was made in June 2019.

The City of Duluth issued General Obligation Airport Improvement Bonds for the Authority with a face value of \$7,650,000 in May 2012. These bonds will be repaid over 15 years. The bond proceeds were used as the local match on federal and state grants for the "project," including the terminal, access roads, apron, and parking ramp.

The City of Duluth issued General Obligation Airport Improvement Bonds for the Authority with a face value of \$3,400,000 in December 2013. These bonds will be repaid over 16 years. The bond proceeds were used as the local match on federal and state grants for completion of the parking ramp facilities.

Finally, the City of Duluth issued General Obligation Airport Improvement Bonds for the Authority in November 2015 with a face value of \$2,855,000. These bonds will be repaid over a period of 15 years. The bond proceeds have been used for the renovation of Hangar 103 to suit the needs of LSC's Center for Advanced Aviation.

ECONOMIC AND OTHER FACTORS

When setting the 2020 budget, the Authority took many factors into consideration: the continuing financial and operational turmoil of the commercial aviation sector; the continuing vigilance of security requirements and its effects on commercial air travel and airport passenger handling; weather conditions which dictate utility costs and overtime for snow removal crews; energy, operating supplies, labor, and benefits price increases; and a general review of all rates and services so that revenue will keep pace with expenses. The Authority has taken steps to review and update all rental and concession fees to competitive rates and carefully manages its costs for equipment, supplies, and services.

The Authority actively seeks new lessees to occupy vacant or upcoming vacant space as well as economic development opportunities that are a good fit for the aviation sector. Examples of this are the Authority's development efforts and partnership with the Duluth Economic Development Authority to facilitate usage of the former Northwest Airlines Maintenance Facility by AAR Corp. Another is the support of renovations to Hangar 103 where LSC now houses its Center for Advanced Aviation to educate future employees of major economic players on the airfield, including Cirrus and AAR. In 2019, the Authority successfully began to utilize the terminal space for landline bus service to MSP in support of low-cost carrier flight opportunities. A master planning process which includes research on development of land for other business purposes is underway. The Authority continues to seek opportunities for diversifying revenue in order to be less reliant on airline revenue sources.

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 Director of Finance, Duluth Airport Authority, 4701 Grinden Drive, Duluth, Minnesota 55811.

BASIC FINANCIAL STATEMENTS

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Assets

Current assets

Cash and cash equivalents	\$ 2,591,259
Accounts receivable	578,174
Grants receivable	222,541
Inventory	26,820
Prepaid items	62,848
Assets restricted for construction	
Cash and cash equivalents	144,000
Accounts receivable	49,309
Grants receivable	3,747,492
	\$ 7,422,443

Total current assets

Noncurrent assets

Capital assets

Nondepreciable	\$ 4,212,955
Depreciable	240,587,762
Less: accumulated depreciation	(120,407,868)
	\$ 124,392,849

Total capital assets – net of accumulated depreciation

Other assets

Airport planning costs – net of accumulated amortization of \$1,757,535	\$ 913,574
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Total noncurrent assets

Total Assets	\$ 132,728,866
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Deferred Outflows of Resources

Deferred other postemployment benefits outflows	\$ 28,487
Deferred pension outflows	106,609
	\$ 135,096

Total Deferred Outflows of Resources

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Liabilities

Current liabilities payable from unrestricted assets

Accounts payable	\$ 194,650
Accrued salaries payable	45,577
Accrued vacation payable	119,039
Construction contracts payable	109,281
Unearned revenue	104,650
Loans payable – City of Duluth	935,000
Loans payable	26,667
	26,667

Total current liabilities payable from unrestricted assets **\$ 1,534,864**

Current liabilities payable from restricted assets

Construction contracts payable	1,020,350
	1,020,350

Total current liabilities **\$ 2,555,214**

Noncurrent liabilities

Unearned revenue	\$ 364,095
Loans payable – City of Duluth	7,460,000
Loans payable	2,223
Other postemployment benefits obligation	2,794,377
Net pension liability	1,039,410
	1,039,410

Total noncurrent liabilities **\$ 11,660,105**

Total Liabilities **\$ 14,215,319**

Deferred Inflows of Resources

Deferred other postemployment benefits inflows	\$ 194,402
Deferred pension inflows	247,511
	247,511

Total Deferred Inflows of Resources **\$ 441,913**

Net Position

Net investment in capital assets	\$ 115,968,959
Unrestricted	2,237,771
	2,237,771

Total Net Position **\$ 118,206,730**

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2019**

Operating Revenues	
Charges for services	\$ <u>6,492,418</u>
Operating Expenses	
Personal services	\$ 2,219,961
Supplies	562,182
Utilities	436,772
Other services and charges	1,287,998
Depreciation	9,830,435
Amortization	<u>246,164</u>
Total Operating Expenses	\$ <u>14,583,512</u>
Operating Income (Loss)	\$ <u>(8,091,094)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 31,921
Passenger facility charge	653,545
Interest expense	<u>(303,978)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>381,488</u>
Net Income (Loss) Before Capital Contributions	\$ <u>(7,709,606)</u>
Capital Contributions	
Capital grants	
Federal	\$ 11,882,956
State	1,674,408
Contributions	
Other	<u>13,528</u>
Total Capital Contributions	\$ <u>13,570,892</u>
Change in Net Position	\$ 5,861,286
Net Position – January 1	<u>112,345,444</u>
Net Position – December 31	\$ <u><u>118,206,730</u></u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019**

Cash Flows from Operating Activities	
Cash received from customers	\$ 6,131,824
Cash paid to suppliers	(2,229,016)
Cash paid to employees	(2,105,046)
Other cash receipts	<u>332,458</u>
Net cash provided by (used in) operating activities	<u>\$ 2,130,220</u>
Cash Flows from Noncapital Financing Activities	
Principal paid on revenue note	<u>\$ (35,911)</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on debt	\$ (936,666)
Interest paid on debt	(303,978)
Draws taken on line of credit	2,500,000
Repayments on line of credit	(2,500,000)
Capital grants – federal	12,099,188
Capital grants – state	1,505,374
Passenger facility charge	677,358
Acquisition or construction of capital assets	<u>(13,515,754)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (474,478)</u>
Cash Flows from Investing Activities	
Interest received on investments	<u>\$ 31,921</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,651,752
Cash and Cash Equivalents – January 1	<u>1,083,507</u>
Cash and Cash Equivalents – December 31	<u><u>\$ 2,735,259</u></u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019**

Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (8,091,094)
 Adjustments to reconcile operating income (loss) to net cash	
provided by (used in) operating activities	
Depreciation	9,830,435
Amortization	246,164
Changes in assets and liabilities	
(Increase) decrease in receivables	(35,533)
(Increase) decrease in inventory	(10,046)
(Increase) decrease in prepaid items	(13,891)
Increase (decrease) in payables	83,046
(Increase) decrease in deferred other postemployment benefits outflows	(28,487)
Increase (decrease) in deferred other postemployment benefits inflows	194,402
Increase (decrease) in other postemployment benefits liability	(71,232)
(Increase) decrease in deferred pension outflows	114,345
Increase (decrease) in deferred pension inflows	(97,297)
Increase (decrease) in net pension liability	2,011
Increase (decrease) in unearned revenue	7,397
	2,130,220
Net Cash Provided by (Used in) Operating Activities	<u>\$ 2,130,220</u>
 Noncash Investing, Capital, and Financing Activities	
Capital assets acquired by construction contracts payable	\$ 570,745

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The accounting policies of the Duluth Airport Authority conform with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

The Duluth Airport Authority was created by the Legislature of the State of Minnesota in 1969 to operate and maintain the aeronautic facilities and services in the City of Duluth. The Authority is a component unit of the City of Duluth according to criteria established by the GASB for determining the financial reporting entity. Specific criteria include: the management of the Authority is vested in seven Directors appointed by the Mayor of Duluth and approved by the City Council, and the City Council approves the budget of the Authority.

B. Basis of Presentation

The accounts of the Duluth Airport Authority are presented as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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 the use and lease of airport facilities. All revenues not meeting this definition are reported as nonoperating revenues.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budget

The Authority adopts an annual budget, which is approved by the Duluth City Council. The budget is prepared on the accrual basis of accounting.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Duluth City Treasurer. Investments are stated at fair value. 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.

2. Accounts Receivable

Amounts due from individuals and organizations are recorded as receivables at year-end. These include amounts owed pursuant to lease agreements. No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

3. Inventory and Prepaid Items

Inventories of materials and supplies are priced at the lower of cost or market on a first-in, first-out basis and are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position
(Continued)

4. Restricted Assets

Monies restricted for the payment of construction contracts and passenger facility charge revenues are accounted for as restricted assets.

5. Capital Assets

Purchased or constructed capital assets are stated at cost. Donated capital assets are recorded at acquisition value on the date of donation. The Authority's policy is to capitalize assets with a useful life of one year or more and a minimum cost of \$5,000. Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Years</u>
Land improvements	15
Runways	10 to 15
Buildings and structures	20 to 30
Equipment	5 to 10

6. Other Assets

Airport planning costs and lease buyout costs are being amortized by the straight-line method over ten to 20 years.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources associated with other postemployment benefits (OPEB) and the defined benefit pension plan.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

7. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources associated with OPEB and the defined benefit pension plan.

8. Unearned Revenue

Amounts received as advance payments for construction, rentals, and commissions are reported as unearned revenue until they are earned.

9. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

10. Classification of Net Position

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

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

10. Classification of Net Position (Continued)

- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

F. Passenger Facility Charges

The Duluth Airport Authority has been authorized by the Federal Aviation Administration to collect passenger facility charges to finance capital improvements at Duluth International Airport and Duluth Sky Harbor Airport.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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 AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

A. Deposits and Investments

The Authority and the Duluth City Council are authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral.

The Authority may invest in the types of securities 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, as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*; and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth's Comprehensive Annual Financial Report. The Duluth Airport Authority is a component unit of the City of Duluth.

The following is a summary of the Authority's cash as of December 31, 2019:

Cash and investments pooled with the City of Duluth	\$ 2,735,190
Petty cash funds	<u>69</u>
Total	<u>\$ 2,735,259</u>
Detail as shown on Statement of Net Position	
Current assets	
Cash and cash equivalents	\$ 2,591,259
Assets restricted for construction	
Cash and cash equivalents	<u>144,000</u>
Total Cash and Cash Equivalents	<u>\$ 2,735,259</u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of changes in capital assets as of December 31, 2019, follows:

	Balance January 1, 2019	Increase	Decrease	Transfers/ Reclassifications	Balance December 31, 2019
Capital assets not depreciated					
Land	\$ 3,361,434	\$ 14,100	\$ -	\$ -	\$ 3,375,534
Construction in progress	704,167	14,012,633	-	(13,879,379)	837,421
Total capital assets not depreciated	<u>\$ 4,065,601</u>	<u>\$ 14,026,733</u>	<u>\$ -</u>	<u>\$ (13,879,379)</u>	<u>\$ 4,212,955</u>
Capital assets depreciated					
Land improvements	\$ 26,260,398	\$ -	\$ -	\$ 1,470	\$ 26,261,868
Buildings and structures	87,833,240	-	-	-	87,833,240
Runways	101,105,009	-	-	13,845,475	114,950,484
Equipment	11,469,334	73,292	456	-	11,542,170
Total capital assets depreciated	<u>\$ 226,667,981</u>	<u>\$ 73,292</u>	<u>\$ 456</u>	<u>\$ 13,846,945</u>	<u>\$ 240,587,762</u>
Less: accumulated depreciation for					
Land improvements	\$ 16,295,995	\$ 1,726,651	\$ -	\$ -	\$ 18,022,646
Buildings and structures	23,135,866	3,025,106	-	-	26,160,972
Runways	61,707,716	4,793,202	-	-	66,500,918
Equipment	9,438,312	285,476	456	-	9,723,332
Total accumulated depreciation	<u>\$ 110,577,889</u>	<u>\$ 9,830,435</u>	<u>\$ 456</u>	<u>\$ -</u>	<u>\$ 120,407,868</u>
Total capital assets depreciated, net	<u>\$ 116,090,092</u>	<u>\$ (9,757,143)</u>	<u>\$ -</u>	<u>\$ 13,846,945</u>	<u>\$ 120,179,894</u>
Capital Assets, Net	<u>\$ 120,155,693</u>	<u>\$ 4,269,590</u>	<u>\$ -</u>	<u>\$ (32,434)</u>	<u>\$ 124,392,849</u>

Transfers and reclassifications for 2019 do not net out to zero because there was construction in progress transferred to “Other Assets – Airport Planning Costs,” which is not included on this summary (\$32,434), and other minor reclassifications.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

The Authority's commitments with respect to unfinished construction projects as of December 31, 2019, are as follows:

<u>Projects</u>		
AIP 14	\$	2,544,016
AIP 64		<u>620,806</u>
Total Commitments	\$	<u>3,164,822</u>

C. Vacation and Sick Leave

Full-time employees are granted from 12 to 28 days of vacation time per year depending on their years of service. Maximum amounts of vacation time that can be accumulated range from 18 to 42 days. Unpaid vacation time earned at year-end is recognized as a liability in the financial statements. Sick leave is accrued by employees at the rate of four hours per pay period and may be accumulated to a maximum of 120 days, 60 days, or 30 days, depending on the employee's start date. Sick leave is recorded as an expense when paid. Employees are not compensated for unused sick leave. Any liability for earned, unused sick leave is not recognized in the financial statements.

D. Leases

The Authority leases space and other facilities under various rates and terms. All such leases are considered to be operating leases. Minimum future rents receivable on noncancelable leases are:

<u>Year Ending December 31</u>		
2020	\$	149,910
2021		149,464
2022		148,126
2023		146,510
2024		146,510
After 2025		<u>2,633,537</u>
Total	\$	<u>3,374,057</u>

Contingent rental income from operating leases for 2019 was \$348,185.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

E. Budgets

The Duluth Airport Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budget for the fiscal year ended December 31, 2019, is:

	2019		Variance
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 5,570,332	\$ 6,492,418	\$ 922,086
Operating Expenses			
Personal services	\$ 2,210,849	\$ 2,219,961	\$ (9,112)
Supplies	461,435	562,182	(100,747)
Utilities	466,643	436,772	29,871
Other services and charges	1,177,355	1,287,998	(110,643)
Depreciation	9,347,278	9,830,435	(483,157)
Amortization	241,531	246,164	(4,633)
Total Operating Expenses	\$ 13,905,091	\$ 14,583,512	\$ (678,421)
Operating Income (Loss)	\$ (8,334,759)	\$ (8,091,094)	\$ 243,665
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 25,500	\$ 31,921	\$ 6,421
Passenger facility charge	498,500	653,545	155,045
Interest expense	(379,834)	(303,978)	75,856
Total Nonoperating Revenues (Expenses)	\$ 144,166	\$ 381,488	\$ 237,322
Net Income (Loss) Before Capital Contributions	\$ (8,190,593)	\$ (7,709,606)	\$ 480,987
Capital Contributions			
Capital grants – federal	\$ 14,963,298	\$ 11,882,956	\$ (3,080,342)
Capital grants – state	3,280,608	1,674,408	(1,606,200)
Contributions – other	-	13,528	13,528
Total Capital Contributions	\$ 18,243,906	\$ 13,570,892	\$ (4,673,014)
Change in Net Position	\$ 10,053,313	\$ 5,861,286	\$ (4,192,027)

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

F. Long-Term Debt

The City of Duluth obtained a loan from the Minnesota Investment Fund (MIF). Proceeds from the loan have been used to remedy soil conditions on the Duluth Airport Authority property. The Duluth Airport Authority has agreed to make payments when due on the loan in the total amount of \$400,000. Payments are due in 180 monthly installments of \$2,222 from February 2006 to January 2021. There is no interest charged on this loan.

In May 2012, the City of Duluth issued General Obligation Airport Improvement Bonds, Series 2012B, on behalf of the Duluth Airport Authority. The bonds have a face value of \$7,650,000 and will be repaid over a period of 15 years. Proceeds of the bonds were used to provide the local match of federal and state grants in relation to a new terminal facility and for funding involved with a new parking ramp, access road, and aprons. The Duluth Airport Authority entered into a loan agreement with the City of Duluth and makes loan payments to the City in sufficient amounts for the City to make the required payments on the bonds.

In December 2013, the City of Duluth issued General Obligation Airport Improvement Bonds, Series 2013B, on behalf of the Duluth Airport Authority. The bonds have a face value of \$3,400,000 and will be repaid over a period of 16 years. Proceeds of the bonds were used to provide funding for completion of the parking ramp facilities. The Duluth Airport Authority entered into a loan agreement with the City of Duluth and makes loan payments to the City in sufficient amounts for the City to make the required payments on the bonds.

In November 2015, the City of Duluth issued General Obligation Airport Improvement Bonds, Series 2015C, on behalf of the Duluth Airport Authority. The bonds have a face value of \$2,855,000 and will be repaid over a period of 15 years. Proceeds of the bonds were used to help fund improvements to Hangar 103 for use by Lake Superior College. The Duluth Airport Authority entered into a loan agreement with the City of Duluth and makes loan payments to the City in sufficient amounts for the City to make the required payments on the bonds.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

The annual requirements to service the debt at December 31, 2019, are as follows:

<u>Year Ended December 31</u>	<u>MIF Loan Principal</u>
2020	\$ 26,667
2021	2,223
Total	<u>\$ 28,890</u>

<u>Year Ended December 31</u>	<u>City of Duluth Loan 2012B</u>		<u>City of Duluth Loan 2013B</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 515,000	\$ 110,831	\$ 245,000	\$ 91,336
2021	530,000	98,600	255,000	83,006
2022	540,000	85,350	265,000	73,444
2023	550,000	71,175	275,000	63,109
2024	570,000	55,363	285,000	51,971
2025 to 2027	<u>1,200,000</u>	<u>58,088</u>	<u>935,000</u>	<u>81,757</u>
Total	<u>\$ 3,905,000</u>	<u>\$ 479,407</u>	<u>\$ 2,260,000</u>	<u>\$ 444,623</u>

<u>Year Ended December 31</u>	<u>City of Duluth Loan 2015C</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 175,000	\$ 72,287
2021	180,000	67,037
2022	185,000	61,638
2023	190,000	56,088
2024	195,000	50,388
2025 to 2029	1,070,000	156,503
2030	<u>235,000</u>	<u>8,695</u>
Total	<u>\$ 2,230,000</u>	<u>\$ 472,636</u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

A summary of the changes in the long-term debt follows:

Balance – January 1	\$ 9,396,467
Payments	<u>(972,577)</u>
Balance – December 31	<u>\$ 8,423,890</u>
Due Within One Year	<u>\$ 961,667</u>

G. Line of Credit

The City of Duluth has extended the Duluth Airport Authority a line of credit of up to \$4,000,000 to assist in the management of cash flows in connection with the Authority's construction and other projects. Interest at a rate of 2.5 percent is charged on drawn funds.

As of December 31, 2019, there was no outstanding balance on the line of credit.

H. 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. The Authority participates in the City of Duluth Joint Powers Enterprise Trust to provide its employees health and dental benefits. The Authority purchases commercial insurance for all other risks of loss. 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.

Employee health and dental benefits are provided through the City of Duluth Joint Powers Enterprise Trust at premium rates established by the Trust for all plan participants.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

I. Major Customers

Major customers are defined under accounting standards as a single customer from which the enterprise derives ten percent or more of its revenue. In 2019, the Duluth Airport Authority had one major customer of services provided by:

<u>Customer</u>	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Delta Airlines	\$ 807,028	12.4%

J. Other Postemployment Benefits (OPEB)

1. Plan Description

The Authority provides postemployment health care benefits and term life insurance coverage in accordance with union contract or Authority policy under a single-employer defined benefit plan. Union contract postemployment benefits extend to Authority employees retiring on or after January 1, 1983, who receive retirement benefits from PERA. In addition, the Authority has extended the same postemployment benefits to Authority employees retired prior to January 1, 1983.

The Authority participates in the City of Duluth Joint Powers Enterprise Trust and pays the required premiums to provide health care benefits and term life insurance for eligible retirees and claimed dependents. Health care premiums are paid by the Authority to the same extent as active employees for the life of the retiree or the surviving spouse. Life insurance premiums are also paid by the Authority for the life of the retiree. Premiums paid for eligible retirees and claimed dependents for health care insurance in 2019 totaled \$65,207.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does issue a stand-alone financial report.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB)

1. Plan Description (Continued)

As of the January 1, 2019, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	18
Active plan participants	<u>21</u>
Total	<u><u>39</u></u>

2. Total OPEB Liability

The Authority's total OPEB liability of \$2,794,377 was measured as of December 31, 2019, and was determined by an actuarial valuation as of January 1, 2019.

The total OPEB liability in the January 1, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.20 percent
Salary increases	3.50 percent, average wage inflation plus merit/productivity increases
Health care cost trend	9.00 percent, decreasing 0.50 percent per year to an ultimate rate of 5.00 percent

The individual entry age normal as a level percentage of payroll actuarial cost method was used.

The current year discount rate is 3.64 percent, which is a change from the prior year rate of 3.70 percent. For the current valuation, the discount rate was selected from the S&P Municipal Bond 20-year High Grade Rate Index.

Mortality rates are based on SOA RPH-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality projected with Scale MP-2018.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2018	\$ 2,865,609
Changes for the year	
Service cost	\$ 96,118
Interest	97,223
Benefit payments	(65,207)
Differences between expected and actual experience	34,230
Changes in assumptions	(233,596)
Net change	\$ (71,232)
Balance at December 31, 2019	\$ 2,794,377

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the Authority, calculated using the discount rate previously disclosed, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.64%	\$ 3,180,298
Current	3.64	2,794,377
1% Increase	4.64	2,439,721

The following presents the total OPEB liability of the Authority, calculated using the health care cost trend previously disclosed, as well as what the Authority's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	8.00% Decreasing to 4.00%	\$ 2,424,227
Current	9.00% Decreasing to 5.00%	2,794,377
1% Increase	10.00% Decreasing to 6.00%	3,207,370

5. OPEB Expense

For the year ended December 31, 2019, the Authority recognized OPEB expense of \$94,938. The Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 28,487	\$ -
Changes in actuarial assumptions	-	194,402
Total	\$ 28,487	\$ 194,402

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31	OPEB Expense Amount
2020	\$ (33,451)
2021	(33,451)
2022	(33,451)
2023	(33,451)
2024	(32,111)

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred for the 2019 valuation:

- Premium equivalent rates were updated to reflect current rates.

K. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the Duluth Airport Authority are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Authority employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

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DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2019.

In 2019, the Authority was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The Authority's contributions for the General Employees Plan for the year ended December 31, 2019, were \$103,457. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2019, the Authority reported a liability of \$1,039,410 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 31, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Authority's proportion was 0.0188 percent. It

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

4. Pension Costs (Continued)

was 0.0187 percent measured as of June 30, 2018. The Authority recognized pension expense of \$122,517 for its proportionate share of the General Employees Plan's pension expense.

The Authority also recognized \$2,409 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

The Authority's proportionate share of the net pension liability	\$	1,039,410
State of Minnesota's proportionate share of the net pension liability associated with the Authority		32,165
Total	\$	1,071,575

The Authority reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 29,853	\$ -
Changes in actuarial assumptions	-	84,768
Difference between projected and actual investment earnings	-	111,672
Changes in proportion	24,460	51,071
Contributions paid to PERA subsequent to the measurement date	52,296	-
Total	\$ 106,609	\$ 247,511

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

K. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$52,296 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows.

<u>Year Ended</u> <u>December 31</u>	<u>Pension</u> <u>Expense</u> <u>Amount</u>
2020	\$ (63,865)
2021	(111,700)
2022	(19,305)
2023	1,672

5. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Inflation and investment assumptions were reviewed in the experience study report for the General Employees Plan dated June 27, 2019.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.50%	5.10%
International equity	17.50	5.30
Fixed income	20.00	0.75
Private markets	25.00	5.90
Cash equivalents	2.00	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2019, which remained consistent with 2018. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan (Continued)

7. Changes in Actuarial Assumptions and Plan Provisions

The following change in actuarial assumptions occurred in 2019:

- The mortality projection scale was changed from MP-2017 to MP-2018.

8. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	6.50%	\$ 1,708,734
Current	7.50	1,039,410
1% Increase	8.50	486,750

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

3. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. As a result, the number of flights and passengers has been greatly reduced, reducing charges for services revenue. The total impact is unknown at this time.

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REQUIRED SUPPLEMENTARY INFORMATION

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2019**

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 96,118	\$ 109,931
Interest	97,223	99,052
Differences between expected and actual experience	34,230	-
Changes of assumption or other inputs	(233,596)	-
Benefit payments	<u>(65,207)</u>	<u>(63,207)</u>
Net change in total OPEB liability	\$ (71,232)	\$ 145,776
Total OPEB Liability – Beginning	<u>2,865,609</u>	<u>2,719,833</u>
Total OPEB Liability – Ending	<u><u>\$ 2,794,377</u></u>	<u><u>\$ 2,865,609</u></u>
Covered-employee payroll	\$ 1,229,443	\$ 1,159,978
Net OPEB liability (asset) as a percentage of covered-employee payroll	227.29%	247.04%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Duluth Airport Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.0188 %	\$ 1,039,410	\$ 32,165	\$ 1,071,575	\$ 1,327,160	78.32 %	80.23 %
2018	0.0187	1,037,399	34,005	1,071,404	1,268,706	81.77	79.53
2017	0.0203	1,295,939	16,256	1,312,195	1,304,653	99.33	75.90
2016	0.0193	1,567,066	20,517	1,587,583	1,197,973	130.81	68.91
2015	0.0192	995,044	N/A	995,044	1,125,678	88.40	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2019	\$ 103,457	\$ 103,457	\$ -	\$ 1,379,427	7.50 %
2018	95,897	95,897	-	1,278,624	7.50
2017	93,927	93,927	-	1,252,360	7.50
2016	92,898	92,898	-	1,238,640	7.50
2015	90,803	90,803	-	1,210,707	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The Authority's year-end is December 31.

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019

1. Other Postemployment Benefits Funded Status

In 2018, the Duluth Airport Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2.J. in the notes to the financial statements for additional information regarding the Authority's other postemployment benefits.

2. Other Postemployment Benefits – Changes in Significant Actuarial Methods and Assumptions

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial assumptions occurred for the valuation year:

2019

- Premium equivalent rates were updated to reflect current rates.

2018

- The per-capita costs were updated to reflect experience since the previous valuation.
- The health care trend was shifted to maintain the same immediate rate.
- The mortality was updated to reflect more current rates based on the 2014 SOA study.
- The actuarial cost method was changed to Entry Age Normal as a level percentage of payroll, per GASB 75 standards.
- The discount rate decreased from 5.70 percent to 3.70 percent to reflect the current municipal bond market, per GASB 75 standards.

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

3. Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association (PERA) for the fiscal year June 30:

General Employees Retirement Plan

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

3. Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2018 (Continued)

- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

3. Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2016 (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**STATEMENT OF OPERATING REVENUES
YEAR ENDED DECEMBER 31, 2019**

Operating Revenues

Charges for services

Non-aeronautical

Space rental	\$ 204,609
Parking	1,476,453
Car rental commissions	631,415
Customer facility charge	330,508
State aid for maintenance and operation	222,541
Advertising	102,800
Utility sales	36,901
Concessions	90,351
State aid for marketing	115,738
Permits	11,437
Other income	195,892

Total non-aeronautical

\$ 3,418,645

Non-passenger aeronautical

Hangar space rental	\$ 539,376
Fuel flowage fees	94,416
Transportation Security Administration charges	97,500
Rental income	627,557
Fuel sales	88,317
Landing fees	68,605
Ramp fees	18,596
Other income	72,273

Total non-passenger aeronautical

\$ 1,606,640

Passenger airline aeronautical

Landing fees	\$ 354,728
Space rental	1,112,405

Total passenger airline aeronautical

\$ 1,467,133

Total Operating Revenues

\$ 6,492,418

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C-1

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	AIP Grant Numbers	Expenditures
U.S. Department of Defense				
Direct				
Military Construction, National Guard	12.400			\$ 404,678
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation – Aeronautics				
Airport Improvement Program	20.106	1026302	AIP 11	\$ 81,880
Airport Improvement Program	20.106	1029437	AIP 12	1,775
Airport Improvement Program	20.106	1031787	AIP 13	96,318
Airport Improvement Program	20.106	1035577	AIP 14	1,024,537
Airport Improvement Program	20.106	1001520	AIP 59	(638,561)
Airport Improvement Program	20.106	1026310	AIP 60	49,117
Airport Improvement Program	20.106	1029495	AIP 61	3,573
Airport Improvement Program	20.106	1032177	AIP 62	10,284,256
Airport Improvement Program	20.106	1035025	AIP 63	120,526
Airport Improvement Program	20.106	1034983	AIP 64	454,857
Total Airport Improvement Program				\$ 11,478,278
Total Federal Awards				\$ 11,882,956

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Airport Authority under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Duluth Airport Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Duluth Airport Authority.

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

2. De Minimis Cost Rate

The Duluth Airport Authority has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR AND EACH QUARTER WITHIN THE YEAR ENDED DECEMBER 31, 2019**

	<u>Application Ten*</u>	<u>Application Eleven*</u>	<u>Application Twelve*</u>
Passenger Facility Charge Collections**			
Prior to January 1, 2019	<u>\$ 3,894,097</u>	<u>\$ 849,902</u>	<u>\$ 146,002</u>
Collections in 2019			
First quarter	\$ 123,716	\$ -	\$ -
Second quarter	-	-	157,098
Third quarter	-	-	170,684
Fourth quarter	-	-	175,441
Total collections in 2019	<u>\$ 123,716</u>	<u>\$ -</u>	<u>\$ 503,223</u>
Total Collected Through December 31, 2019	<u>\$ 4,017,813</u>	<u>\$ 849,902</u>	<u>\$ 649,225</u>
Approved expenses through December 31, 2019	<u>(4,017,813)</u>	<u>(849,902)</u>	<u>(649,225)</u>
Unexpended Balance – December 31, 2019	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

*Federal Aviation Administration's Acknowledgment of Intent of passenger facility charge effective date for Application Ten is January 20, 2011; Application Eleven is January 16, 2013; and Application Twelve is May 25, 2016.

**Cash basis of accounting – reported when received rather than when earned in accordance with passenger facility charge reporting guidelines.

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JULIE BLAHA
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 Airport 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 Airport Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 22, 2020.

Internal Control Over Financial Reporting

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Airport Authority failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 22, 2020



JULIE BLAHA
STATE AUDITOR

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1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND FOR THE PASSENGER FACILITY CHARGE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Airport Authority
Duluth, Minnesota

Report on Compliance for the Major Federal Program and for the Passenger Facility Charge Program

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

We have also audited the Duluth Airport Authority's compliance regarding the receiving, holding, and using of passenger facility charge (PFC) revenue, as well as whether the quarterly reports filed by the Authority fairly represent the net transactions of the PFC account in accordance with the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) for the year ended December 31, 2019.

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 program and its PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Duluth Airport Authority's major federal program and PFC 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) and the Guide. Those standards, the Uniform Guidance, and the Guide 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 or PFC program occurred. An audit includes examining, on a test basis, evidence about the Duluth Airport 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 and the PFC program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program and the Passenger Facility Charge Program

In our opinion, the Duluth Airport 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 or its PFC program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Duluth Airport 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 its major federal program or on its PFC 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 the PFC program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the Guide, 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 or the PFC 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 or the PFC 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 or the PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the Guide. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 22, 2020

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over the major program:

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

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

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

The major federal program is:

Airport Improvement Program

CFDA No. 20.106

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

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. FINDINGS – PASSENGER FACILITY CHARGE (PFC) REGULATIONS

None.

V. PREVIOUSLY REPORTED ITEM RESOLVED

2018-001 Suspension and Debarment (CFDA No. 20.106)



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

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

Finding Number: 2018-001
Finding Title: Suspension and Debarment
Program: Airport Improvement Program

Summary of Condition: In 2018 the Authority entered into two federally funded contracts. For both contracts, the Authority did not have documentation showing that the contractors who were awarded the contracts for these projects were checked against the System for Award Management website to verify the contractors were not currently suspended or debarred. This check was required under the federal program handbook.

Summary of Corrective Action Previously Reported: Procedures have been implemented to ensure that prior to awarding future contracts, Authority personnel will check the System for Award Management website to assure potential contractors are not currently suspended or debarred.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X