

# STATE OF MINNESOTA

## Office of the State Auditor



**Julie Blaha**  
**State Auditor**

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

**YEAR ENDED DECEMBER 31, 2018**

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

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

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

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

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

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

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

**Pension** – monitors investment, financial, and actuarial reporting for approximately 600 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, 2018**



**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, 2018

	<u>Term Ending</u>
Directors	
Kenneth Butler	July 1, 2019
Todd Fedora	July 1, 2019
Craig Fellman	July 1, 2019
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	
Kenneth Butler	
Vice President	
Anna Tanski	
Secretary	
Craig Fellman	

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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our 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, 2018, 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 – Change in Accounting Principle***

As discussed in Note 1.H. to the financial statements, in 2018 the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our 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 May 16, 2019, 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

May 16, 2019

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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, 2018  
(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, 2018. Please read it in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- Operating expenses (before depreciation and amortization) decreased \$59 thousand, or 1.4 percent, compared to fiscal year 2017, due to decreases in supplies and personal services and other services and charges.
- Operating revenues increased \$239.4 thousand, or 4.3 percent, primarily due to increased aeronautical revenues.
- Nonoperating federal and state grant revenues decreased \$12.4 million, or 56.5 percent, from 2017; the decreases are due to reduced construction on runway 9-27 in 2018. Total net position decreased \$187 thousand, or 0.2 percent, compared to fiscal year 2017.
- Total number of passengers including charters increased 31.1 thousand, or 12.7 percent, for a total of nearly 276 thousand in 2018. The increase is due, in part, to an increase in United Airlines passengers.
- Total traffic count as recorded by the Federal Aviation Administration tower decreased by 481, or 0.7 percent, to 63,690.
- Landing fee revenues for 2018 increased by \$93 thousand, or 30.5 percent, mostly due to increased landed weights from United Airlines.
- Passenger facility charge revenue increased by \$67.6 thousand in 2018, or 14.1 percent, compared to 2017, which is attributed to the passenger count increases in 2018.
- Customer facility charges collected in 2018 increased by \$30.1 thousand, or 11.3 percent, from 2017.
- Total parking lot sales increased by \$121.4 thousand, or 10.5 percent, for 2018.
- Total car rental concession sales increased by \$95.5 thousand, or 22 percent, for 2018.

- The 2017/2018 State Maintenance and Operations Agreements provided for a total of \$216.7 thousand of state aid, with \$196.4 thousand for Duluth International Airport and \$20.3 thousand for Sky Harbor Airport, which was the same in 2017.
- The Transportation Security Administration's agreement with the Authority reimbursed the Authority approximately 14.5 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 the region's center of aviation, supporting economic development by growing travel, cargo, and business services for our customers and communities. The mission is, "We are committed to providing our customers with superior services in a safe, secure, professional environment."

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 10,152 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 2018	FY 2017
Current and other assets	\$ 6,909	\$ 14,418
Capital assets	119,452	119,524
Construction in progress	704	801
<b>Total Assets</b>	<b>\$ 127,065</b>	<b>\$ 134,743</b>
Deferred Outflows of Resources	\$ 221	\$ 572
Current liabilities	\$ 1,870	\$ 9,800
Long-term liabilities	12,726	12,549
<b>Total Liabilities</b>	<b>\$ 14,596</b>	<b>\$ 22,349</b>
Deferred Inflows of Resources	\$ 345	\$ 433
Net Position		
Net investment in capital assets	\$ 110,795	\$ 110,053
Unrestricted	1,550	2,480
<b>Total Net Position</b>	<b>\$ 112,345</b>	<b>\$ 112,533</b>

As the table illustrates, net position decreased by \$188 thousand to \$112.3 million in 2018. The decrease in net position was primarily due to a decrease in assets as grant reimbursements were received and the line of credit balance was paid off as well as adjustments to the net other postemployment benefits obligations.

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

	FY 2018		FY 2017
	Budget	Actual	Actual
Total operating revenues	\$ 5,331	\$ 5,794	\$ 5,555
Total operating expenses	(13,759)	(14,480)	(13,870)
<b>Income (Loss)</b>	<b>\$ (8,428)</b>	<b>\$ (8,686)</b>	<b>\$ (8,315)</b>
Nonoperating revenues	488	590	516
Capital contributions	14,220	9,534	21,932
Nonoperating expenses	(407)	(345)	(357)
<b>Change in Net Position</b>	<b>\$ 5,873</b>	<b>\$ 1,093</b>	<b>\$ 13,776</b>

## **REVENUES**

Operating revenues increased by \$239.4 thousand, or 4.3 percent, in 2018 relative to 2017. The increase is due primarily to increases in aeronautical revenue and passenger related non-aeronautical or concession 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 \$609.6 thousand to \$14.48 million in 2018, up from \$13.87 million in 2017. This increase is partially due to the increased depreciation expenses as portions of runway projects are completed and have begun to depreciate. There were decreases in supplies of \$36.8 thousand as well as a decrease of \$6.0 thousand in services and charges. Personal services expenses decreased by \$25.8 thousand, or 1.2 percent, due to increased reimbursed administrative time through Airport Improvement Program programs. Utilities expenses increased by only \$9.5 thousand, or 2.0 percent, compared to 2017 due to colder winter conditions.

## **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 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 have become much more attractive, airlines have seized the opportunity to strengthen their balance sheets, not passing the savings on to the passenger. In addition, an industry pilot shortage due to new regulations is making 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 eight years. In the past year, United capacity has increased as a larger aircraft has taken over for one flight a day. American Airlines will be welcomed in to the market

in May of 2019, and we look forward to the growth and opportunity that additional competition will bring. 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.

The Authority continued to make improvements to facilities and infrastructure and respond to new security directives. In 2018, the following projects or additions to projects reached completion and were transferred to capital asset records: (1) runway and taxiway renovations – \$8.5 million; (2) pavement maintenance, perimeter fence, Storm Water Pollution Prevention Plan for Duluth International and Sky Harbor, and master plan – \$1.1 million; (3) completion of roof replacement, energy conservation projects, business services center buildout, miscellaneous building improvements, cameras, and furniture – \$265 thousand, as well as the addition of donated government surplus equipment.

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, 2018, and beyond, the major focus at both airports is runway 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 effective for 2017 through December 31, 2019.

**Capital Assets  
(000s)**

	FY 2018	FY 2017	Dollar Change Increase (Decrease)	Total Percent (%) Change
Land	\$ 3,361	\$ 3,361	\$ -	0.00
Land improvements	26,261	25,136	1,125	4.48
Runways	101,105	92,556	8,549	9.24
Buildings and structures	87,833	87,586	247	0.28
Equipment	11,470	11,737	(267)	(2.28)
Construction in progress	704	801	(97)	(12.11)
<b>Total capital assets</b>	<b>\$ 230,734</b>	<b>\$ 221,177</b>	<b>\$ 9,557</b>	<b>4.32</b>
Less: accumulated depreciation	(110,578)	(100,852)	(9,726)	9.64
<b>Net Capital Assets</b>	<b>\$ 120,156</b>	<b>\$ 120,325</b>	<b>\$ (169)</b>	<b>(0.14)</b>

(Unaudited)

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By the end of 2018, the Authority had invested approximately \$230.7 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 \$28,889.

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 is payable by the Authority as Airport Facility Revenue Note, Series 2005A. The note is for a term of 13 years, payable each June 1 and December 1 commencing June 1, 2007. Interest is compounded at 8.85 percent per annum. The final payment on this note will be made in June of 2019.

A summary of changes in the revenue note balances are:

	<b>Debt (000s)</b>	
	<u>FY 2018</u>	<u>FY 2017</u>
Balance – January 1	\$ 103	\$ 165
Principal payments	<u>(67)</u>	<u>(62)</u>
Balance – December 31	<u>\$ 36</u>	<u>\$ 103</u>

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 2019 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 is excited to utilize the terminal space for landline bus service to MSP in support of low-cost carrier flight opportunities. 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, 2018**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 939,507
Accounts receivable	548,462
Grants receivable	216,720
Inventory	16,774
Prepaid items	48,957
Assets restricted for construction	
Cash and cash equivalents	144,000
Accounts receivable	73,118
Grants receivable	3,794,691
	3,794,691

**Total current assets** **\$ 5,782,229**

**Noncurrent assets**

**Capital assets**

Nondepreciable	\$ 4,065,601
Depreciable	226,667,981
Less: accumulated depreciation	(110,577,889)
	120,155,693

**Total capital assets – net of accumulated depreciation** **\$ 120,155,693**

**Other assets**

Airport planning costs – net of accumulated amortization of \$1,532,599	\$ 1,106,076
Lease buyout costs – net of accumulated amortization of \$506,154	21,229
	1,127,305

**Total other assets** **\$ 1,127,305**

**Total noncurrent assets** **\$ 121,282,998**

**Total Assets** **\$ 127,065,227**

**Deferred Outflows of Resources**

Deferred pension outflows **\$ 220,954**

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

**Liabilities**

**Current liabilities payable from unrestricted assets**

Accounts payable	\$	112,777
Accrued salaries payable		42,538
Accrued vacation payable		120,905
Construction contracts payable		52,895
Unearned revenue		62,745
Revenue notes payable		35,911
Loans payable – City of Duluth		910,000
Loans payable		26,667
		26,667

**Total current liabilities payable from unrestricted assets** **\$ 1,364,438**

**Current liabilities payable from restricted assets**

Construction contracts payable		505,991
		505,991

**Total current liabilities** **\$ 1,870,429**

**Noncurrent liabilities**

Unearned revenue	\$	398,603
Loans payable – City of Duluth		8,395,000
Loans payable		28,889
Net other postemployment benefits obligation		2,865,609
Net pension liability		1,037,399
		1,037,399

**Total noncurrent liabilities** **\$ 12,725,500**

**Total Liabilities** **\$ 14,595,929**

**Deferred Inflows of Resources**

Deferred pension inflows	\$	344,808
		344,808

**Net Position**

Net investment in capital assets	\$	110,795,137
Unrestricted		1,550,307
		1,550,307

**Total Net Position** **\$ 112,345,444**

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2018**

<b>Operating Revenues</b>	
Charges for services	<u>\$ 5,794,399</u>
<b>Operating Expenses</b>	
Personal services	\$ 2,111,378
Supplies	436,717
Utilities	476,522
Other services and charges	1,182,359
Depreciation	10,003,489
Amortization	<u>269,099</u>
<b>Total Operating Expenses</b>	<u>\$ 14,479,564</u>
<b>Operating Income (Loss)</b>	<u>\$ (8,685,165)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Investment earnings	\$ 41,796
Passenger facility charge	548,292
Gain (loss) on disposal of capital assets	(14,905)
Interest expense	<u>(330,594)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>\$ 244,589</u>
<b>Net Income (Loss) Before Capital Contributions</b>	<u>\$ (8,440,576)</u>
<b>Capital Contributions</b>	
Capital grants	
Federal	\$ 8,737,558
State	775,856
Contributions	
Other	<u>20,413</u>
<b>Total Capital Contributions</b>	<u>\$ 9,533,827</u>
<b>Change in Net Position</b>	<u>\$ 1,093,251</u>
<b>Net Position – January 1, as restated (Note 1.H.)</b>	<u>111,252,193</u>
<b>Net Position – December 31</b>	<u><u>\$ 112,345,444</u></u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2018**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 5,363,599
Cash paid to suppliers	(2,119,648)
Cash paid to employees	(1,937,849)
Other cash receipts	<u>124,966</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 1,431,068</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Principal paid on revenue note	<u>\$ (67,321)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Repayment of line of credit	\$ (3,650,000)
Principal paid on loans	(911,667)
Capital grants – federal	15,356,120
Capital grants – state	2,579,999
Passenger facility charge	577,225
Proceeds from sale of capital assets	15,850
Acquisition or construction of capital assets	<u>(14,440,992)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (473,465)</u></b>
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	<u>\$ 41,796</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 932,078</b>
<b>Cash and Cash Equivalents – January 1</b>	<b><u>151,429</u></b>
<b>Cash and Cash Equivalents – December 31</b>	<b><u><u>\$ 1,083,507</u></u></b>



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2018**

<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ (8,685,165)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	10,003,489
Amortization	269,099
Changes in assets and liabilities	
(Increase) decrease in receivables	(273,702)
(Increase) decrease in inventory	10,038
(Increase) decrease in prepaid items	(1,746)
Increase (decrease) in payables	137,611
(Increase) decrease in deferred pension outflows	350,898
Increase (decrease) in deferred pension inflows	(88,782)
Increase (decrease) in net pension liability	(258,540)
Increase (decrease) in unearned revenue	(32,132)
	<hr/>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u>\$ 1,431,068</u></b>
<b>Noncash Investing, Capital, and Financing Activities</b>	
Carrying value of capital assets disposed of	\$ 30,755
Capital assets acquired by construction contracts payable	(4,251,079)

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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

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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**

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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**

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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 10 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 has one item, deferred pension outflows, that qualifies for reporting in this category.

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

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item, deferred pension inflows, that qualifies for reporting in this category.

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.
- 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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

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.

H. Change in Accounting Principles

During the year ended December 31, 2018, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes standards for recognizing and measuring other postemployment benefit (OPEB) liabilities and related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and a schedule in the required supplementary information. Beginning net position has been restated to reflect this change.

Net Position, January 1, 2018, as previously reported	\$ 112,532,686
Change in accounting principles	<u>(1,280,493)</u>
Net Position, January 1, 2018, as restated	<u>\$ 111,252,193</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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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, 2018:

Cash and investments pooled with the City of Duluth	\$ 1,083,407
Petty cash funds	<u>100</u>
Total	<u>\$ 1,083,507</u>
Detail as shown on Statement of Net Position	
Current assets	
Cash and cash equivalents	\$ 939,507
Assets restricted for construction	
Cash and cash equivalents	<u>144,000</u>
Total Cash and Cash Equivalents	<u>\$ 1,083,507</u>



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of changes in capital assets as of December 31, 2018, follows:

	Balance January 1, 2018	Increase	Decrease	Transfers/ Reclassifications	Balance December 31, 2018
Capital assets not depreciated					
Land	\$ 3,361,434	\$ -	\$ -	\$ -	\$ 3,361,434
Construction in progress	800,911	9,672,155	-	(9,768,899)	704,167
Total capital assets not depreciated	<u>\$ 4,162,345</u>	<u>\$ 9,672,155</u>	<u>\$ -</u>	<u>\$ (9,768,899)</u>	<u>\$ 4,065,601</u>
Capital assets depreciated					
Land improvements	\$ 25,135,944	\$ -	\$ -	\$ 1,124,454	\$ 26,260,398
Buildings and structures	87,585,851	172,389	-	75,000	87,833,240
Runways	92,556,175	-	-	8,548,834	101,105,009
Equipment	11,737,072	33,889	307,517	5,890	11,469,334
Total capital assets depreciated	<u>\$ 217,015,042</u>	<u>\$ 206,278</u>	<u>\$ 307,517</u>	<u>\$ 9,754,178</u>	<u>\$ 226,667,981</u>
Less: accumulated depreciation for					
Land improvements	\$ 14,621,762	\$ 1,675,428	\$ -	\$ (1,195)	\$ 16,295,995
Buildings and structures	20,114,658	3,021,208	-	-	23,135,866
Runways	56,681,212	5,026,504	-	-	61,707,716
Equipment	9,434,725	280,349	276,762	-	9,438,312
Total accumulated depreciation	<u>\$ 100,852,357</u>	<u>\$ 10,003,489</u>	<u>\$ 276,762</u>	<u>\$ (1,195)</u>	<u>\$ 110,577,889</u>
Total capital assets depreciated, net	<u>\$ 116,162,685</u>	<u>\$ (9,797,211)</u>	<u>\$ 30,755</u>	<u>\$ 9,755,373</u>	<u>\$ 116,090,092</u>
Capital Assets, Net	<u>\$ 120,325,030</u>	<u>\$ (125,056)</u>	<u>\$ 30,755</u>	<u>\$ (13,526)</u>	<u>\$ 120,155,693</u>

Transfers and reclassifications for 2018 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 (\$14,722), and other minor reclassifications.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

B. Capital Assets (Continued)

The Authority's commitments with respect to unfinished construction projects as of December 31, 2018, are as follows:

<u>Projects</u>		
AIP 59	\$	1,859,865
AIP 62		<u>11,886,603</u>
Total Commitments	\$	<u>13,746,468</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>		
2019	\$	147,184
2020		147,184
2021		146,746
2022		145,432
2023		143,844
After 2023		<u>3,836,516</u>
Total	\$	<u>4,566,906</u>

Contingent rental income from operating leases for 2018 was \$317,497.

**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, 2018, is:

	2018		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 5,331,477	\$ 5,794,399	\$ 462,922
Operating Expenses			
Personal services	\$ 2,058,343	\$ 2,111,378	\$ (53,035)
Supplies	440,600	436,717	3,883
Utilities	501,763	476,522	25,241
Other services and charges	1,116,352	1,182,359	(66,007)
Depreciation	9,385,213	10,003,489	(618,276)
Amortization	256,696	269,099	(12,403)
Total Operating Expenses	\$ 13,758,967	\$ 14,479,564	\$ (720,597)
Operating Income (Loss)	\$ (8,427,490)	\$ (8,685,165)	\$ (257,675)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 6,600	\$ 41,796	\$ 35,196
Passenger facility charge	481,500	548,292	66,792
Gain (loss) on disposal of capital assets	-	(14,905)	(14,905)
Interest expense	(407,344)	(330,594)	76,750
Total Nonoperating Revenues (Expenses)	\$ 80,756	\$ 244,589	\$ 163,833
Net Income (Loss) Before Capital Contributions	\$ (8,346,734)	\$ (8,440,576)	\$ (93,842)
Capital Contributions			
Capital grants – federal	\$ 12,897,000	\$ 8,737,558	\$ (4,159,442)
Capital grants – state	1,322,500	775,856	(546,644)
Contributions – other	-	20,413	20,413
Total Capital Contributions	\$ 14,219,500	\$ 9,533,827	\$ (4,685,673)
Change in Net Position	\$ 5,872,766	\$ 1,093,251	\$ (4,779,515)

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes (Continued)

F. Long-Term Debt

On November 1, 2005, the Authority issued an Airport Facility Revenue Note, Series 2005A, to finance the lease buyout of the Authority's Fixed Base Operator. The principal of the note is \$497,379, payable in semi-annual payments on June 1 and December 1 each year, commencing June 1, 2007, until final maturity on June 1, 2019, with an annual interest rate of 8.85 percent.

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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

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.

The annual requirements to service the debt at December 31, 2018, are as follows:

Year Ended December 31	Revenue Note		MIF Loan
	Principal	Interest	Principal
2019	\$ 35,911	\$ 1,589	\$ 26,667
2020	-	-	26,667
2021	-	-	2,222
Total	<u>\$ 35,911</u>	<u>\$ 1,589</u>	<u>\$ 55,556</u>

Year Ended December 31	City of Duluth Loan 2012B		City of Duluth Loan 2013B	
	Principal	Interest	Principal	Interest
2019	\$ 500,000	\$ 122,081	\$ 240,000	\$ 98,776
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 to 2027	<u>1,770,000</u>	<u>113,451</u>	<u>1,220,000</u>	<u>133,728</u>
Total	<u>\$ 4,405,000</u>	<u>\$ 601,488</u>	<u>\$ 2,500,000</u>	<u>\$ 543,399</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

F. Long-Term Debt (Continued)

Year Ended December 31	City of Duluth Loan 2015C	
	Principal	Interest
2019	\$ 170,000	\$ 77,388
2020	175,000	72,287
2021	180,000	67,037
2022	185,000	61,638
2023	190,000	56,088
2024 to 2028	1,035,000	189,915
2029 to 2030	465,000	25,670
Total	\$ 2,400,000	\$ 550,023

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

Balance – January 1	\$ 10,375,455
Payments	(978,988)
Balance – December 31	\$ 9,396,467
 Due Within One Year	 \$ 972,578

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.

At December 31, 2017, there was \$3,650,000 outstanding. During 2018, repayments of \$3,650,000 were made on the draws, leaving a zero balance as of December 31, 2018.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes (Continued)

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.

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. Major customers of services provided by the Duluth Airport Authority in 2018 were:

<u>Customer</u>	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Delta Airlines	\$ 724,504	12.5%

J. 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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan

1. Plan Description (Continued)

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.

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. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.00 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

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.



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

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.

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 2018.

In 2018, 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, 2018, were \$95,897. The contributions are equal to the contractually required contributions as set by state statute.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

4. Pension Costs

At December 31, 2018, the Authority reported a liability of \$1,037,399 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Authority's proportion was 0.0187 percent. It was 0.0203 percent measured as of June 30, 2017. At year-end December 31, 2018, the Authority recognized pension expense of \$107,402 for its proportionate share of the General Employees Plan's pension expense.

In 2018, the Authority also recognized \$7,930 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 for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

The Authority's proportionate share of the net pension liability	\$ 1,037,399
State of Minnesota's proportionate share of the net pension liability associated with the Authority	<u>34,005</u>
Total	<u>\$ 1,071,404</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan

4. Pension Costs (Continued)

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	\$ 29,703	\$ 31,227
Changes in actuarial assumptions	102,277	123,390
Difference between projected and actual investment earnings	-	114,880
Changes in proportion	40,598	75,311
Contributions paid to PERA subsequent to the measurement date	48,376	-
Total	\$ 220,954	\$ 344,808

The \$48,376 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows.

Year Ended December 31	Pension Expense Amount
2019	\$ 29,682
2020	(66,214)
2021	(114,048)
2022	(21,650)

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, 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. The cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

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 stocks	36%	5.10%
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. 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.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 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 2.5 percent per year thereafter, to 1.25 percent per year.

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 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 1,685,907
Current	7.50	1,037,399
1% Increase	8.50	502,075

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

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](http://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.

K. 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 2018 totaled \$62,802.

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.

As of the January 1, 2017, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	17
Active plan participants	<u>22</u>
Total	<u>39</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

K. Other Postemployment Benefits (OPEB) (Continued)

2. Total OPEB Liability

The Authority's total OPEB liability of \$2,865,609 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the January 1, 2017 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	10.00 percent, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent

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

The current year discount rate is 3.70 percent, which is a change from the prior year rate of 5.70 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-2016.

3. Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at December 31, 2017, as restated	\$ 2,719,833
Changes for the year	
Service cost	\$ 109,931
Interest	99,052
Benefit payments	<u>(63,207)</u>
Net change	<u>\$ 145,776</u>
Balance at December 31, 2018	<u>\$ 2,865,609</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

K. Other Postemployment Benefits (OPEB) (Continued)

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 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	2.70%	\$ 3,241,609
Current	3.70	2,865,609
1% Increase	4.70	2,558,609

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 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	9.0% Decreasing to 4.0%	\$ 2,527,609
Current	10.0% Decreasing to 5.0%	2,865,609
1% Increase	11.0% Decreasing to 6.0%	3,289,609

5. OPEB Expense

For the year ended December 31, 2018, the Authority recognized OPEB expense of \$208,983.



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

K. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred for the 2018 valuation:

- 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.

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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, 2018**

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 109,931
Interest	99,052
Benefit payments	<u>(63,207)</u>
<b>Net change in total OPEB liability</b>	<b>\$ 145,776</b>
<b>Total OPEB Liability – Beginning, as restated</b>	<u><b>2,719,833</b></u>
<b>Total OPEB Liability – Ending</b>	<u><u><b>\$ 2,865,609</b></u></u>
Covered-employee payroll	\$ 1,159,978
Net OPEB liability (asset) as a percentage of covered-employee payroll	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, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with the Duluth Airport Authority (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
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, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b – a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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, 2018

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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 6 in the notes to the financial statements for additional information regarding the Authority's other postemployment benefits.

2. Employer Contributions to Other Postemployment Benefits

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 2018 valuation:

- 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.

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:

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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

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.

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 \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 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.
- 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.

**DULUTH AIRPORT AUTHORITY**  
**DULUTH, MINNESOTA**

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

2016 (Continued)

- 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.

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**SUPPLEMENTARY INFORMATION**

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

***EXHIBIT B-1***

**STATEMENT OF OPERATING REVENUES  
YEAR ENDED DECEMBER 31, 2018**

**Operating Revenues**

**Charges for services**

**Non-aeronautical**

Space rental	\$ 158,711
Parking	1,279,821
Car rental commissions	530,468
Customer facility charge	294,992
State aid for maintenance and operation	216,720
Advertising	62,150
Utility sales	37,457
Concessions	74,682
State aid for marketing	113,980
Permits	9,342
Other income	178,145

**Total non-aeronautical** **\$ 2,956,468**

**Non-passenger aeronautical**

Hangar space rental	\$ 555,250
Fuel flowage fees	91,068
Transportation Security Administration charges	96,775
Rental income	618,855
Fuel sales	88,218
Landing fees	69,636
Ramp fees	18,596
Other income	60,760

**Total non-passenger aeronautical** **\$ 1,599,158**

**Passenger airline aeronautical**

Landing fees	\$ 328,596
Space rental	910,177

**Total passenger airline aeronautical** **\$ 1,238,773**

**Total Operating Revenues** **\$ 5,794,399**

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT C-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Defense</b>			
Direct			
Military Construction, National Guard	12.400		<b>\$ 629,869</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation –			
Aeronautics			
Airport Improvement Program (AIP 11)	20.106	1026302	\$ 40,839
Airport Improvement Program (AIP 12)	20.106	1029437	164,425
Airport Improvement Program (AIP 13)	20.106	1031787	2,139,255
Airport Improvement Program (AIP 59)	20.106	1001520	3,047,347
Airport Improvement Program (AIP 60)	20.106	1026310	1,586,622
Airport Improvement Program (AIP 61)	20.106	1029495	516,487
Airport Improvement Program (AIP 62)	20.106	1032177	612,714
<b>Total Airport Improvement Program</b>			<b>\$ 8,107,689</b>
<b>Total Federal Awards</b>			<b>\$ 8,737,558</b>

The Duluth Airport Authority did not pass any federal awards through to subrecipients for the year ended December 31, 2018.



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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1. 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 basic financial statements.

2. 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, 2018. 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.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Duluth Airport Authority has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

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**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, 2018**

	<u>Application Ten*</u>	<u>Application Eleven*</u>	<u>Application Twelve*</u>
<b>Passenger Facility Charge Collections**</b>			
Prior to January 1, 2018	<u>\$ 3,611,703</u>	<u>\$ 702,584</u>	<u>\$ -</u>
Collections in 2018			
First quarter	\$ 145,539	\$ -	\$ -
Second quarter	136,855	-	-
Third quarter	-	-	146,002
Fourth quarter	<u>-</u>	<u>147,318</u>	<u>-</u>
<b>Total collections in 2018</b>	<u>\$ 282,394</u>	<u>\$ 147,318</u>	<u>\$ 146,002</u>
<b>Total Collected Through December 31, 2018</b>	<u>\$ 3,894,097</u>	<u>\$ 849,902</u>	<u>\$ 146,002</u>
<b>Approved expenses through December 31, 2018</b>	<u>(3,894,097)</u>	<u>(849,902)</u>	<u>(146,002)</u>
<b>Unexpended Balance – December 31, 2018</b>	<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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 16, 2019.

### **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**

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

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 *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.



## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for 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

May 16, 2019

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JULIE BLAHA  
STATE AUDITOR

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## 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, 2018. 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, 2018.

### ***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 with those requirements.

### ***Opinion on the Major Federal Program and the Passenger Facility Change 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, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on the major federal program or the PFC program is not modified with respect to this matter.

The Duluth Airport Authority's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be a significant deficiency.

The Duluth Airport Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The Duluth Airport Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

May 16, 2019

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**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? **Yes**

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)? **Yes**

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, 2018

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

None.

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

ITEM ARISING THIS YEAR

Finding Number 2018-001

Suspension and Debarment

**Program:** U.S. Department of Transportation's Airport Improvement Program (CFDA No. 20.106), 3-27-0025-013-2018, 2018

**Pass-Through Agency:** Minnesota Department of Transportation

**Criteria:** Appendix U-5 of the Airport Improvement Program Handbook contains the requirements regarding suspension or debarment that sponsors must follow. Specifically, it states that "a sponsor must check the System for Award Management website for every procurement to ensure that no suspended or debarred firms or individuals bid on, or are part of an AIP contract."

**Condition:** The Authority entered into contracts with vendors for two projects that were federally funded. For both contracts, the Authority did not have documentation showing the vendors who were awarded the contracts for the projects were checked against the System for Award Management website to verify that they were not suspended or debarred from federally-funded contracts.

**Questioned Costs:** None.

**Context:** Typically, the Authority relies on a certification in its bid documents that states that by signing and submitting its proposal, the contractor certifies that they are not suspended or debarred from participating in covered transactions by any federal department or agency.



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Both contracts bid out by the Authority during 2018 were selected for review. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

**Effect:** Noncompliance with the requirements regarding suspension and debarment contained in the Airport Improvement Program Handbook.

**Cause:** The Authority was unaware of the requirement to check its contractors against the System for Award Management website before entering into new federally-funded contracts.

**Recommendation:** We recommend the Authority ensure that its procedures for verifying contractors meet the requirements contained in the Airport Improvement Project Handbook.

**View of Responsible Official:** Acknowledged

**IV. FINDINGS – PASSENGER FACILITY CHARGE (PFC) REGULATIONS**

None.

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

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Finding Number: 2018-001**

**Finding Title: Suspension and Debarment**

**Program: Airport Improvement Program CFDA # 20.106**

Name of Contact Person Responsible for Corrective Action:

Blaine Peterson – Director of Operations

Corrective Action Planned:

Procedures have been implemented to ensure that prior to making awards on future contracts; Authority personnel will check the System for Award Management website to assure potential contractors are not currently suspended or debarred.

Anticipated Completion Date:

May 1, 2019