

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

## **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, 2008 and 2007**



**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, 2008

	<u>Term Ending</u>
Directors	
Nancy Aronson Norr	July 1, 2011
John Eagleton	July 1, 2010
Conrad Firling	July 1, 2009
Roy Niemi	July 1, 2010
Michael Orman	July 1, 2009
Robert Pearson	July 1, 2009
Roger D. Wedin	July 1, 2011
Executive Director	
Brian Ryks	
Officers	
President	
Nancy Aronson Norr	
Vice President	
Michael Orman	
Secretary	
John Eagleton	

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE 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, 2008 and 2007, 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, 2008 and 2007, 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 12, 2009, 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 12, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(Unaudited)

Our discussion and analysis of the Duluth Airport Authority's financial performance provides an overview of the Airport's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- Operating expenses (before depreciation and amortization) increased \$23.5 thousand, or less than 1 percent, compared to Fiscal Year 2007.
- Operating revenues decreased \$187 thousand, or 5 percent, due in part to decreased revenues and commercial airline activity resulting from Midwest Airlines discontinuing operating in Duluth during the end of 2007 and due in larger part to general declining economic conditions and reduced commercial airline travel resulting from the U.S. recession.
- Nonoperating federal and state grant revenues declined \$4.4 million, or 48 percent, from 2007. Contributed capital declined \$2.6 million from 2007. Total net assets increased \$495 thousand, or less than 1 percent, compared to Fiscal Year 2007.
- Total number of passengers declined by 46.3 thousand, or 28 percent, for a total of 303.2 thousand in 2008.
- Total traffic count as recorded by the FAA tower declined by 5.4 thousand, or 8 percent. Of this figure, approximately 80 percent is commercial and general aviation traffic, with the remaining 20 percent military traffic.
- Landing fee revenues for 2008 declined by \$36.1 thousand, or 9 percent, due to the decreased traffic count and commercial activity.
- Passenger Facility Charge revenue declined \$160.9 thousand in 2008, or 24 percent, compared to 2007, which is attributed to the 28 percent passenger count decline from 2007.
- Total Parking Lot concession sales declined by \$93.0 thousand, or 12 percent, for 2008.

- Total Car Rental concession sales declined by \$27.3 thousand, or 6 percent, for 2008.
- The 2008/2009 State Maintenance and Operations Agreement, which became effective July 1, 2007, provided for \$195.1 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.

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 seaplane base and a general aviation airport. The landside runway is 3,050 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 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 2008	FY 2007	FY 2006
Current and other assets	\$ 3,988	\$ 4,486	\$ 9,831
Capital assets	62,236	56,245	27,561
Construction in progress	3,854	9,185	29,254
<b>Total Assets</b>	<b>\$ 70,078</b>	<b>\$ 69,916</b>	<b>\$ 66,646</b>
Current liabilities	\$ 2,198	\$ 2,583	\$ 7,745
Long-term liabilities	1,128	1,075	981
<b>Total Liabilities</b>	<b>\$ 3,326</b>	<b>\$ 3,658</b>	<b>\$ 8,726</b>
Net Assets			
Invested in capital assets, net of debt	\$ 65,768	\$ 65,081	\$ 56,439
Unrestricted	984	1,177	1,481
<b>Total Net Assets</b>	<b>\$ 66,752</b>	<b>\$ 66,258</b>	<b>\$ 57,920</b>

As the table illustrates, net assets increased by \$494 thousand to \$66.8 million in 2008. The increase in net assets was primarily due to the \$687 thousand increase in invested in capital assets, as well as a decrease of \$193 thousand in unrestricted net assets.

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

	FY 2008		FY 2007	FY 2006
	Actual	Budget	Actual	Actual
Total operating revenues	\$ 3,430	\$ 3,508	\$ 3,617	\$ 3,196
Total operating expenses	(8,295)	(5,555)	(7,613)	(5,509)
<b>Income (Loss)</b>	<b>\$ (4,865)</b>	<b>\$ (2,047)</b>	<b>\$ (3,996)</b>	<b>\$ (2,313)</b>
Nonoperating revenues	653	768	790	666
Other revenues	4,752	11,261	11,657	12,413
Nonoperating expenses	(46)	(75)	(113)	(45)
<b>Change In Net Assets</b>	<b>\$ 494</b>	<b>\$ 9,907</b>	<b>\$ 8,338</b>	<b>\$ 10,721</b>

(Unaudited)

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## **REVENUES**

Operating revenues declined by \$187 thousand, or 5 percent, in 2008 relative to 2007. The decrease is due primarily to a decline in commercial airline passenger travel that occurred in 2008 as a result of the economic downturn and recession. Additionally, in the previous year, the Authority experienced a record passenger count.

## **EXPENSES**

Duluth Airport Authority's expenses increased by \$682 thousand to \$8,295 thousand in 2008, up from \$7,613 thousand in 2007. The increase was primarily due to increased depreciation expense from completed construction projects and equipment purchases. Additionally, the Authority experienced increased utilities costs. Expenses for repairs and maintenance declined by \$37.7 thousand due to cost savings measures implemented to respond to declining revenues and lower commercial airline and passenger activity levels. Expense for operating supplies increased by \$9.2 thousand due to normal price increases by vendors. Employee benefits expenses declined by \$58.3 thousand due largely to a decrease in workers' compensation expense. Salary and wages costs increased from \$910.4 thousand in 2007 to \$1.0 million in 2008, or 10 percent.

## **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. Midwest Airlines began operating two flights daily from Duluth to Milwaukee but unfortunately discontinued service in November 2007. The establishment of additional air service to our market is continually being pursued with various carriers. Finally, Monaco Air has had another productive and successful year of operations as the Fixed Base Operator and has experienced positive results marketing international servicing. Monaco's quality of services and operations have led to more activity for 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 2008, the following projects or additions to projects reached completion and were transferred to fixed asset records: (1) Airfield Rescue and Fire Fighting Facility Phase II - \$5.6 million, (2) General Arrivals Apron Expansion - \$1.3 million, (3) New Terminal

and Infrastructure Design - \$1.3 million, (4) Cargo Apron Expansion - \$880 thousand, (5) Additions to Terminal Improvements for Transportation Security Agency Safety Mitigation - \$501 thousand, (6) Additions to Runway 9/27 Rehabilitation and Shoulder Project - \$343 thousand, and (7) Additions to the Air National Guard By Pass Taxiway - \$288 thousand.

Presently in design is a new \$65 million Passenger Terminal Building and supporting infrastructure; groundbreaking is anticipated for the summer of 2009 with construction 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 2006 and is effective through December 31, 2009.

**Capital Assets  
(000s)**

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Dollar Change Increase (Decrease)</u>	<u>Total % Change</u>
Land	\$ 3,361	\$ 3,361	\$ -	-
Runways	65,608	66,491	(883)	(1.33)
Buildings	31,986	21,077	10,909	51.76
Equipment	6,648	6,485	163	2.51
Construction in progress	<u>3,854</u>	<u>9,185</u>	<u>(5,331)</u>	<u>(58.04)</u>
Total capital assets	\$ 111,457	\$ 106,599	\$ 4,858	4.56
Less: accumulated depreciation	<u>45,367</u>	<u>41,169</u>	<u>4,198</u>	10.20
Net Capital Assets	<u>\$ 66,090</u>	<u>\$ 65,430</u>	<u>\$ 660</u>	1.00

At the end of 2008, the Duluth Airport Authority has invested approximately \$111.5 million in capital assets since its inception. The \$4.9 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 area taxiway improvements, completion of the Aircraft Rescue and Fire Fighting facility, and a new Passenger Terminal Building design.

The Duluth Airport Authority recently submitted a new Airport Capital Improvement Program (ACIP) through 2014, which includes for 2009:

- \$5.2 million for the new Phase I, Terminal Parking Lot, Roadways, and Utilities;
- \$4.8 million for Runway 3/21 Mill and Overlay; and
- \$174 thousand for Sky Harbor Airport environmental assessment.

## 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 noncurrent portion of the loan payable is \$295,555.

The Duluth Airport Authority entered into a Lease Acquisition Agreement with North Country Aviation (NCA) on November 1, 2005, where DAA agrees to pay NCA \$497,378.55. 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.

A summary of changes in the revenue note balances (000s) is:

	<u>FY 2008</u>
Balance - January 1	\$ 497
Additions	-
Payments	<u>-</u>
Balance - December 31	<u>\$ 497</u>

## ECONOMIC AND OTHER FACTORS

When setting the 2008 budget, the Duluth Airport Authority took many factors into consideration: the economic downturn and recession that became pronounced in late 2007, the continuing financial turmoil of the commercial aviation sector, the still lingering effects of 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 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 Cirrus Design's leasing 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, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 616,587	\$ 383,492
Accounts receivable	509,790	718,754
Grants receivable	74,707	60,999
Inventory	77,777	87,100
Prepaid items	30,091	49,849
Assets restricted for construction		
Cash and cash equivalents	1,107,988	366,495
Accounts receivable	33,203	48,221
Grants receivable	814,883	2,205,271
<b>Total current assets</b>	<b>\$ 3,265,026</b>	<b>\$ 3,920,181</b>
<b>Noncurrent assets</b>		
<b>Capital assets</b>		
Nondepreciable	\$ 7,215,450	\$ 12,546,485
Depreciable	104,241,880	94,051,962
Less: allowance for depreciation	(45,367,136)	(41,168,791)
<b>Net capital assets</b>	<b>\$ 66,090,194</b>	<b>\$ 65,429,656</b>
<b>Other assets</b>		
Airport planning costs, net of accumulated amortization of \$633,723 in 2008 and \$543,625 in 2007	\$ 340,704	\$ 147,252
Lease buyout costs, net of accumulated amortization of \$145,247 in 2008 and \$108,853 in 2007	382,132	418,526
<b>Total other assets</b>	<b>\$ 722,836</b>	<b>\$ 565,778</b>
<b>Total noncurrent assets</b>	<b>\$ 66,813,030</b>	<b>\$ 65,995,434</b>
<b>Total Assets</b>	<b>\$ 70,078,056</b>	<b>\$ 69,915,615</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT A  
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>Liabilities</b>		
<b>Current liabilities payable from unrestricted assets</b>		
Accounts payable	\$ 119,102	\$ 73,168
Due to City of Duluth	284,438	30,900
Due to other governments	35,937	31,417
Accrued salaries payable	39,718	28,885
Accrued vacation payable	70,792	63,419
Construction contracts payable	55,560	181,262
Accrued interest payable	12,350	41,050
Deferred revenue	589,664	416,567
Revenue notes payable	22,170	-
Loans payable	26,667	26,667
	<b>\$ 1,256,398</b>	<b>\$ 893,335</b>
<b>Current liabilities payable from restricted assets</b>		
Construction contracts payable	\$ 767,436	\$ 1,689,644
Due to City of Duluth	174,478	-
	<b>\$ 941,914</b>	<b>\$ 1,689,644</b>
	<b>\$ 2,198,312</b>	<b>\$ 2,582,979</b>
<b>Noncurrent liabilities</b>		
Deferred revenue	\$ 37,428	\$ 96,339
Loans payable	295,555	322,222
Revenue notes payable	475,209	497,379
Net other postemployment benefits liability	319,175	158,824
	<b>\$ 1,127,367</b>	<b>\$ 1,074,764</b>
	<b>\$ 3,325,679</b>	<b>\$ 3,657,743</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 65,767,971	\$ 65,080,767
Unrestricted	984,406	1,177,105
	<b>\$ 66,752,377</b>	<b>\$ 66,257,872</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT B**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>		
Charges for services	\$ 3,429,700	\$ 3,616,723
<b>Operating Expenses</b>		
Personal services	\$ 1,589,639	\$ 1,471,756
Supplies	57,231	119,115
Utilities	632,231	442,317
Other services and charges	1,393,009	1,615,385
Depreciation	4,495,883	3,865,686
Amortization	126,492	98,137
<b>Total Operating Expenses</b>	<b>\$ 8,294,485</b>	<b>\$ 7,612,396</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (4,864,785)</b>	<b>\$ (3,995,673)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Earnings on investments	\$ 27,950	\$ 568
Passenger facility charge	524,767	685,633
Gain (loss) on disposal of capital assets	17,194	(65,081)
Interest expense	(46,300)	(48,146)
Marketing grant	83,540	77,713
Small community air service development grant	-	26,461
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 607,151</b>	<b>\$ 677,148</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ (4,257,634)</b>	<b>\$ (3,318,525)</b>
<b>Capital Contributions</b>		
Capital grants		
Federal	\$ 2,994,251	\$ 8,548,529
State	1,662,896	459,435
Contributed capital	94,992	2,648,548
<b>Total Capital Contributions</b>	<b>\$ 4,752,139</b>	<b>\$ 11,656,512</b>
<b>Change in Net Assets</b>	<b>\$ 494,505</b>	<b>\$ 8,337,987</b>
<b>Net Assets - January 1</b>	<b>66,257,872</b>	<b>57,919,885</b>
<b>Net Assets - December 31</b>	<b>\$ 66,752,377</b>	<b>\$ 66,257,872</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT C**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 3,394,317	\$ 3,032,130
Cash paid to suppliers	(1,749,398)	(2,189,452)
Cash paid to employees	(1,571,433)	(1,457,694)
Other cash receipts	244,592	239,674
	<b>\$ 318,078</b>	<b>\$ (375,342)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Small community air service development grant	\$ -	\$ 26,461
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal paid on loans	\$ (26,667)	\$ (26,667)
Capital grants - federal	4,458,391	5,204,961
Capital grants - state	1,769,767	118,656
Passenger facility charge	539,785	712,684
Proceeds from the sale of capital assets	46,750	-
Acquisition or construction of capital assets	(6,159,466)	(10,854,689)
	<b>\$ 628,560</b>	<b>\$ (4,845,055)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	\$ 27,950	\$ 568
	<b>\$ 974,588</b>	<b>\$ (5,193,368)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
	<b>\$ 974,588</b>	<b>\$ (5,193,368)</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>749,987</b>	<b>5,943,355</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 1,724,575</b>	<b>\$ 749,987</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>		
<b>Net operating income (loss)</b>	\$ (4,864,785)	\$ (3,995,673)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	4,495,883	3,865,686
Amortization	126,492	98,137
Marketing grant	83,540	77,713
Changes in assets and liabilities		
Decrease (increase) in receivables	195,256	(316,555)
Decrease (increase) in inventory	9,323	(22,341)
Decrease (increase) in prepaids	19,758	(474)
Increase (decrease) in payables	322,198	24,242
Increase (decrease) in deferred revenue	(69,587)	(106,077)
	<b>\$ 318,078</b>	<b>\$ (375,342)</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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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**

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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**

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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**

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2. Detailed Notes

A. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority and the City Council of Duluth 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.

Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of securities available to the Authority for investment.

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	
	2008	2007
City pooled cash and investments	\$ 1,689,017	\$ 196,667
Authority checking accounts	35,308	7,631
Authority savings account	-	545,439
Petty cash funds	250	250
Total	\$ 1,724,575	\$ 749,987
Detail as shown on Comparative Balance Sheet		
Current assets		
Cash and cash equivalents	\$ 616,587	\$ 383,492
Assets restricted for construction		
Cash and cash equivalents	1,107,988	366,495
Total Cash and Cash Equivalents	\$ 1,724,575	\$ 749,987

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of changes in capital assets at December 31, 2008 and 2007, follows:

	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

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

	Balance January 1, 2007	Increase	Decrease	Transfers	Balance December 31, 2007
Capital assets not depreciated					
Land	\$ 2,898,360	\$ -	\$ -	\$ 463,074	\$ 3,361,434
Construction in progress	29,253,511	9,755,952	-	(29,824,412)	9,185,051
Total capital assets not depreciated	\$ 32,151,871	\$ 9,755,952	\$ -	\$ (29,361,338)	\$ 12,546,485
Capital assets depreciated					
Buildings	\$ 15,776,863	\$ 2,779,940	\$ 74,611	\$ 2,593,861	\$ 21,076,053
Runways	41,440,774	9,982	-	25,040,406	66,491,162
Equipment	4,762,524	-	4,848	1,727,071	6,484,747
Total capital assets depreciated	\$ 61,980,161	\$ 2,789,922	\$ 79,459	\$ 29,361,338	\$ 94,051,962
Less: accumulated depreciation for					
Buildings	\$ 8,649,109	\$ 422,549	\$ 9,948	\$ -	\$ 9,061,710
Runways	25,084,755	3,168,288	-	-	28,253,043
Equipment	3,583,621	274,849	4,432	-	3,854,038
Total accumulated depreciation	\$ 37,317,485	\$ 3,865,686	\$ 14,380	\$ -	\$ 41,168,791
Total capital assets depreciated, net	\$ 24,662,676	\$ (1,075,764)	\$ 65,079	\$ 29,361,338	\$ 52,883,171
Capital Assets, Net	\$ 56,814,547	\$ 8,680,188	\$ 65,079	\$ -	\$ 65,429,656

Included in capital asset additions for 2008 is \$94,992 in contributed capital. This is comprised 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.

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

Included in capital asset additions for 2007 is \$2,648,548 in contributed capital. This is for two buildings on Airport grounds turned over to the Authority from other governmental units. These are recorded at fair market value.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

B. Capital Assets (Continued)

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

As of December 31, 2007, the Authority had the following commitments with respect to unfinished construction projects:

Projects	Remaining Construction Commitment
AIP 05	\$ 569,493
AIP 38	244,458
AIP 39	164,713
AIP 40	1,225,052
AIP 41	477,478
AIP 43	228,409
SP 6901-151	278,470
Air National Guard By-pass Project	397,282
Total	\$ 3,585,355

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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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 granted to a maximum of 120 days per illness and 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:

2009	\$ 190,978
2010	190,978
2011	185,978
2012	171,820
2013	170,648
After 2013	<u>2,117,945</u>
Total	<u>\$ 3,028,347</u>

Contingent rental income from operating leases for 2008 and 2007 was \$1,071,252 and \$1,209,390, 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, 2008 and 2007, is:

	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)

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

E. Budgets (Continued)

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 3,331,750	\$ 3,616,723	\$ 284,973
Operating Expenses			
Personal services	\$ 1,703,200	\$ 1,471,756	\$ 231,444
Supplies	174,400	119,115	55,285
Utilities	486,500	442,317	44,183
Other services and charges	1,012,900	1,615,385	(602,485)
Depreciation	2,000,000	3,865,686	(1,865,686)
Amortization	80,000	98,137	(18,137)
Total Operating Expenses	\$ 5,457,000	\$ 7,612,396	\$ (2,155,396)
Net Operating Income (Loss)	\$ (2,125,250)	\$ (3,995,673)	\$ (1,870,423)
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 70,000	\$ 568	\$ (69,432)
Passenger facility charge	650,000	685,633	35,633
Gain (loss) on disposal of capital assets	-	(65,081)	(65,081)
Interest expense	(22,500)	(48,146)	(25,646)
Marketing grant	52,500	77,713	25,213
Small community air service development grant	-	26,461	26,461
Total Nonoperating Revenues (Expenses)	\$ 750,000	\$ 677,148	\$ (72,852)
Net Income (Loss) Before Capital Contributions	\$ (1,375,250)	\$ (3,318,525)	\$ (1,943,275)
Capital Contributions			
Capital grants – federal	\$ 2,863,550	\$ 8,548,529	\$ 5,684,979
Capital grants – state	637,300	459,435	(177,865)
Contributed capital	-	2,648,548	2,648,548
Total Capital Contributions	\$ 3,500,850	\$ 11,656,512	\$ 8,155,662
Change in Net Assets	\$ 2,125,600	\$ 8,337,987	\$ 6,212,387

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>
2009	\$ 22,170	\$ 52,830	\$ 26,667
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 - 2018	285,204	89,796	133,333
2019 - 2021	35,911	1,589	55,554
Total	<u>\$ 497,379</u>	<u>\$ 290,121</u>	<u>\$ 322,222</u>

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

	<u>2008</u>	<u>2007</u>
Balance - January 1	\$ 846,268	\$ 872,935
Additions	-	-
Payments	<u>(26,667)</u>	<u>(26,667)</u>
Balance - December 31	<u>\$ 819,601</u>	<u>\$ 846,268</u>
Due Within One Year	<u>\$ 48,837</u>	<u>\$ 26,667</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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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.

4. Major Customers

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

Major customers of services provided by the Duluth Airport Authority in 2007 were:

	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Northwest Airlines	\$ 509,182	14.1
Standard Parking	799,740	22.1

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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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.

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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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5. Pension Plans

A. Plan Description (Continued)

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](http://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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

The Authority's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

	2008	2007	2006
\$	63,341	\$ 57,354	\$ 51,299

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

**DULUTH AIRPORT AUTHORITY  
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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. Sixteen retirees meet these eligibility requirements.

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 2008 totaled \$112,329. In 2007, the amount paid was \$105,372.

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 2008, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

ARC	\$	274,619
Interest on net OPEB obligation		9,053
Adjustment to ARC		<u>(10,992)</u>
Annual OPEB cost	\$	272,680
Contributions during the year		<u>(112,329)</u>
Increase in net OPEB obligation	\$	160,351
Net OPEB, beginning of year		<u>158,824</u>
Net OPEB, end of year	\$	<u>319,175</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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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 2007 and 2008 were as follows:

	Fiscal Year Ended December 31, 2007	Fiscal Year Ended December 31, 2008
Percentage of Annual OPEB Cost Contributed	39.88%	41.19%
Annual OPEB cost	\$ 264,196	\$ 272,680
Employer contributions	<u>105,372</u>	<u>112,329</u>
Net Increase in Net OPEB Obligation	<u>\$ 158,824</u>	<u>\$ 160,351</u>

C. Funding Status and Funding Progress

The actuarial accrued liability for benefits at December 31, 2007, the most recent actuarial valuation date, is \$2,913,973. 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 \$933,230. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 312.25 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 healthcare 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 multiyear 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**

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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, 2007, 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 healthcare cost trend rate is 10 percent initially, reduced incrementally to an ultimate rate of 5 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 1**

**SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYMENT BENEFITS PLAN  
DECEMBER 31, 2008**

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, 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. Information for prior years is not available.

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, 2008 AND 2007**

	2008	2007
<b>Operating Revenues</b>		
<b>Charges for services</b>		
<b>Tower building</b>		
Space rental and services	\$ 175,955	\$ 169,531
<b>Terminal building</b>		
Loading bridges rent	\$ 34,606	\$ 44,952
Space rental	398,459	388,372
Utility sales	32,045	32,438
Car rental commissions	403,712	430,994
Other commissions	6,124	5,009
Percentage of lessees' sales	11,126	10,969
Other income	53,196	161,170
<b>Total terminal building</b>	\$ 939,268	\$ 1,073,904
<b>Parking lot</b>		
Parking lot commissions	\$ 706,790	\$ 799,740
<b>Land, field, and runways</b>		
Airport use contract - Minnesota Air National Guard	\$ 27,500	\$ 42,500
Transportation Security Administration charges	89,109	86,371
State aid for maintenance and operation	174,760	165,105
Rental income	298,885	378,034
Fuel flowage fees	118,044	132,582
Landing fees	359,941	396,032
Percentage of lessees' sales	31,302	33,693
Utility sales	11,302	12,905
<b>Total land, field, and runways</b>	\$ 1,110,843	\$ 1,247,222
<b>Hangar</b>		
Space rental	\$ 287,263	\$ 176,585
Utility sales	87,953	32,260
<b>Total hangar</b>	\$ 375,216	\$ 208,845
<b>Sky Harbor</b>		
State aid for maintenance and operation	\$ 20,285	\$ 20,285
Rental income	26,576	24,378
Fuel sales	69,032	64,657
Percentage of lessees' sales	1,052	2,871
Other income	4,683	5,290
<b>Total Sky Harbor</b>	\$ 121,628	\$ 117,481
<b>Total Operating Revenues</b>	\$ 3,429,700	\$ 3,616,723

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 3*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

**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 is not considered 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 program 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 program 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 program is:
  - Airport Improvement Program CFDA #20.106
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- 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 we 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 our 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.

**V. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Vehicle Expense Reimbursement (07-1)**

The Executive Director of the Authority was receiving a monthly vehicle allowance to cover the cost of the use of his personal vehicle on official Authority business, and he also was receiving mileage reimbursement for out-of-town travel. Minnesota statutes allow either a vehicle allowance or mileage reimbursement, but not both.

**Resolution**

The Authority Board reviewed the employee reimbursement policies, and now allows only either a vehicle allowance or mileage reimbursement in compliance with Minnesota statutes.

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REBECCA OTTO  
STATE AUDITOR

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

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, 2008, and have issued our report thereon dated June 12, 2009. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

### 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 significant deficiency 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, 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*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 12, 2009

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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 its major federal program for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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, 2008. 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 its major federal program and its PFC program for the year ended December 31, 2008.

#### Internal Control Over Compliance

The 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, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

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 that might be 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, 2008, and have issued our report thereon dated June 12, 2009. 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, 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 12, 2009

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 4*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Commerce</b>			
Direct			
Public Works and Economic Development Facility Grant	11.300	06-01-05315	\$ 15,938
<b>U.S. Department of Defense - National Guard Bureau</b>			
Direct			
Military Construction Cooperative Agreement	12.401	Various	1,008,805
<b>Federal Aviation Administration</b>			
Passed Through Minnesota Department of Transportation - Aeronautics			
Airport Improvement Program	20.106	Various	1,773,687
<b>U.S. Department of Homeland Security</b>			
Direct			
Port Security Research and Development Grant	97.060	HSTS04-05-A-DEP348	195,821
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 2,994,251</u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Duluth Airport Authority. The Authority's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. During 2008, the Duluth Airport Authority did not pass any federal money to subrecipients.

**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, 2008**

Application	
<b>Seventh Application*</b>	
Passenger Facility Charge Collections***	
Prior to January 1, 2008****	\$ 1,723,663
Collections in 2008	
First quarter	\$ 109,410
Second quarter	198,555
Third quarter	67,704
Fourth quarter	-
<b>Total collections in 2008</b>	<b>\$ 375,669</b>
<b>Total Collected Through December 31, 2008</b>	<b>\$ 2,099,332</b>
<b>Approved expenses through December 31, 2008</b>	<b>(2,099,332)</b>
<b>Unexpended Balance - December 31, 2008</b>	<b>\$ -</b>
 <b>Eighth Application**</b>	
Passenger Facility Charge Collections***	
Prior to January 1, 2008	\$ -
Collections in 2008	
First quarter	\$ -
Second quarter	-
Third quarter	24,119
Fourth quarter	139,998
<b>Total collections in 2008</b>	<b>\$ 164,117</b>
<b>Total Collected Through December 31, 2008</b>	<b>\$ 164,117</b>
<b>Approved expenses through December 31, 2008</b>	<b>(164,117)</b>
<b>Unexpended Balance - December 31, 2008</b>	<b>\$ -</b>

\*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.

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

\*\*\*\*Prior year collections include a \$170,581 transfer in of overcollections from PFC's sixth application.