State of Minnesota

Office of the State Auditor

Julie Blaha
State Auditor

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

Year Ended December 31, 2023

Duluth Airport Authority
Duluth, Minnesota

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Introductory Section

Duluth Airport Authority
Duluth, Minnesota

Organization
December 31, 2023

	Term Ending
Directors	
Jeff Anderson	July 1, 2025
Jason Crawford	July 1, 2025
Michael Henderson	July 1, 2025
Elissa Hansen	July 1, 2026
Kimberly Maki	July 1, 2024
Daniel Markham	July 1, 2025
Kevin O'Brien	July 1, 2024
Executive Director	
Thomas Werner	
Officers	
President	
Kimberly Maki	
Vice President	
Kevin O'Brien	
Secretary	
Jeff Anderson	

Financial Section

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Airport Authority
Duluth, Minnesota

Report on the Audit of the Financial Statements

Opinion
We have audited 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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Airport Authority as of December 31, 2023, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Airport Authority's basic financial statements. The Statement of Operating Revenues; the Schedule of Expenditures of Federal Awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and Schedule of Passenger Facility Charges Collected and Expended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information as identified above 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 June 4, 2024, 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.

/s/Julie Blaha	*/s/Chad Struss*
Julie Blaha State Auditor	Chad Struss, CPA Deputy State Auditor

June 4, 2024

Management's Discussion and Analysis

Duluth Airport Authority
Duluth, Minnesota

Management's Discussion and Analysis
December 31, 2023
(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, 2023. Please read it in conjunction with the financial statements.

Financial Highlights

The Duluth Airport Authority continued to recover from the COVID-19 pandemic in 2023, with operating revenues surpassing pre-pandemic levels despite a lower passenger count. Financial highlights are listed in the bullet points below.

- Total number of passengers including charters increased 7.4 thousand, or 3 percent, for a total of 250.4 thousand in 2023.
- Total traffic count as recorded by the Federal Aviation Administration tower increased by 12.9 thousand, or 21 percent, to 74 thousand.
- Operating expenses (before depreciation and amortization) increased $261 thousand, or about 4.6 percent, compared to fiscal year 2022.
- Operating revenues increased by nearly $811 thousand, or 13.9 percent, primarily due to increased non-aeronautical revenues including concession payments received. Revenues were also deflated in 2022 due to credits for COVID concessionaire relief which were partially reimbursed with COVID relief funds.
- Nonoperating federal and state grant revenues and other contributions increased by $2.1 million, or 14.3 percent, from 2022.
- Total net position increased $6.7 million, or 5.5 percent, compared to fiscal year 2022.
- Landing fee revenues for 2023 increased by $36.6 thousand, or 11 percent.
- Passenger facility charge revenue increased by $24 thousand in 2023, or 5 percent, compared to 2022, which is attributed to the increase in passengers in 2023.
- Customer facility charges collected in 2023 increased by $20 thousand, or 9 percent, from 2022.
- Total parking lot sales increased by $356 thousand, or 27.7 percent, for 2023 as parking lot management was moved from a management contract to in-house.
- Total car rental concession sales increased by $155.6 thousand, or 34.6 percent, for 2023. ARPA concessionaire relief and COVID CFC relief credits of $137 thousand were applied in 2022 deflating 2022 car rental revenue. The difference excluding COVID relief is $18.6 thousand.
- State Maintenance and Operations grant reimbursements of $224.9 thousand were received between both Duluth International and Sky Harbor Airports, which remained flat.

- The Transportation Security Administration's agreement with the Authority reimbursed the Authority approximately 13.6 hours per day at $20 per hour for contracted law enforcement personnel. This totaled $100 thousand, or approximately $8.3 thousand per month.

Overview of the Annual Financial Statements

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

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

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

The statement of cash flows presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted during the independent external audit process.

Summary of Organization and Business

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

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

The Duluth International Airport consists of two runways, which provide take-off and landing facilities for all types of commercial and general aviation aircraft, as well as military aircraft. The main runway 9-27 is 10,591 feet long by 150 feet wide and can handle the world's largest aircraft. The cross runway 3-21 is 5,719 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. Duluth International Airport has a very diverse mix of tenants, which includes military, education, manufacturing, business, commercial, and general aviation. The Authority also operates Sky Harbor Airport, which is both a sea plane base and a general aviation airport. The landside runway is 2,600 feet long by 75 feet wide. 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, land and building rentals, Fixed Base Operator (FBO) concessions, 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)

	Fiscal Year 2023	Restated Fiscal Year 2022
Current assets	$ 14,810	$ 13,569
Noncurrent assets	2,230	2,252
Capital assets – net of accumulated depreciation and amortization	120,957	116,352
Construction in progress	5,488	2,101
Total Assets	$ 143,485	$ 134,274
Deferred Outflows of Resources	$ 635	$ 818
Current liabilities	$ 5,975	$ 2,410
Noncurrent liabilities	7,604	9,384
Total Liabilities	$ 13,579	$ 11,794
Deferred Inflows of Resources	$ 2,993	$ 2,401
Net Position		
Net investment in capital assets	$ 114,917	$ 109,378
Unrestricted	12,631	11,519
Total Net Position	$ 127,548	$ 120,897

As the table illustrates, net position increased to $127.5 million in 2023. This was mostly due to an increase in capital contributions in 2023 and improved net income. The net position for 2022 was restated due to the use of COVID relief funds to reimburse past operational expenses.

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

	Fiscal Year 2023 Budget	Fiscal Year 2023 Actual	Restated Fiscal Year 2022 Actual
Total operating revenues	$ 5,916	$ 6,638	$ 5,826
Total operating expenses	(16,024)	(17,322)	(16,425)
Income (Loss)	$ (10,108)	$ (10,684)	$ (10,599)
Nonoperating revenues	496	879	647
Capital contributions	17,939	16,598	16,908
Nonoperating expenses	(222)	(142)	(169)
Change in Net Position	$ 8,105	$ 6,651	$ 6,787

Capital contributions were restated due to the receipt of COVID relief funds to reimburse past expenses.

Revenues

Operating revenues increased by nearly $811 thousand, or nearly 14 percent, in 2023 relative to 2022. The increase is due primarily to increases in non-aeronautical revenues of 20 percent due to increased passengers and full recognition of the concession revenues and an 8 percent increase in non-passenger aeronautical revenue. Passenger Airline Aeronautical Revenues increased by 7 percent. An increase in passengers indirectly affects non-aeronautical revenues as the additional business supports our car rentals, food and beverage, vending and parking revenues as well as other commercial services. There have been continuous efforts 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 continues to advertise all marketable space in hopes of continuing to have minimal vacant space and increased rent revenues in the future. A master rates and charges addendum is reviewed, updated, and approved by the Duluth Airport Authority Board annually, which provides an opportunity to increase or adjust rates to keep up with inflation and increases in costs. The master plan and strategic plan for the Duluth Airport Authority continues to identify future opportunities for development of airport land and diversification of revenue sources.

Expenses

The Duluth Airport Authority's operating expenses exclusive of depreciation and amortization increased by $261 thousand to $5.94 million in 2023, up from $5.68 million in 2022. This increase is partially due to increased transaction fees for credit card transactions as the parking management is now in-house, increases in janitorial and other maintenance contracts, increased personnel costs, and increases in contracts for services, such as janitorial and security. Contracts continue to increase with the cost of inflation.

Budgetary Highlights

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

The COVID-19 pandemic had the unanticipated effect of reducing airport revenues in 2020, which slowly began to recover in 2021 and continued into 2022 and 2023. The Duluth Airport Authority received CARES, CRRSA and ARPA COVID relief grants to assist with the operations expenses of the airports. All of the relief funds were depleted by January of 2023. The budget for 2023 took into consideration the lingering effect of the pandemic on airport revenues, the changes in air service with continued seasonal service from Sun Country and expenses associated with new development. The 2024 budget assumes revenues will have recovered from the pandemic, and expenses continue to increase with inflation and increased contract costs.

The airline industry remains competitive and fluid, while adverse to risk. An industry pilot shortage due to regulations continues to make it 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 the 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 13 years. Sun Country seasonal service offered a warm destination to the region and provided an increase in revenues to the airport. Competition increases growth and opportunity. 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 continue to foster activity for international, corporate, charter, and general aviation users of the Duluth Airport as well as revenues for the Authority. The Authority is working diligently to continue to offer safe operations and take advantage of programs which help support the operation of the airports.

The Authority continues to make improvements to facilities and infrastructure. In 2023, the Sky Harbor terminal building was demolished to make way for the construction of a new terminal building. A new maintenance building for Sky Harbor is also being constructed. A new ranch hangar with five bays was under construction as well. All of these have or will be completed in 2024. Since 2017, a major focus at both airports has been and will continue to be runway and taxiway and apron reconstruction as well as replacing important pieces of our aging snow removal equipment fleet. Taxiway A reconstruction will continue to be an ongoing project. The Authority is also working to replace the current air traffic control tower and has received some federal and state funds to support the project. The Duluth Airport Authority is always searching for opportunities to update and improve infrastructure as well as searching for new funding sources for those opportunities.

Capital Assets
(000s)

	Fiscal Year 2023	Fiscal Year 2022	Dollar Change Increase (Decrease)	Total Percent (%) Change
Land	$ 3,376	$ 3,376	$ -	0.00%
Land improvements	27,099	27,078	21	0.08%
Runways	145,726	131,099	14,627	11.16%
Buildings	90,193	90,517	(324)	-0.36%
Equipment	14,247	13,046	1,201	9.21%
Other assets – airport planning costs	6,291	6,174	117	1.90%
Construction in progress	5,489	2,101	3,388	161.26%
Total capital assets	$ 292,421	$ 273,391	$ 19,030	6.96%
Less: accumulated depreciation and amortization	(165,976)	(154,938)	(11,038)	7.13%
Net Capital Assets	$ 126,445	$ 118,453	$ 7,992	6.75%

By the end of 2023, the Authority had invested approximately $292 million in capital assets since its inception. The Authority updates its Airport Capital Improvement Program annually, which provides an itemized list of all anticipated future projects and funding sources for the next 20 years. Additional funding source opportunities as well as a strategic focus on development and infrastructure renewal projects provides for a continued plan for substantial capital investments through that planning horizon.

The union contract between the Authority and AFSCME Local 66 was negotiated in 2022 and went into effect beginning January 1, 2023, through December 31, 2025. A recent salary survey was conducted which has and will continue to inform wage negotiations in to the future.

Debt Administration

The City of Duluth issued General Obligation Airport Improvement Bonds for the Authority with a face value of $7,650,000 in May 2012. 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. In 2021, these bonds were refunded, and the operating share of the debt was paid off using COVID relief funds. The remaining share of the debt will be paid using CFC and PFC funds over the remaining term in the amount of over $490,000 annually. The debt schedule shows a final payment in 2026.

The City of Duluth issued General Obligation Airport Improvement Bonds for the Authority with a face value of $3,400,000 in December 2013. The bond proceeds were used as the local match on federal and state grants for completion of the parking ramp facilities. These bonds were to be repaid over 16 years in the amount of around $340,000 annually, with a final payment in 2027.

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. The bond proceeds were used for the renovation of Hangar 103 to suit the needs of LSC's Center for Advanced Aviation. These bonds were to be repaid over a period of 15 years in the amount of around $246,000 annually, with a final payment in 2030.

Economic and Other Factors

When setting the 2024 budget, the Authority took many factors into consideration: expected recovery from the COVID pandemic; 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 continues to take steps to review and update all rental and concession fees to competitive rates and carefully manages its costs for equipment, supplies, and services. In 2024, it is expected that the parking lot will continue to yield an increase in revenue due to the Authority staff cancelling the operating and concession contract with Reef parking and investing in infrastructure to self-manage the lots. New rent revenue for the new ranch hangars will also be realized in 2024. Unfortunately for the Authority, the TSA LEO reimbursement contract funding was eliminated as of May 1, 2024, and will have a negative impact of around $100 thousand annually.

The Authority continues to actively seek new lessees to occupy vacant or upcoming vacant space as well as economic development opportunities that are a good fit for the aviation sector. The Duluth International Airport master plan includes research on development of land for other business purposes which includes opportunities for future development of hangars and facilities at DLH to continue to support and grow aviation as well as other potential development opportunities at the airport. The Authority continues to seek opportunities for diversifying revenue 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

Duluth Airport Authority
Duluth, Minnesota

Exhibit 1

Statement of Net Position
December 31, 2023

Assets		
Current assets		
Cash and cash equivalents	$	7,820,281
Accounts receivable		584,447
Grants receivable		40,928
Accrued interest receivable		21,520
Inventory		23,985
Prepaid items		56,408
Leases receivable		29,630
Assets restricted for construction		
Cash and cash equivalents		70,894
Accounts receivable		61,335
Grants receivable		6,100,441
Total current assets	**$**	**14,809,869**
Noncurrent assets		
Leases receivable	**$**	**2,229,714**
Capital assets		
Nondepreciable	$	8,864,172
Depreciable and amortizable		283,557,000
Less: accumulated depreciation and amortization		(165,975,919)
Total capital assets – net of accumulated depreciation and amortization	**$**	**126,445,253**
Total noncurrent assets	**$**	**128,674,967**
Total Assets	**$**	**143,484,836**
Deferred Outflows of Resources		
Deferred other postemployment benefits outflows	$	225,995
Deferred pension outflows		408,765
Total Deferred Outflows of Resources	**$**	**634,760**

The notes to the financial statements are an integral part of this statement.

Duluth Airport Authority
Duluth, Minnesota

Exhibit 1
(Continued)

Statement of Net Position
December 31, 2023

Liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	$	381,928
Accrued salaries payable		106,667
Accrued vacation payable		122,778
Construction contracts payable		631,080
Unearned revenue		184,135
Loans payable – City of Duluth		955,000
Total current liabilities payable from unrestricted assets	**$**	**2,381,588**
Current liabilities payable from restricted assets		
Construction contracts payable		3,593,785
Total current liabilities	**$**	**5,975,373**
Noncurrent liabilities		
Unearned revenue	$	84,112
Loans payable – City of Duluth		3,210,000
Other postemployment benefits liability		3,056,943
Net pension liability		1,252,584
Total noncurrent liabilities	**$**	**7,603,639**
Total Liabilities	**$**	**13,579,012**
Deferred Inflows of Resources		
Deferred lease inflows	$	2,155,144
Deferred other postemployment benefits inflows		435,328
Deferred pension inflows		402,277
Total Deferred Inflows of Resources	**$**	**2,992,749**
Net Position		
Net investment in capital assets	$	114,917,011
Unrestricted		12,630,824
Total Net Position	**$**	**127,547,835**

Duluth Airport Authority
Duluth, Minnesota

Exhibit 2

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2023

Operating Revenues		
Charges for services	$	4,006,276
Lease revenue		2,631,277
Total Operating Revenues	**$**	**6,637,553**
Operating Expenses		
Personal services	$	2,717,791
Supplies		714,908
Utilities		624,281
Other services and charges		1,886,251
Depreciation		10,931,168
Amortization		448,042
Total Operating Expenses	**$**	**17,322,441**
Operating Income (Loss)	**$**	**(10,684,888)**
Nonoperating Revenues (Expenses)		
Interest income	$	425,303
Passenger facility charge		496,361
Gain (loss) on disposal of capital assets		(42,186)
Interest expense		(141,964)
Total Nonoperating Revenues (Expenses)	**$**	**737,514**
Net Income (Loss) Before Capital Contributions	**$**	**(9,947,374)**
Capital Contributions		
Capital grants		
Federal	$	14,665,292
State		1,933,131
Total Capital Contributions	**$**	**16,598,423**
Change in Net Position	**$**	**6,651,049**
Net Position – January 1, restated (Note 1)		**120,896,786**
Net Position – December 31	**$**	**127,547,835**

Duluth Airport Authority
Duluth, Minnesota

Exhibit 3

Statement of Cash Flows
For the Year Ended December 31, 2023

Cash Flows from Operating Activities		
Cash received from customers	$	3,554,409
Cash paid to suppliers		(3,304,875)
Cash paid to employees		(2,580,651)
Other cash receipts		237,061
Lease payments received (including $69,599 of interest)		2,626,888
Net cash provided by (used in) operating activities	**$**	**532,832**
Cash Flows from Capital and Related Financing Activities		
Principal paid on debt	$	(930,000)
Interest paid on debt		(141,964)
Capital grants – federal		13,451,634
Capital grants – state		1,719,145
Passenger facility charge		508,990
Proceeds from sale of capital assets		3,473
Acquisition or construction of capital assets		(15,683,377)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,072,099)**
Cash Flows from Investing Activities		
Interest received on investments	**$**	**355,704**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(183,563)**
Cash and Cash Equivalents – January 1		**8,074,738**
Cash and Cash Equivalents – December 31	**$**	**7,891,175**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents – current assets	$	7,820,281
Cash and cash equivalents – restricted assets		70,894
Total Cash and Cash Equivalents	**$**	**7,891,175**

Duluth Airport Authority
Duluth, Minnesota

Exhibit 3
(Continued)

Statement of Cash Flows
For the Year Ended December 31, 2023

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(10,684,888)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Lease interest		69,599
Depreciation		10,931,168
Amortization		448,042
Changes in assets and liabilities		
(Increase) decrease in receivables		(121,621)
(Increase) decrease in accrued interest receivables		509
(Increase) decrease in lease receivables		70,483
(Increase) decrease in inventory		24,448
(Increase) decrease in prepaid items		19,320
Increase (decrease) in payables		(117,548)
Increase (decrease) in deferred lease inflows		(144,980)
(Increase) decrease in deferred other postemployment benefits outflows		67,502
Increase (decrease) in deferred other postemployment benefits inflows		358,508
Increase (decrease) in other postemployment benefits liability		(394,140)
(Increase) decrease in deferred pension outflows		115,867
Increase (decrease) in deferred pension inflows		378,532
Increase (decrease) in net pension liability		(394,784)
Increase (decrease) in unearned revenue		(93,185)
Net Cash Provided by (Used in) Operating Activities	**$**	**532,832**
Noncash Investing, Capital, and Financing Activities		
Carrying value of capital assets disposed of	$	45,659
Capital assets acquired by construction contracts payable		3,714,711

Note 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.

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.

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.

Basis of Accounting

The Authority uses the economic resources measurement focus and the full accrual 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.

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.

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

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.

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.

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.

Restricted Assets

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

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:

Estimated Useful Lives of Capital Assets

Classification	Years
Land improvements	15
Runways	10 to 15
Buildings and structures	20 to 30
Equipment	5 to 10

Other Assets

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

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 assets that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. The Authority reports deferred outflows of resources associated with other postemployment benefits (OPEB) and the defined benefit pension plan.

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 assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources for the net present value of leases that mature beyond one year, amortized to revenue on a straight-line basis over the lease terms. The Authority also reports deferred inflows of resources associated with OPEB and the defined benefit pension plan.

Unearned Revenue

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

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.

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.

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.

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.

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.

Prior Period Restatement – Airport Rescue Grants (Part of Airport Improvement Program)

During the current year, the Duluth Airport Authority has identified $2,387,321 of 2022 expenditures to be applied to the Airport Rescue Grants received under the Airport Improvement Program, assistance listing number 20.106. Had these expenditures been identified during 2022, federal grant revenue would have increased by this amount. Beginning net position has been restated in the current year to reflect this subsequent change.

Note 2 – Detailed Notes

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 Annual Comprehensive 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, 2023:

Cash and Cash Equivalents for the Year Ended December 31, 2023

Cash and investments pooled with the City of Duluth	$	7,891,032
Petty cash funds		143
Total	$	7,891,175
Detail as shown on the Statement of Net Position		
Current assets		
Cash and cash equivalents	$	7,820,281
Assets restricted for construction		
Cash and cash equivalents		70,894
Total Cash and Cash Equivalents	$	7,891,175

Capital Assets

A summary of changes in capital assets as of December 31, 2023, follows:

Summary of Changes in Capital Assets as of December 31, 2023

	Balance January 1, 2023	Increase	Decrease	Transfers/ Reclassification	Balance December 31, 2023
Capital assets not depreciated					
Land	$ 3,375,534	$ -	$ -	$ -	$ 3,375,534
Construction in progress	2,100,703	19,059,499	-	(15,671,564)	5,488,638
Total capital assets not depreciated	$ 5,476,237	$ 19,059,499	$ -	$ (15,671,564)	$ 8,864,172
Capital assets depreciated and amortized					
Land improvements	$ 27,078,224	$ -	$ -	$ 21,495	$ 27,099,719
Buildings and structures	90,517,494	48,032	372,063	-	90,193,463
Runways	131,099,052	-	-	14,627,299	145,726,351
Equipment	13,046,395	309,557	15,334	906,049	14,246,667
Other assets – airport planning costs	6,174,079	-	-	116,721	6,290,800
Total capital assets depreciated	$ 267,915,244	$ 357,589	$ 387,397	$ 15,671,564	$ 283,557,000
Less: accumulated depreciation and amortization					
Land improvements	$ 22,379,796	$ 1,213,527	$ -	$ -	$ 23,593,323
Buildings and structures	35,261,121	2,895,131	328,273	-	37,827,979
Runways	84,214,546	6,454,226	-	-	90,668,772
Equipment	10,378,604	368,283	13,465	-	10,733,422
Other assets – airport planning costs	2,704,381	448,042	-	-	3,152,423
Total accumulated depreciation and amortization	$ 154,938,448	$ 11,379,209	$ 341,738	$ -	$ 165,975,919
Total capital assets depreciated and amortized, net	$ 112,976,796	$ (11,021,620)	$ 45,659	$ 15,671,564	$ 117,581,081
Capital Assets, Net	$ 118,453,033	$ 8,037,879	$ 45,659	$ -	$ 126,445,253

The Authority's commitments with respect to unfinished construction projects as of December 31, 2023, are as follows:

Construction Commitments as of December 31, 2023

Projects		
AIG-21	$	1,804,539
AIG-77		12,705,768
AIG-? (ATCT)		3,881,869

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.

Summary of Changes in Vacation Payable as of December 31, 2023

Accrued vacation payable, January 1	$	126,146
Vacation earned		103,295
Vacation used		(106,663)
Accrued vacation payable, December 31	$	122,778

Leases

The Airport leases terminal space (except for regulated leases), non-terminal buildings, and land to various third parties which terminate at various dates as late as 2069. The discount rate applicable to these leases is three percent. Payments are fixed annually or monthly.

During the year ended December 31, 2023, the Authority recognized the following related to its lessor agreements:

Lease Revenue for December 31, 2023

Lease revenue	$	587,643
Interest Income related to its leases		69,599
Total	$	657,242

Future principal and interest payment requirements related to the Authority's leases receivable at December 31, 2023, are as follows:

Future Lease Principal and Interest Payment Requirements as of December 31, 2023

Year Ended December 31	Principal	Interest
2024	$ 29,630	$ 68,221
2025	30,701	67,116
2026	31,645	66,169
2027	32,607	65,194
2028	33,428	64,369
2029-2033	183,753	304,962
2034-2038	213,469	274,849
2039-2043	189,269	245,114
2044-2048	219,756	214,370
2049-2053	255,431	178,394
2054-2058	291,308	136,965
2059-2063	329,641	90,460
2064-2068	356,693	37,282
2069	62,013	1,298
Total	$ 2,259,344	$ 1,814,763

Regulated Leases

Regulated leases between airports and aeronautical users are subject to regulations set forth by the Federal Aviation Administration and Department of Homeland Security. A lease receivable and a deferred inflow of resources are not recognized for these leases. Such regulated leases at the Duluth Airport include (a) lease and use agreements with certain airlines regarding the use of the terminal building and equipment and (b) non-terminal aeronautical buildings and land leases. Certain terminal space is subject to preferential or exclusive use by the airlines. Delta had 2,936 square feet, United 822 square feet, and Sun Country 806 square feet of preferential space in the terminal during 2023. Non-terminal buildings and lands are leased on an exclusive basis.

During the year ended December 31, 2023, the Authority recognized the following from regulated leases:

Regulated Lease Revenue for December 31, 2023

Lease revenue	$ 986,758
Revenue from variable payments	1,048,097
Total	$ 2,034,855

Future expected minimum payments related to the Authority's regulated leases at December 31, 2023 are as follows:

Future Minimum Lease Payments Related to Regulated Leases at December 31, 2023

Year Ending December 31		Future Minimum Lease Payments
2024	$	853,088
2025		470,016
2026		223,040
2027		223,068
2028		221,167
2029-2033		1,005,585
2034-2038		944,739
2039-2043		866,250
2044-2048		844,921
2049-2053		808,807
2054-2058		581,564
2059-2063		375,241
2064-2068		375,241
2069-2073		340,580
2074-2078		162,458
2079-2082		22,523
Total	$	8,318,288

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, 2023, is:

Budget-to-Actual Comparison for the Year Ending December 31, 2023

	Budget	Actual	Variance
Operating Revenues			
Charges for services	$ 3,481,995	$ 4,006,276	$ 524,281
Lease revenue	2,433,995	2,631,277	197,282
Total Operating Revenues	$ 5,915,990	$ 6,637,553	$ 721,563
Operating Expenses			
Personal services	$ 2,909,323	$ 2,717,791	$ 191,532
Supplies	768,676	714,908	53,768
Utilities	526,585	624,281	(97,696)
Other services and charges	1,811,844	1,886,251	(74,407)
Depreciation	9,711,990	10,931,168	(1,219,178)
Amortization	295,650	448,042	(152,392)
Total Operating Expenses	$ 16,024,068	$ 17,322,441	$ (1,298,373)
Operating Income (Loss)	$ (10,108,078)	$ (10,684,888)	$ (576,810)
Nonoperating Revenues (Expenses)			
Interest income	$ 54,130	$ 425,303	$ 371,173
Passenger facility charge	442,079	496,361	54,282
Gain (loss) on disposal of capital assets	-	(42,186)	(42,186)
Interest expense	(221,964)	(141,964)	80,000
Total Nonoperating Revenues (Expenses)	$ 274,245	$ 737,514	$ 463,269
Net Income (Loss) Before Capital Contributions	$ (9,833,833)	$ (9,947,374)	$ (113,541)
Capital Contributions			
Capital grants – federal	$ 16,696,840	$ 14,665,292	$ (2,031,548)
Capital grants – state	1,242,630	1,933,131	690,501
Total Capital Contributions	$ 17,939,470	$ 16,598,423	$ (1,341,047)
Change in Net Position	$ 8,105,637	$ 6,651,049	$ (1,454,588)

Long-Term Debt

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. In November 2021, the City of Duluth issued General Obligation Airport Refunding Bonds, Series 2021D, on behalf of the Duluth Airport Authority. The bonds have a face value of $2,845,000 and will be repaid over a period of seven years. Proceeds of the bonds refunded the Series 2012B Bonds. The Duluth Airport Authority entered into a loan agreement with the City of Duluth and makes loan payments to the City in sufficient amounts for the City to make the required payments on the bonds.

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

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

The annual requirements to service the debt at December 31, 2023, are as follows:

Debt Service Requirements as of December 31, 2023

Year Ended	City of Duluth Loan 2013B		City of Duluth Loan 2015C	
December 31	Principal	Interest	Principal	Interest
2024	$ 285,000	$ 51,971	$ 195,000	$ 50,388
2025	300,000	40,144	200,000	44,538
2026	310,000	27,394	205,000	38,438
2027	325,000	14,219	215,000	31,878
2028	-	-	220,000	24,675
2029 to 2030	-	-	465,000	25,670
Total	$ 1,220,000	$ 133,728	$ 1,500,000	$ 215,587

Debt Service Requirements as of December 31, 2023

Year Ended	City of Duluth Loan 2021D	
December 31	Principal	Interest
2024	$ 475,000	$ 18,815
2025	480,000	13,590
2026	490,000	7,350
Total	$ 1,445,000	$ 39,755

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

Summary of Changes in Long-Term Debt as of December 31, 2023

Balance – January 1	$	5,095,000
Payments		(930,000)
Balance – December 31	$	4,165,000
Due Within One Year	$	955,000

Line of Credit

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

As of December 31, 2023, there was no outstanding balance on the line of credit.

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.

Major Customers

Major customers are defined under accounting standards as a single customer from which the enterprise derives ten percent or more of its revenue. In 2023, the Duluth Airport Authority had two major customers of services provided by Delta Airlines and United Airlines.

Major Customers for the Year Ended December 31, 2023

Customer		Operating Revenues	Percentage of Total Operating Revenues
Delta Airlines	$	1,197,774	18.0%
United Airlines		689,896	10.4%

Other Postemployment Benefits (OPEB)

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 2023 totaled $138,953.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

As of the January 1, 2023, actuarial valuation, the following employees were covered by the benefit terms:

Employees Covered by the OPEB Benefit Terms
As of the January 1, 2023, Actuarial Valuation

Inactive employees or beneficiaries currently receiving benefit payments	23
Active plan participants	26
Total	49

Total OPEB Liability

The Authority's total OPEB liability of $3,056,943 was measured as of December 31, 2023, and was determined by an actuarial valuation as of January 1, 2023.

The total OPEB liability in the January 1, 2023, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

OPEB Actuarial Assumptions and Other Inputs

Inflation	2.20 percent
Salary increases	3.50 percent, average wage inflation plus merit/productivity increases
Health care cost trend	8.00 percent, decreasing 0.50 percent per year to an ultimate rate of 5.00 percent

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

The current year discount rate is 4.31 percent, which is a change from the prior year rate of 1.93 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 the Pub-2010 General Headcount-Weighted tables.

Changes in the Total OPEB Liability

Changes in the Total OPEB Liability
For the Year Ended December 31, 2023

Balance at December 31, 2022	$	3,451,083
Changes for the year		
Service cost	$	82,900
Interest		122,245
Benefit payments		(138,953)
Differences between expected and actual experience		(53,546)
Changes in assumptions		(406,786)
Net change	$	(394,140)
Balance at December 31, 2023	$	3,056,943

OPEB Liability Sensitivity

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

Sensitivity of the Total OPEB Liability to Changes in the
Discount Rate as of December 31, 2023

	Discount Rate		Total OPEB Liability
1% Decrease	3.31%	$	3,217,245
Current	4.31%		3,056,943
1% Increase	5.31%		2,547,613

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

Sensitivity of the Total OPEB Liability to Changes
In the Health Care Trend Rates as of December 31, 2023

	Health Care Trend Rate		Total OPEB Liability
1% Decrease	7.00% Decreasing to 4.00%	$	2,547,393
Current	8.00% Decreasing to 5.00%		3,056,943
1% Increase	9.00% Decreasing to 6.00%		3,257,259

OPEB Expense

For the year ended December 31, 2023, the Authority recognized OPEB expense of $31,870. The Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB as of December 31, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 30,955	$ 46,261
Changes in actuarial assumptions	195,040	389,067
Total	$ 225,995	$ 435,328

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

Schedule of Amortization of Deferred Outflows and Inflows of Resources Related to OPEB As of December 31, 2023

Year Ended December 31	OPEB Expense Amount
2024	$ (32,982)
2025	(871)
2026	(871)
2027	(27,427)
2028	(62,630)
2029	(84,552)

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred for the 2023 valuation:

- The discount rate was increased from 1.93 percent to 4.31 percent based on changes in the 20-year tax-exempt GO municipal bond yields.
- Per-capita costs were updated to reflect experience since the previous valuation, including the assumed rates of morbidity.
- The medical trend was updated to reflect a 7.50 percent immediate rate pre-65 and 4.00 percent immediate rate post-65.
- The mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021.
- Retirement rates were updated based on the results of the 2023 actuarial experience study.

- Termination rates were updated based on the results of the 2023 actuarial experience study.

Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of the Duluth Airport Authority are covered by defined benefit pension plans 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. This plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

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

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.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost-of-living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, 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.

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 2023. The employer was required to contribute 7.50 percent of annual covered salary in 2023. Rates did not change from 2022.

The Authority's contributions for the General Employees Plan for the year ended December 31, 2023, were $136,170. The contributions are equal to the contractually required contributions as set by state statute.

Pension Costs

At December 31, 2023, the Authority reported a liability of $1,252,584 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023, the Authority's proportion was 0.0224 percent. It was 0.0208 percent measured as of June 30, 2022. The Authority recognized pension expense of $239,448 for its proportionate share of the General Employees Plan's pension expense.

Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan annually until September 15, 2031. The Authority recognized an additional $155 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

Authority's Share of the Net Pension Liability and the State's Related Liability
As of December 31, 2023

The Authority's proportionate share of the net pension liability	$	1,252,584
State of Minnesota's proportionate share of the net pension liability associated with the Authority		34,503
Total	$	1,287,087

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 and Deferred Inflows of Resources
As of December 31, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 40,430	$ 7,975
Changes in actuarial assumptions	187,422	343,322
Difference between projected and actual investment earnings	-	50,980
Changes in proportion	113,664	-
Contributions paid to PERA subsequent to the measurement date	67,249	-
Total	$ 408,765	$ 402,277

The $67,249 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, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of Amortization of
Deferred Outflows and Inflows of Resources
As of December 31, 2023

Year Ended December 31	Pension Expense Amount
2024	$ 66,884
2025	(149,936)
2026	49,465
2027	(27,174)

Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Actuarial Assumptions for the Year Ended June 30, 2023

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan, with slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan.

Actuarial assumptions used in the June 30, 2023, valuations were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated June 29, 2023, was utilized.

The long-term expected rate of return on pension plan investments is 7.00 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.

Pension Plan Investment Target Allocation and Best Estimates of Geometric Real Rates of Return for Each Major Asset Class

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	33.50%	5.10%
International equities	16.50%	5.30%
Fixed income	25.00%	0.75%
Private markets	25.00%	5.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent in 2023. This was an increase from the 6.50 percent used in 2022. 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.

Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2023:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.
- A one-time direct state aid contribution of $170.1 million occurred on October 1, 2023.
- The vesting period for those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- For Basic Plan members, a one-time, non-compounding benefit increase of 4.00 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- For Coordinated Plan members, a one-time, non-compounding benefit increase of 2.50 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Pension Liability Sensitivity

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

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate As of December 31, 2023

	Discount Rate	Net Pension Liability
1% Decrease	6.00%	$ 2,215,920
Current	7.00%	1,252,584
1% Increase	8.00%	460,202

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.

Required Supplementary Information

Duluth Airport Authority
Duluth, Minnesota

Schedule of Changes in Total OPEB Liability and Related Ratios
Other Postemployment Benefits
December 31, 2023

	2023	2022
Total OPEB Liability		
Service cost	$ 82,900	$ 115,166
Interest	122,245	62,964
Differences between expected and actual experience	(53,546)	-
Changes of assumption or other inputs	(406,786)	-
Benefit payments	(138,953)	(105,954)
Net change in total OPEB liability	**$ (394,140)**	**$ 72,176**
Total OPEB Liability – Beginning	**3,451,083**	**3,378,907**
Total OPEB Liability – Ending	**$ 3,056,943**	**$ 3,451,083**
Covered-employee payroll	$ 1,592,278	$ 1,448,853
Total OPEB liability (asset) as a percentage of covered-employee payroll	191.99%	238.19%

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

The notes to the required supplementary information are an integral part of this schedule.

Exhibit A-1

	2021	2020	2019	2018
	$ 111,271	$ 99,481	$ 96,118	$ 109,931
	62,653	100,806	97,223	99,052
	46,818	-	34,230	-
	358,939	-	(233,596)	-
	(108,747)	(86,691)	(65,207)	(63,207)
	$ 470,934	**$ 113,596**	**$ (71,232)**	**$ 145,776**
	2,907,973	**2,794,377**	**2,865,609**	**2,719,833**
	$ 3,378,907	**$ 2,907,973**	**$ 2,794,377**	**$ 2,865,609**
	$ 1,399,858	$ 1,272,474	$ 1,229,443	$ 1,159,978
	241.37%	228.53%	227.29%	247.04%

Duluth Airport Authority
Duluth, Minnesota

Exhibit A-2

Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Plan
December 31, 2023

Measurement Date	Employer's Proportion of the Net Pension Liability/ Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Duluth Airport Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.0224 %	$ 1,252,584	$ 34,503	$ 1,287,087	$ 1,780,261	70.36 %	83.10 %
2022	0.0208	1,647,368	48,274	1,695,642	1,557,827	105.75	76.67
2021	0.0207	883,984	26,954	910,938	1,487,013	59.45	87.00
2020	0.0196	1,175,111	36,228	1,211,339	1,396,787	84.13	79.06
2019	0.0188	1,039,410	32,165	1,071,575	1,327,160	78.32	80.23
2018	0.0187	1,037,399	34,005	1,071,404	1,268,706	81.77	79.53
2017	0.0203	1,295,939	16,256	1,312,195	1,304,653	99.33	75.90
2016	0.0193	1,567,066	20,517	1,587,583	1,197,973	130.81	68.91
2015	0.0192	995,044	N/A	995,044	1,125,678	88.40	78.19

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

Duluth Airport Authority
Duluth, Minnesota

Exhibit A-3

Schedule of Contributions
PERA General Employees Retirement Plan
December 31, 2023

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2023	$ 136,170	$ 136,170	$ -	$ 1,815,603	7.50 %
2022	125,940	125,940	-	1,679,200	7.50
2021	111,578	111,578	-	1,487,707	7.50
2020	107,906	107,906	-	1,438,747	7.50
2019	103,457	103,457	-	1,379,427	7.50
2018	95,897	95,897	-	1,278,624	7.50
2017	93,927	93,927	-	1,252,360	7.50
2016	92,898	92,898	-	1,238,640	7.50
2015	90,803	90,803	-	1,210,707	7.50

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

Note 1 – Other Postemployment Benefits Funded Status

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

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

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

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

2023

- The discount rate was increased from 1.93 percent to 4.31 percent based on changes in the 20-year tax-exempt GO municipal bond yields.
- Per-capita costs were updated to reflect experience since the previous valuation, including the assumed rates of morbidity.
- The medical trend was updated to reflect a 7.50 percent immediate rate pre-65 and 4.00 percent immediate rate post-65.
- The mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021.
- Retirement rates were updated based on the results of the 2023 actuarial experience study.
- Termination rates were updated based on the results of the 2023 actuarial experience study.

2022

- There were no changes in actuarial assumptions.

2021

- Per-capita costs were updated to reflect experience since the previous valuation as well as the change in TPA from HealthPartners to Medica.
- The discount rate was decreased from 3.64 percent to 1.93 percent, based on changes in the municipal bond yields.
- Base mortality rates were updated from the RPH-2014 Total Dataset Headcount-Weighted tables to the new

Pub-2010 General Headcount-Weighted tables.

- The mortality improvement scale was updated from MP-2018 to MP-2020.

<u>2020</u>

- There were no changes in actuarial assumptions.

<u>2019</u>

- Premium equivalent rates were updated to reflect current rates.

<u>2018</u>

- 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.
- The discount rate decreased from 5.70 percent to 3.70 percent to reflect the current municipal bond market.

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

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

General Employees Retirement Plan

<u>2023</u>

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.
- A one-time direct state aid contribution of $170.1 million occurred on October 1, 2023.
- The vesting period for those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- For Basic Plan members, a one-time, non-compounding benefit increase of 4.00 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- For Coordinated Plan members, a one-time, non-compounding benefit increase of 2.50 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two through five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

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

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost-of-living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

<u>2017</u>

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

<u>2016</u>

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

Supplementary Information

Duluth Airport Authority
Duluth, Minnesota

Exhibit B-1

Statement of Operating Revenues
Year Ended December 31, 2023

Operating Revenues		
Non-aeronautical		
Space rental	$	243,135
Parking		1,649,599
Car rental commissions		605,906
Customer facility charge		244,904
State aid for maintenance and operation		224,920
Advertising		110,904
Utility sales		56,350
Concessions		92,139
State aid for marketing		40,069
Permits		5,915
Other income		211,178
Total non-aeronautical	**$**	**3,485,019**
Non-passenger aeronautical		
Hangar space rental	$	556,332
Fuel flowage fees		105,464
Transportation Security Administration charges		100,589
Rental income		710,400
Fuel sales		65,053
Landing fees		62,705
Ramp fees		21,663
Other income		84,879
Total non-passenger aeronautical	**$**	**1,707,085**
Passenger airline aeronautical		
Landing fees	$	306,333
Space rental		1,139,116
Total passenger airline aeronautical	**$**	**1,445,449**
Total Operating Revenues	**$**	**6,637,553**

Duluth Airport Authority
Duluth, Minnesota

Exhibit C-1

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	AIP Grant Numbers	Expenditures
U.S. Department of Defense				
Passed Through Minnesota Department of Military Affairs				
National Guard Military Operations and Maintenance (O&M) Projects	12.401	W912LM-23-2-131D		**$ 779,105**
U.S. Department of Transportation				
Direct				
Airport Improvement Program	20.106		AIP 14	$ 46,657
Airport Improvement Program	20.106		AIP 15	4,945
Airport Improvement Program	20.106		AIP 18	7,285
Airport Improvement Program	20.106		AIP 19	391,909
Airport Improvement Program	20.106		AIP 20	139,156
Airport Improvement Program	20.106		AIP 21	402,958
Airport Improvement Program	20.106		AIP 63	(36,658)
Airport Improvement Program	20.106		AIP 64	40,775
Airport Improvement Program	20.106		AIP 69	61,956
Airport Improvement Program	20.106		AIP 72	8,910
Airport Improvement Program	20.106		AIP 74	10,442,418
Airport Improvement Program	20.106		AIP 75	39,866
Airport Improvement Program	20.106		AIP 76	1,639,240
Airport Improvement Program	20.106		AIP 77	695,170
Airport Improvement Program	20.106		Not available	(91,800)
Total U.S. Department of Transportation				**$ 13,792,787**
Total Federal Awards				**$ 14,571,892**

The Duluth Airport Authority did not pass any federal awards through to subrecipients for the year ended December 31, 2023.

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

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, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Duluth Airport Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Duluth Airport Authority.

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 2 – De Minimis Cost Rate

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

Note 3 – Reconciliation to Statement of Revenues, Expenses, and Changes in Net Position

Reconciliation to Statement of Revenues, Expenses, and Changes in Net Position	
Capital contributions: capital grants – federal	$ 14,665,292
Differences between expenditures incurred in previous years and related reimbursements	(93,400)
Expenditures per Schedule of Expenditures of Federal Awards	$ 14,571,892

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, 2023

	Application Eleven*	Application Thirteen*	Application Fourteen*
Passenger Facility Charge Collections**			
Prior to January 1, 2023	**$ 974,738**	**$ 659,213**	**$ -**
Collections in 2023			
First quarter	$ 125,197	$ -	$ -
Second quarter	-	119,069	13,999
Third quarter	-	15,103	116,404
Fourth quarter	22,422	-	96,774
Total collections in 2023	**$ 147,619**	**$ 134,172**	**$ 227,177**
Total Collected Through December 31, 2023	**$ 1,122,357**	**$ 793,385**	**$ 227,177**
Approved expenses through December 31, 2023	**(1,122,357)**	**(793,385)**	**(227,177)**
Unexpended Balance – December 31, 2023	**$ -**	**$ -**	**$ -**

*Federal Aviation Administration's Acknowledgment of Intent of passenger facility charge effective date for Application Eleven is January 16, 2013; Application Thirteen is May 27, 2020; and Application Fourteen is November 15, 2022.

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

Management and Compliance Section

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 4, 2024.

Report on 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 as a basis for designing 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 our 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 a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 or significant deficiencies may exist that were not identified.

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Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and 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/Chad Struss

Chad Struss, CPA
Deputy State Auditor

June 4, 2024

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

Report on Compliance for Each Major Federal Program and for the Passenger Facility Charge Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Opinion* on the *Major Federal Program and the Passenger Facility Charge Program
We have audited the Duluth Airport Authority's compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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 (together the PFC program) in accordance with the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) for the year ended December 31, 2023.

In our opinion, the Duluth Airport Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program and its PFC program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program and the Passenger Facility Charge Program
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; 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. Our responsibilities under those standards, the Uniform Guidance, and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Duluth Airport Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal

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program and the PFC program. Our audit does not provide a legal determination of the Duluth Airport Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Duluth Airport Authority's federal programs and its PFC program.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Duluth Airport Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Uniform Guidance, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Duluth Airport Authority's compliance with the requirements of the major federal program as a whole or the PFC program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Uniform Guidance, and the Guide, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Duluth Airport Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and

- obtain an understanding of the Duluth Airport Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, 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 the Duluth Airport Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a 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 attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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/Chad Struss

Chad Struss, CPA
Deputy State Auditor

June 4, 2024

Duluth Airport Authority
Duluth, Minnesota

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023

Section I – Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over the major federal program:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

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

Identification of the major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: $750,000.

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

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Passenger Facility Charge Findings

No matters were reported.