

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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

For the Years Ended December 31, 2009 and 2008



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

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2009

	<u>Term Ending</u>
Directors	
Nancy Aronson Norr	July 1, 2011
John M. Eagleton	July 1, 2010
Conrad Firling	July 1, 2012
Michael G. Lundstrom	July 1, 2012
Roy Niemi	July 1, 2010
Robert Pearson	July 1, 2012
Roger D. Wedin	July 1, 2011
Executive Director	
Brian Ryks	
Officers	
President	
Nancy Aronson Norr	
Vice President	
John M. Eagleton	
Secretary	
Robert Pearson	

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Duluth Airport Authority

We have audited the accompanying basic financial statements of the Duluth Airport Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Airport Authority as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2010, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 11, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

Our discussion and analysis of the Duluth Airport Authority's (DAA) financial performance provides an overview of the Airport's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Operating expenses (before depreciation and amortization) decreased \$420.1 thousand, or 11 percent, compared to Fiscal Year 2008, due to cost containment efforts in response to the poor economic climate and lower passenger activity.
- Operating revenues decreased \$427.7 thousand, or 12 percent, due to widespread and broad general declining economic conditions and reduced commercial airline travel and general aviation activities resulting from the U.S. recession.
- Non-operating federal, state, and local grant revenues increased \$8.3 million, or 179 percent, from 2008. Total net assets increased \$8.2 million, or 12 percent, compared to Fiscal Year 2008.
- Total number of passengers declined by 45.6 thousand, or 15 percent, for a total of 257.6 thousand in 2009.
- Total traffic count as recorded by the FAA tower declined by 6.5 thousand, or 10 percent. Of this figure, approximately 80 percent is commercial and general aviation traffic, with the remaining 20 percent military traffic.
- Landing fee revenues for 2009 declined by \$58.3 thousand, or 16 percent, due to the decreased traffic count and commercial activity and a shift towards smaller and lighter commercial aircraft.
- Passenger Facility Charge revenue declined \$61.1 thousand in 2009, or 12 percent, compared to 2008, which is attributed to the 15 percent passenger count decline from 2008.
- Total Parking Lot concession sales declined by \$152.7 thousand, or 22 percent, for 2009.
- Total Car Rental concession sales declined by \$85.6 thousand, or 21 percent, for 2009.

- The 2009/2010 State Maintenance and Operations Agreement, which became effective July 1, 2009, provided for \$182.2 thousand of state aid.
- The Transportation Security Administration extended its agreement with DAA effective October 1, 2007, through September 30, 2012, to reimburse the DAA 14 hours per day for contracted Law Enforcement personnel, or approximately \$7.4 thousand per month.

OVERVIEW OF ANNUAL FINANCIAL REPORT

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

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

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Duluth Airport Authority on a full accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets 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 receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information 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 Duluth Airport 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 Duluth Airport 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 9 Oct, 1985, the Bylaws were adopted (amended Oct 16, 1986 & Sep 16, 1997). These Bylaws established regular monthly meetings, a term for officers, and the appointment of an Executive Director.

The Duluth International Airport consists of two runways, which provide take-off and landing facilities for all types of commercial and general aviation aircraft, as well as military aircraft. The main runway 9-27 is 10,152 feet long by 150 feet wide and can handle the world's largest aircraft. The cross runway 3-21 is 5,699 feet long by 150 feet wide. The Duluth International Airport is located on 3,294 acres of land and encompasses approximately one-half of the old Duluth air force base. The DAA also operates Sky Harbor Airport, which is both a sea plane base and a general aviation airport. The landside runway is 3,050 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 Duluth Airport Authority comes from a variety of sources including: car rental concessions, parking, space and land rentals, Fixed Base Operator concessions, Transportation Security Agency reimbursement for law enforcement, maintenance and operations grant funds from the State of Minnesota, landing fees, and Air National Guard joint use funds. The DAA 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. Comments regarding year-to-year variances follow.

Condensed Statement of Net Assets (000s)

	FY 2009	FY 2008	FY 2007
Current and restricted assets	\$ 4,192	\$ 3,265	\$ 3,920
Capital assets	63,592	62,959	56,811
Construction in progress	11,662	3,854	9,185
Total Assets	\$ 79,446	\$ 70,078	\$ 69,916
Current liabilities	\$ 3,297	\$ 2,198	\$ 2,583
Long-term liabilities	1,171	1,128	1,075
Total Liabilities	\$ 4,468	\$ 3,326	\$ 3,658
Net Assets			
Invested in capital assets	\$ 74,262	\$ 65,768	\$ 65,081
Unrestricted	716	984	1,177
Total Net Assets	\$ 74,978	\$ 66,752	\$ 66,258

As the table illustrates, net assets increased by \$8.2 million to \$75.0 million in 2009. The increase in net assets was primarily due to the \$8.5 million increase in invested in capital assets, as well as a decrease of \$268 thousand in unrestricted net assets.

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

	FY 2009		FY 2008	FY 2007
	Actual	Budget	Actual	Actual
Total operating revenues	\$ 3,002	\$ 3,448	\$ 3,430	\$ 3,617
Total operating expenses	(8,200)	(7,282)	(8,295)	(7,613)
Income (Loss)	\$ (5,198)	\$ (3,834)	\$ (4,865)	\$ (3,996)
Nonoperating revenues	524	652	653	790
Other revenues	12,985	6,554	4,752	11,657
Nonoperating expenses	(86)	(44)	(46)	(113)
Change in Net Assets	\$ 8,225	\$ 3,328	\$ 494	\$ 8,338

REVENUES

Operating revenues declined by \$428 thousand, or 12 percent, in 2009 relative to 2008. The decrease is due primarily to a decline in commercial airline passenger travel and general aviation activities that occurred in 2009 as a result of the economic downturn and recession.

EXPENSES

Duluth Airport Authority's operating expenses decreased by \$94.4 thousand to \$8,200 thousand in 2009, down from \$8,295 thousand in 2008. The decrease was primarily due to increased cost containment efforts by the Authority in reaction to the economic downturn. The Authority's operating expense cost savings measures implemented during 2009, not considering depreciation and amortization expense, resulted in a decrease of \$420 thousand from 2008 and a \$430 thousand decrease from 2009 budgeted operating expenses. Depreciation expense in 2009 from completed construction projects and equipment purchases increased by \$326 thousand from 2008.

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 Duluth Airport Authority Board approves the operating budget, and it also receives final approval from the Duluth City Council. The Authority's operating budget remains in effect for the entire fiscal year without being revised. Management and the Board of Directors are presented detailed monthly financial statements as well as an in-depth quarterly analysis of key indicators and budgetary progress.

The airline industry remains intensely competitive and volatile. Challenges with increased fuel costs plague profitability and continued service to smaller and marginally profitable markets. Positive for Duluth, Allegiant Airlines has had several continued full and productive years of service to Las Vegas from Duluth twice weekly and in 2009 added twice weekly service to Orlando. Additionally in December 2009, United Airlines began twice daily direct service between Duluth and its Chicago O'Hare hub. The establishment of additional air service to our market is continually being pursued with various carriers. Finally, Monaco Air has firmly established itself and continues to have productive and successful operations as the Fixed Base Operator. Monaco's quality of services and operations has led to more activity for international, corporate, charter, and general aviation users of the Duluth Airport as well as increased revenues for the DAA.

The DAA continued to make improvements to facilities, infrastructure, and respond to new security directives. In 2009, the following projects or additions to projects reached completion and were transferred to fixed asset records: (1) Air National Guard Arm/Dearm Ramp - \$1.6 million; (2) General Arrivals Apron, Ramp, Taxiway, and Access Road Improvements - \$2.8 million; (3) Air National Guard Fiber Optics Conduit - \$480 thousand; and (4) Additions to Runway 9/27 Rehabilitation and Shoulder Project - \$28 thousand.

Groundbreaking began in 2009 for the new \$65 million Passenger Terminal Building and supporting infrastructure. During 2009, \$5.4 million was expended for Phase I, consisting of site work, new roadways, infrastructure, and new parking lots. Construction on the new terminal building is expected to begin in the summer of 2010. The entire construction project is expected to last up to three years. Federal, state, and local airport dollars will fund the project.

The union contract between the Duluth Airport Authority and AFSCME Local 66 was last renegotiated in 2009 and is effective through December 31, 2010.

Capital Assets				
(000s)				
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u> <u>Increase</u> <u>(Decrease)</u>	<u>Total</u> <u>Percent (%)</u> <u>Change</u>
Land	\$ 3,361	\$ 3,361	\$ -	-
Runways	70,606	65,608	4,998	7.62
Buildings	32,040	31,986	54	0.17
Equipment	6,618	6,648	(30)	(0.45)
Construction in progress	<u>11,662</u>	<u>3,854</u>	<u>7,808</u>	<u>202.59</u>
Total capital assets	\$ 124,287	\$ 111,457	\$ 12,830	11.51
Less: accumulated depreciation	<u>49,729</u>	<u>45,367</u>	<u>4,362</u>	<u>9.61</u>
Net Capital Assets	<u>\$ 74,558</u>	<u>\$ 66,090</u>	<u>\$ 8,468</u>	<u>12.81</u>

At the end of 2009, the Duluth Airport Authority has invested approximately \$124.3 million in capital assets since its inception. The \$12.8 million increase in capital assets this past year is due to several major projects including new infrastructure, taxiways, and ramp areas for the General Aviation and Fixed Base Operator areas, Air National Guard ramp and infrastructure projects on the airfield, and increases in construction in progress related to the new Passenger Terminal Building.

The Duluth Airport Authority recently submitted a new Airport Capital Improvement Program (ACIP) through 2015, which includes for 2010:

- \$9.1 million for the new Terminal Building Construction, Phase I; and
- \$805 thousand for a new snowblower.

DEBT ADMINISTRATION

The City of Duluth obtained a \$500,000 loan from the Minnesota Investment Fund (MIF) to remedy soil conditions on Duluth Airport Authority (DAA) property. On December 20, 2005, the DAA entered into an agreement with the Duluth Economic Development Authority (DEDA) that provided that DAA agreed to make payments due on the loan in the amount of \$400,000. The loan is non-interest bearing, payable in 180 monthly installments of \$2,222 beginning February 2006. The non-current portion of the loan payable is \$268,889.

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

	Debt (000s)	<u>FY 2009</u>
A summary of changes in the revenue note balances are:		
Balance - January 1		\$ 497
Additions		-
Payments		<u>(22)</u>
Balance - December 31		<u>\$ 475</u>

ECONOMIC AND OTHER FACTORS

When setting the 2009 budget, the Duluth Airport Authority took many factors into consideration: the economic downturn and recession that became pronounced in late 2007 and continued into 2008, the continuing financial turmoil and consolidation of the commercial aviation sector, the still lingering effects of post-9/11 and its effects on commercial air travel and airport security, weather conditions which dictate utility costs and overtime for snow removal crews, energy, operating supplies, labor price increases, and a general review of all rates and services so that revenue will keep pace with expenses. The Duluth Airport Authority has taken steps to raise all rental and concession fees to competitive rates and carefully manages its costs for supplies and services. The DAA actively seeks new lessees to occupy vacant space as well as economic development opportunities that are a good fit for the aviation sector. Examples of this are the DAA's development efforts for the General Arrivals and Fixed Base Operator area, the North Business Development Area, and its partnership with the Duluth Economic Development Authority to facilitate usage of the former Northwest Airlines Maintenance Facility. The Duluth Airport Authority will continue to seek diversifying revenue sources in order to be less reliant on airline revenue sources.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the Duluth Airport Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of Finance, Duluth Airport Authority, 4701 Grinden Drive, Duluth, Minnesota 55811.

BASIC FINANCIAL STATEMENTS

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 203,817	\$ 616,587
Accounts receivable	356,449	509,790
Grants receivable	57,607	74,707
Inventory	95,300	77,777
Prepaid items	30,235	30,091
Assets restricted for construction		
Cash and cash equivalents	90,451	1,107,988
Accounts receivable	53,865	33,203
Grants receivable	3,304,529	814,883
Total current assets	\$ 4,192,253	\$ 3,265,026
Noncurrent assets		
Capital assets		
Nondepreciable	\$ 15,023,231	\$ 7,215,450
Depreciable	109,263,110	104,241,880
Less: allowance for depreciation	(49,728,474)	(45,367,136)
Net capital assets	\$ 74,557,867	\$ 66,090,194
Other assets		
Airport planning costs, net of accumulated amortization of \$717,250 in 2009 and \$633,723 in 2008	\$ 349,592	\$ 340,704
Lease buyout costs, net of accumulated amortization of \$181,641 in 2009 and \$145,247 in 2008	345,739	382,132
Total other assets	\$ 695,331	\$ 722,836
Total noncurrent assets	\$ 75,253,198	\$ 66,813,030
Total Assets	\$ 79,445,451	\$ 70,078,056

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**EXHIBIT A
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
Liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 216,071	\$ 119,102
Due to the City of Duluth	178,244	284,438
Due to other governments	36,770	35,937
Accrued salaries payable	48,908	39,718
Accrued vacation payable	65,597	70,792
Construction contracts payable	84,740	55,560
Accrued interest payable	-	12,350
Deferred revenue	84,086	589,664
Revenue notes payable	33,673	22,170
Loans payable	26,667	26,667
	\$ 774,756	\$ 1,256,398
Current liabilities payable from restricted assets		
Construction contracts payable	\$ 2,522,487	\$ 767,436
Due to the City of Duluth	-	174,478
	\$ 2,522,487	\$ 941,914
	\$ 3,297,243	\$ 2,198,312
Noncurrent liabilities		
Deferred revenue	\$ 21,670	\$ 37,428
Revenue notes payable	441,536	475,209
Loans payable	268,889	295,555
Net other postemployment benefits liability	438,415	319,175
	\$ 1,170,510	\$ 1,127,367
	\$ 4,467,753	\$ 3,325,679
Net Assets		
Invested in capital assets, net of related debt	\$ 74,261,312	\$ 65,767,971
Unrestricted	716,386	984,406
	\$ 74,977,698	\$ 66,752,377

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues		
Charges for services	\$ 3,002,023	\$ 3,429,700
Operating Expenses		
Personal services	\$ 1,544,675	\$ 1,589,639
Supplies	60,828	57,231
Utilities	519,345	632,231
Other services and charges	1,127,123	1,393,009
Depreciation	4,828,206	4,495,883
Amortization	119,921	126,492
Total Operating Expenses	\$ 8,200,098	\$ 8,294,485
Operating Income (Loss)	\$ (5,198,075)	\$ (4,864,785)
Nonoperating Revenues (Expenses)		
Investment earnings	\$ 19,039	\$ 27,950
Passenger facility charge	463,654	524,767
Gain (loss) on disposal of capital assets	(45,492)	17,194
Interest expense	(40,481)	(46,300)
Marketing grant	41,426	83,540
Total Nonoperating Revenues (Expenses)	\$ 438,146	\$ 607,151
Net Income (Loss) Before Capital Contributions	\$ (4,759,929)	\$ (4,257,634)
Capital Contributions		
Capital grants		
Federal	\$ 10,350,361	\$ 2,994,251
State	2,384,889	1,662,896
Local	250,000	-
Contributed capital	-	94,992
Total Capital Contributions	\$ 12,985,250	\$ 4,752,139
Change in Net Assets	\$ 8,225,321	\$ 494,505
Net Assets - January 1	66,752,377	66,257,872
Net Assets - December 31	\$ 74,977,698	\$ 66,752,377

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,022,397	\$ 3,394,317
Cash paid to suppliers	(1,733,357)	(1,749,398)
Cash paid to employees	(1,540,680)	(1,571,433)
Other cash receipts	220,427	244,592
	\$ (31,213)	\$ 318,078
Cash Flows from Noncapital Financing Activities		
Principal paid on revenue note	\$ (22,170)	\$ -
Interest paid on revenue note	(52,830)	-
	\$ (75,000)	\$ -
Cash Flows from Capital and Related Financing Activities		
Principal paid on loans	\$ (26,667)	\$ (26,667)
Capital grants - federal	7,721,361	4,458,391
Capital grants - state	2,206,830	1,769,767
Passenger facility charge	442,992	539,785
Proceeds from the sale of capital assets	-	46,750
Acquisition or construction of capital assets	(11,687,649)	(6,159,466)
	\$ (1,343,133)	\$ 628,560
Cash Flows from Investing Activities		
Interest on investments	\$ 19,039	\$ 27,950
	\$ (1,430,307)	\$ 974,588
Net Increase (Decrease) in Cash and Cash Equivalents		
	\$ 1,724,575	\$ 749,987
Cash and Cash Equivalents - January 1		
	\$ 294,268	\$ 1,724,575
Cash and Cash Equivalents - December 31		
	\$ 294,268	\$ 1,724,575

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

***EXHIBIT C
(Continued)***

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (5,198,075)	\$ (4,864,785)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	4,828,206	4,495,883
Amortization	119,921	126,492
Marketing grant	41,426	83,540
Changes in assets and liabilities		
(Increase) decrease in receivables	170,441	195,256
(Increase) decrease in inventories	(17,523)	9,323
(Increase) decrease in prepaid items	(144)	19,758
Increase (decrease) in payables	(4,397)	322,198
Increase (decrease) in deferred revenue	28,932	(69,587)
	\$ (31,213)	\$ 318,078
Net Cash Provided by (Used in) Operating Activities	\$ (31,213)	\$ 318,078

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Summary of Significant Accounting Policies

The accounting policies of the Duluth Airport Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

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

B. Basis of Presentation

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

Enterprise funds distinguish operating revenues from nonoperating items. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenues of the Authority are charges to customers for the use and lease of airport facilities. All revenues not meeting this definition are reported as nonoperating revenues.

C. Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to GASB Statement 20, the Authority has elected to not apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Budget

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

E. 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.

F. Accounts Receivable

Amounts due from individuals and organizations are recorded as receivables at year-end. These include amounts owed pursuant to lease agreements.

G. Inventory

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

H. Restricted Assets

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

I. Capital Assets

Capital assets are stated at cost. The Authority's policy is to capitalize assets with a useful life of one year or more and a minimum cost of \$5,000.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

J. Depreciation

Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Years</u>
Runways	15
Buildings	30
Equipment	5 to 10

K. Other Assets

Airport planning costs and lease buyout costs are being amortized by the straight-line method over 10 to 20 years.

L. Deferred Revenue

Amounts received as advance payments for construction, rentals, and parking lot commissions are reported as deferred revenue until they are earned. In addition, a rent abatement agreement for land improvements is reported as deferred revenue until earned.

M. 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.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

A. Deposits and Investments

The Authority and the City Council of Duluth are authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository of 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.

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

The following is a summary of the Authority's cash:

	December 31	
	2009	2008
City's pooled cash and investments	\$ 110,640	\$ 1,689,017
Authority's checking accounts	183,378	35,308
Petty cash funds	250	250
Total	\$ 294,268	\$ 1,724,575
Detail as shown on Comparative Balance Sheet		
Current assets		
Cash and cash equivalents	\$ 203,817	\$ 616,587
Assets restricted for construction		
Cash and cash equivalents	90,451	1,107,988
Total Cash and Cash Equivalents	\$ 294,268	\$ 1,724,575

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of changes in capital assets at December 31, 2009 and 2008, follows:

	Balance January 1, 2009	Increase	Decrease	Transfers/ Reclassifications	Balance December 31, 2009
Capital assets not depreciated					
Land	\$ 3,361,434	\$ -	\$ -	\$ -	\$ 3,361,434
Construction in progress	3,854,016	13,325,810	-	(5,518,029)	11,661,797
 Total capital assets not depreciated	 \$ 7,215,450	 \$ 13,325,810	 \$ -	 \$ (5,518,029)	 \$ 15,023,231
Capital assets depreciated					
Buildings	\$ 31,985,698	\$ 101,485	\$ 438,688	\$ 391,218	\$ 32,039,713
Runways	65,608,482	-	-	4,997,114	70,605,596
Equipment	6,647,700	6,491	73,671	37,281	6,617,801
 Total capital assets depreciated	 \$ 104,241,880	 \$ 107,976	 \$ 512,359	 \$ 5,425,613	 \$ 109,263,110
Less: accumulated depreciation for					
Buildings	\$ 10,053,035	\$ 977,080	\$ 403,024	\$ -	\$ 10,627,091
Runways	31,402,019	3,502,260	-	-	34,904,279
Equipment	3,912,082	348,866	63,844	-	4,197,104
 Total accumulated depreciation	 \$ 45,367,136	 \$ 4,828,206	 \$ 466,868	 \$ -	 \$ 49,728,474
 Total capital assets depreciated, net	 \$ 58,874,744	 \$ (4,720,230)	 \$ 45,491	 \$ 5,425,613	 \$ 59,534,636
 Capital Assets, Net	 \$ 66,090,194	 \$ 8,605,580	 \$ 45,491	 \$ (92,416)	 \$ 74,557,867

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

	Balance January 1, 2008	Increase	Decrease	Transfers/ Reclassifications	Balance December 31, 2008
Capital assets not depreciated					
Land	\$ 3,361,434	\$ -	\$ -	\$ -	\$ 3,361,434
Construction in progress	9,185,051	5,385,159	-	(10,716,194)	3,854,016
Total capital assets not depreciated	\$ 12,546,485	\$ 5,385,159	\$ -	\$ (10,716,194)	\$ 7,215,450
Capital assets depreciated					
Buildings	\$ 21,076,053	\$ 7,860	\$ -	\$ 10,901,785	\$ 31,985,698
Runways	66,491,162	67,257	-	(949,937)	65,608,482
Equipment	6,484,747	9,250	327,094	480,797	6,647,700
Total capital assets depreciated	\$ 94,051,962	\$ 84,367	\$ 327,094	\$ 10,432,645	\$ 104,241,880
Less: accumulated depreciation for					
Buildings	\$ 9,061,710	\$ 991,325	\$ -	\$ -	\$ 10,053,035
Runways	28,253,043	3,148,976	-	-	31,402,019
Equipment	3,854,038	355,582	297,538	-	3,912,082
Total accumulated depreciation	\$ 41,168,791	\$ 4,495,883	\$ 297,538	\$ -	\$ 45,367,136
Total capital assets depreciated, net	\$ 52,883,171	\$ (4,411,516)	\$ 29,556	\$ 10,432,645	\$ 58,874,744
Capital Assets, Net	\$ 65,429,656	\$ 973,643	\$ 29,556	\$ (283,549)	\$ 66,090,194

Transfers and reclassifications for 2009 and 2008 do not net out to zero because there was work-in-progress transferred to "Other Assets - Airport Planning Costs" which is not included on this summary (\$92,416 in 2009 and \$283,549 in 2008).

Included in capital asset additions for 2008 is \$94,992 in contributed capital. This comprises of \$32,000 from Cirrus for property improvements, \$29,697 from Fed Ex for parking lot improvements, and \$33,295 of Cirrus parking lot improvements.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

As of December 31, 2009, the Authority had the following commitments with respect to unfinished construction projects:

Projects	Remaining Construction Commitment
AIP 05	\$ 233,540
AIP 45	331,495
AIP 46	2,305,247
AIP 47	707,416
SP 6901-162	811,312
North Business Development Area	2,646,229
Total	\$ 7,035,239

As of December 31, 2008, the Authority had the following commitments with respect to unfinished construction projects:

Projects	Remaining Construction Commitment
AIP 05	\$ 420,180
AIP 38	244,458
AIP 39	251,394
AIP 41	211,195
AIP 43	143,581
AIP 44	119,751
AIP 45	1,805,557
SP 6901-151	219,550
Air National Guard By-Pass Project	118,664
Air National Guard Fiber Optics Construction	201,212
Air National Guard Arm De Arm	1,549,845
Total	\$ 5,285,387

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

C. Vacation and Sick Leave

Full-time employees are granted from 12 to 28 days of vacation time per year depending on their years of service. Maximum amounts of vacation time that can be accumulated range from 18 to 42 days. Unpaid vacation time earned at year-end is recognized as a liability in the financial statements. Sick leave is accrued by employees at the rate of 4 hours per pay period and may be accumulated to a maximum of 120 days, 60 days, or 30 days depending on the employee's start date. Sick leave is recorded as an expense when paid. Employees are not compensated for unused sick leave. Any liability for earned, unused sick leave is not recognized in the financial statements.

D. Leases

The Authority leases space and other facilities under various rates and terms. All such leases are considered to be operating leases.

Minimum future rents receivable on noncancelable leases are:

2010	\$	138,922
2011		133,922
2012		119,685
2013		118,513
2014		117,389
After 2013		<u>1,779,033</u>
Total	\$	<u>2,407,464</u>

Contingent rental income from operating leases for 2009 and 2008 was \$803,008 and \$1,071,252, respectively.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

E. Budgets

The Duluth Airport Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budget for the fiscal years ended December 31, 2009 and 2008, is:

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 3,447,600	\$ 3,002,023	\$ (445,577)
Operating Expenses			
Personal services	\$ 1,891,200	\$ 1,544,675	\$ 346,525
Supplies	245,000	60,828	184,172
Utilities	530,500	519,345	11,155
Other services and charges	1,014,800	1,127,123	(112,323)
Depreciation	3,500,000	4,828,206	(1,328,206)
Amortization	100,000	119,921	(19,921)
Total Operating Expenses	\$ 7,281,500	\$ 8,200,098	\$ (918,598)
Net Operating Income (Loss)	\$ (3,833,900)	\$ (5,198,075)	\$ (1,364,175)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 20,000	\$ 19,039	\$ (961)
Passenger facility charge	580,000	463,654	(116,346)
Gain (loss) on disposal of capital assets	-	(45,492)	(45,492)
Interest expense	(44,120)	(40,481)	3,639
Marketing grant	52,500	41,426	(11,074)
Total Nonoperating Revenues (Expenses)	\$ 608,380	\$ 438,146	\$ (170,234)
Net Income (Loss) Before Capital Contributions	\$ (3,225,520)	\$ (4,759,929)	\$ (1,534,409)
Capital Contributions			
Capital grants - federal	\$ 6,529,800	\$ 10,350,361	\$ 3,820,561
Capital grants - state	23,800	2,384,889	2,361,089
Capital grants - local	-	250,000	250,000
Total Capital Contributions	\$ 6,553,600	\$ 12,985,250	\$ 6,431,650
Change in Net Assets	\$ 3,328,080	\$ 8,225,321	\$ 4,897,241

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

E. Budgets (Continued)

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 3,508,400	\$ 3,429,700	\$ (78,700)
Operating Expenses			
Personal services	\$ 1,734,600	\$ 1,589,639	\$ 144,961
Supplies	235,000	57,231	177,769
Utilities	480,000	632,231	(152,231)
Other services and charges	1,025,500	1,393,009	(367,509)
Depreciation	2,000,000	4,495,883	(2,495,883)
Amortization	80,000	126,492	(46,492)
Total Operating Expenses	\$ 5,555,100	\$ 8,294,485	\$ (2,739,385)
Net Operating Income (Loss)	\$ (2,046,700)	\$ (4,864,785)	\$ (2,818,085)
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 40,000	\$ 27,950	\$ (12,050)
Passenger facility charge	675,000	524,767	(150,233)
Gain (loss) on disposal of capital assets	-	17,194	17,194
Interest expense	(75,000)	(46,300)	28,700
Marketing grant	52,500	83,540	31,040
Total Nonoperating Revenues (Expenses)	\$ 692,500	\$ 607,151	\$ (85,349)
Net Income (Loss) Before Capital Contributions	\$ (1,354,200)	\$ (4,257,634)	\$ (2,903,434)
Capital Contributions			
Capital grants - federal	\$ 7,151,148	\$ 2,994,251	\$ (4,156,897)
Capital grants - state	4,109,760	1,662,896	(2,446,864)
Contributed capital	-	94,992	94,992
Total Capital Contributions	\$ 11,260,908	\$ 4,752,139	\$ (6,508,769)
Change in Net Assets	\$ 9,906,708	\$ 494,505	\$ (9,412,203)

F. Long-Term Debt

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

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

The annual requirements to service the debt follow:

<u>Year Ended December 31</u>	<u>Revenue Note</u>		<u>MIF Loan</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2010	\$ 33,673	\$ 41,327	\$ 26,667
2011	36,719	38,281	26,667
2012	40,040	34,960	26,667
2013	43,662	31,338	26,667
2014	47,612	27,388	26,667
2015 - 2019	273,503	63,997	133,333
2020 - 2021	-	-	28,888
Total	<u>\$ 475,209</u>	<u>\$ 237,291</u>	<u>\$ 295,556</u>

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

	<u>2009</u>	<u>2008</u>
Balance - January 1	\$ 819,601	\$ 846,268
Additions	-	-
Payments	<u>(48,836)</u>	<u>(26,667)</u>
Balance - December 31	<u>\$ 770,765</u>	<u>\$ 819,601</u>
Due Within One Year	<u>\$ 60,340</u>	<u>\$ 48,837</u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

G. Line of Credit

The City of Duluth extended the Duluth Airport Authority a line of credit of up to \$2,000,000 to assist in the management of cash flows in connection with the Authority's new airport terminal construction project. Interest at a rate of four percent shall be charged on drawn funds. There have been no draws on this line of credit through December 31, 2009.

3. 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 internal service funds to provide its employees health and dental benefits and to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act. 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 Group Health Internal Service Fund at premium rates established by the City for all plan participants.

An annual contribution is made to the City of Duluth Self-Insurance Internal Service Fund to provide for payment of workers' compensation claims and costs. Additional amounts may be charged to the Authority for contested claims.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

4. Major Customers

Major customers of services provided by the Duluth Airport Authority in 2009 were:

	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Northwest Airlines	\$ 562,628	18.7
Standard Parking	554,064	18.5

Major customers of services provided by the Duluth Airport Authority in 2008 were:

	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Northwest Airlines	\$ 562,804	16.4
Standard Parking	706,790	20.6

5. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Duluth Airport Authority are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

5. Pension Plans

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives 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 Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs 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 public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

5. Pension Plans (Continued)

B. Funding Policy

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. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The Authority is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

The Authority's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 65,123	\$ 63,341	\$ 57,354

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

6. Other Postemployment Benefits

A. Plan Description and Funding Policy

The Authority provides postemployment health care benefits and term life insurance coverage in accordance with union contract or Authority policy. Union contract postemployment benefits extend to Authority employees retiring on or after January 1, 1983, who receive retirement benefits from the Public Employees Retirement Association. In addition, the Authority has extended the same postemployment benefits to Authority employees retired prior to January 1, 1983. Fifteen retirees meet these eligibility requirements.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

6. Other Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

The Authority participates in the City of Duluth Group Health Internal Service Fund 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 2009 totaled \$133,053. In 2008, the amount paid was \$112,329.

B. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost for 2009, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

ARC	\$ 231,488
Interest on net OPEB obligation	18,193
Adjustment to ARC	<u>(22,448)</u>
Annual OPEB cost	\$ 227,233
Contributions during the year	<u>(107,993)</u>
Increase in net OPEB obligation	\$ 119,240
Net OPEB - Beginning of Year	<u>319,175</u>
Net OPEB - End of Year	<u>\$ 438,415</u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

6. Other Postemployment Benefits

B. Annual OPEB Cost and Net OPEB Obligation (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and 2009 were as follows:

	Fiscal Year Ended December 31, 2008	Fiscal Year Ended December 31, 2009
Percentage of Annual OPEB Cost Contributed	41.19%	47.53%
Annual OPEB cost	\$ 272,680	\$ 227,233
Employer contributions	112,329	107,993
Net Increase in Net OPEB Obligation	\$ 160,351	\$ 119,240

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at December 31, 2009 is \$2,085,377. The Authority currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$1,073,859. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 194.19 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

6. Other Postemployment Benefits (Continued)

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the June 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.7 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Authority. The annual health care cost trend rate is 10.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

Schedule 1

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN
DECEMBER 31, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
June 1, 2009	\$ -	\$ 2,085,377	\$ 2,085,377	0.00%	\$ 1,073,859	194.19%
June 1, 2007	-	2,913,973	2,913,973	0.00	933,230	312.25

Notes to Schedule of Funding Progress

The Duluth Airport Authority implemented Governmental Accounting Standards Board Statement 45 for the fiscal year ended December 31, 2007.

Actuarial valuations were performed in 2007 and 2009. No valuation was performed in 2008; therefore, funding progress information for 2008 is not included on this schedule.

The Authority currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

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SUPPLEMENTARY INFORMATION

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

Schedule 2

**COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues		
Charges for services		
Tower building		
Space rental and services	\$ 178,219	\$ 175,955
Terminal building		
Loading bridges rent	\$ 36,368	\$ 34,606
Space rental	376,017	398,459
Utility sales	40,643	32,045
Car rental commissions	318,062	403,712
Other commissions	7,431	6,124
Percentage of lessees' sales	10,658	11,126
Other income	71,380	53,196
Total terminal building	\$ 860,559	\$ 939,268
Parking lot		
Parking lot commissions	\$ 554,064	\$ 706,790
Land, field, and runways		
Airport use contract - Minnesota Air National Guard	\$ 10,001	\$ 27,500
Transportation Security Administration charges	89,077	89,109
State aid for maintenance and operation	161,901	174,760
Rental income	286,932	298,885
Fuel flowage fees	111,726	118,044
Landing fees	301,622	359,941
Percentage of lessees' sales	33,115	31,302
Utility sales	15,177	11,302
Total land, field, and runways	\$ 1,009,551	\$ 1,110,843
Hangar		
Space rental	\$ 245,437	\$ 287,263
Utility sales	27,751	87,953
Total hangar	\$ 273,188	\$ 375,216
Sky Harbor		
State aid for maintenance and operation	\$ 20,285	\$ 20,285
Rental income	30,075	26,576
Fuel sales	70,315	69,032
Percentage of lessees' sales	555	1,052
Other income	5,212	4,683
Total Sky Harbor	\$ 126,442	\$ 121,628
Total Operating Revenues	\$ 3,002,023	\$ 3,429,700

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

Schedule 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Duluth Airport Authority.
- B. A significant deficiency in internal control was disclosed by the audit of the financial statements of the Duluth Airport Authority and is reported in the "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*." The significant deficiency was not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Duluth Airport Authority were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Passenger Facility Charge Programs."
- E. The Auditor's Report on Compliance for the major federal award programs for the Duluth Airport Authority expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Military Construction Cooperative Agreement	CFDA #12.401
Airport Improvement Program	CFDA #20.106
- H. The threshold for distinguishing between Types A and B programs was \$310,511.
- I. The Duluth Airport Authority was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Duluth Airport Authority and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor (OSA) prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Duluth Airport Authority. This decision was based on the availability of the Authority's staff and the cost benefit of using the OSA's expertise. During our audit, we formatted information from the Authority's financial records to the financial statements as reported.

We recommend the Authority Board be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Authority Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

We are aware of the limited number of personnel and the Authority management has implemented oversight procedures and will continue to monitor the staff to help assure controls and procedures are being followed.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. FINDINGS – PASSENGER FACILITY CHARGE (PFC) REGULATIONS

None.

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REBECCA OTTO
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mayor and City Council
City of Duluth

Board of Directors
Duluth Airport Authority

We have audited the basic financial statements of the Duluth Airport Authority, a component unit of the City of Duluth, as of and for the year ended December 31, 2009, and have issued our report thereon dated June 11, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Duluth Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 06-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Duluth Airport Authority complied with the material terms and conditions of applicable legal provisions.

The Duluth Airport Authority's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Mayor and City Council of Duluth, management, others within the Duluth Airport Authority, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 11, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND PASSENGER FACILITY CHARGE PROGRAMS

Mayor and City Council
City of Duluth

Board of Directors
Duluth Airport Authority

Compliance

We have audited the compliance of the Duluth Airport Authority, a component unit of the City of Duluth, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Duluth Airport Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We have also audited the Duluth Airport Authority's compliance with requirements applicable to its passenger facility charge (PFC) funds collected and expended for the year ended December 31, 2009. Compliance with the requirements of laws and regulations applicable to PFC funds is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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;

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (FAA). Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or PFC program occurred. An audit includes examining, on a test basis, evidence about the Duluth Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Duluth Airport Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and its PFC program for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the Duluth Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal grant and PFC programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program and on a PFC program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charges
Collected and Expended

We have audited the basic financial statements of the Duluth Airport Authority as of and for the year ended December 31, 2009, and have issued our report thereon dated June 11, 2010. Our audit was performed for the purpose of forming an opinion on the Duluth Airport Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charges Collected and Expended are presented for purposes of additional analysis as required by OMB Circular A-133 and the FAA's *Passenger Facility Charge Audit Guide for Public Agencies* and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, Mayor and City Council of Duluth, management and others within the Duluth Airport Authority, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 11, 2010

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

Schedule 4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Defense - National Guard Bureau			
Direct			
National Guard Military Operations and Maintenance Projects Military Construction Cooperative Agreement	12.401	Various	\$ 1,748,353
Federal Aviation Administration			
Passed Through Minnesota Department of Transportation - Aeronautics			
Airport Improvement Program	20.106	Various	5,424,427
Airport Improvement Program - ARRA	20.106		3,158,770
U.S. Department of Homeland Security			
Direct			
Port Security Research and Development Grant	97.060	HSTS04-05-A-DEP348	<u>18,811</u>
Total Expenditures of Federal Awards			<u><u>\$ 10,350,361</u></u>

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Duluth Airport Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Airport Authority under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Duluth Airport Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Duluth Airport Authority.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Subrecipients

Of the expenditures presented in the schedule, the Duluth Airport Authority did not provide federal awards to any subrecipients.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

Schedule 5

**SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR AND EACH QUARTER WITHIN THE YEAR ENDED DECEMBER 31, 2009**

	<u>Seventh Application*</u>	<u>Eighth Application**</u>	<u>Ninth Application***</u>
Passenger Facility Charge Collections****			
Prior to January 1, 2009	\$ 2,099,332	\$ 164,117	\$ -
Collections in 2009			
First quarter	\$ -	\$ 107,680	\$ -
Second quarter	14,200	104,819	-
Third quarter	6,440	33,810	56,373
Fourth quarter	-	-	119,679
Total collections in 2009	\$ 20,640	\$ 246,309	\$ 176,052
Total Collected Through December 31, 2009	\$ 2,119,972	\$ 410,426	\$ 176,052
Approved expenses through December 31, 2009	(2,119,972)	(410,426)	(176,052)
Unexpended Balance - December 31, 2009	\$ -	\$ -	\$ -

*Federal Aviation Administration Record of Decision passenger facility charge effective date for Application Seven is April 1, 2005.

**Federal Aviation Administration's Acknowledgment of Intent of passenger facility charge (PFC) effective date for Application Eight is September 30, 2008.

***Federal Aviation Administration's Acknowledgment of Intent of passenger facility charge (PFC) effective date for Application Nine is October 1, 2010.

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