

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**For the Years Ended December 31, 2004 and 2003**



**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, 2004

	<u>Term Ending</u>
Directors	
Nancy Aronson Norr	July 1, 2005
Julie Larson-Williams	July 1, 2005
Todd Fedora	July 1, 2006
Michael E. Orman	July 1, 2006
Dennis L. Ramberg	July 1, 2006
John Eagleton	July 1, 2007
James Laumeyer	July 1, 2007
Executive Director	
Brian Ryks	
Officers	
President	
Julie Larson-Williams	
Vice President	
Dennis L. Ramberg	
Secretary	
James A. Laumeyer	

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### 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, 2004 and 2003. 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, 2004 and 2003, 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 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, 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 supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2005, on our consideration of the Duluth Airport Authority's internal control over financial reporting and 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 22, 2005

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

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(Unaudited)

Our discussion and analysis of the Duluth Airport Authority's financial performance provides an overview of its financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the financial statements.

**Financial Highlights**

- Operating expenses (before depreciation and amortization) increased \$98,000 compared to fiscal year 2003, due in large part to the Authority contracting out the Bar and Restaurant operation. There was also a reduction in wages paid in 2003 to City of Duluth police officers to provide law enforcement at the Duluth International Airport. This program was terminated May 31, 2003. The Transportation Security Administration (TSA) totally reimbursed the Authority for these expenses.
- Operating revenue increased \$179,000, or 6.6 percent, due to the return of American Eagle from March 4 through September 1, 2004. This, in turn, led to increased parking, space, and car rental fees.
- Total net assets increased \$5,438,000 or 17.6 percent, compared to fiscal year 2003.
- Total number of passengers increased by 63,500, or 25 percent, for a total of only 316,900 in 2004.
- Total traffic count, as recorded by the FAA tower, decreased by over 4,700 or six percent. Of this figure, approximately 88.2 percent is commercial and general aviation traffic, with the remaining 11.8 percent military traffic.
- Landing fees for 2004 increased by \$37,700, or 11.7 percent, in large part due to American Eagle's return from March 4 through September 1, 2004.
- Passenger facility charge revenue increased \$64,000 in 2004, or 14 percent.
- Total parking lot gross sales increased by \$144,700, or 28.2 percent, for 2004.
- Total car rental gross sales increased by \$45,000, or 12.3 percent.

- Airport Food and Beverage terminated operations on November 1, 2003, and was contracted out to Bernicks Pepsi and Pedro Kerv, Inc. Income for 2004 was \$8,300.
- The 2004/2005 State Maintenance and Operations Agreement, which became effective July 1, 2003, increased the annual amount of state aid by \$25,000.
- The TSA signed a new agreement with the Authority effective June 1, 2003, to reimburse the Authority 16 hours per day for contracted law enforcement personnel, or approximately \$8,000 per month. During the period that American Eagle was at the Airport, the TSA reimbursed the Authority for 22 hours per day.

### **Overview of Annual Financial Report**

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

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

The financial statements include a statement of net 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 Authority on a full accrual accounting method. 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 present changes in cash and cash equivalents, resulting from operational, capital, 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 from the detailed books and records of the Authority. The financial statements were audited and adjusted during the independent external audit process.

## **Summary of Organization and Business**

The Legislative Act of 1969, Chapter 577, as approved on May 22, 1969, authorized the organization of the Authority. The purpose of this act was to promote the public welfare and to serve the public interest, convenience and necessity; promote air navigation and transportation, national, state and local; and to these ends; to develop full potentials of aviation in the City of Duluth as an aviation center; and to provide for the most economical and effective use of aeronautical facilities and services in the City of Duluth. To this end, the Authority shall cooperate with and assist the federal government and the Commissioner 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, manage, and operate all airports owned. On October 9, 1985, the bylaws were adopted (amended October 16, 1986 and September 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 Authority also operates Sky Harbor Airport, which is primarily a seaplane base. 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 Authority comes from a variety of sources including: car rental, parking, space rental, reimbursements for law enforcement, maintenance and operations grant money from the State of Minnesota, landing fees, airport food and beverage, and Air National Guard joint use funds. The Authority is self-sufficient and is not subsidized by the City of Duluth.

## **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 budget-to-actual variances and year-to-year variances follow:

**Condensed Statement of Net Assets**  
**(000's)**

	FY 2004	FY 2003	Dollar Change Increase (Decrease)	Total % Change
<b>Assets</b>				
Current and restricted assets	\$ 3,764	\$ 2,750	\$ 1,014	36.87%
Capital assets	26,470	19,848	6,622	33.36%
Construction in progress	8,129	9,331	(1,202)	-12.88%
<b>Total Assets</b>	<b>\$ 38,363</b>	<b>\$ 31,929</b>	<b>\$ 6,434</b>	<b>20.15%</b>
<b>Liabilities</b>				
Current liabilities	\$ 1,883	\$ 862	\$ 1,021	118.45%
Long-term liabilities	203	228	(25)	-10.96%
<b>Total Liabilities</b>	<b>\$ 2,086</b>	<b>\$ 1,090</b>	<b>\$ 996</b>	<b>91.38%</b>
<b>Net Assets</b>				
Restricted passenger facility charge revenue	\$ 168	\$ -	\$ 168	100.00%
Invested in capital assets	34,599	29,160	5,439	18.65%
Unrestricted	1,510	1,679	(169)	-10.07%
<b>Total Net Assets</b>	<b>\$ 36,277</b>	<b>\$ 30,839</b>	<b>\$ 5,438</b>	<b>17.63%</b>

As can be seen from the table, net assets increased by \$5,438,000 to \$36,277,000 in 2004, up from \$30,839,000 in 2003. The increase in net assets was primarily due to the increase in invested capital assets.

**Condensed Statement of Changes in Net Assets**  
**(000's)**

	FY 2004 Actual	FY 2004 Budget	FY 2003 Actual	Budget Dollar Change	Budget % Change	Actual Dollar Change	Actual % Change
Total operating revenue	\$ 2,888	\$ 2,640	\$ 2,709	\$ 248	9.39%	\$ 179	6.61%
Total operating expenses	(5,015)	(4,369)	(4,647)	(646)	14.79%	(368)	7.92%
<b>Income (loss)</b>	<b>\$ (2,127)</b>	<b>\$ (1,729)</b>	<b>\$ (1,938)</b>	<b>\$ (398)</b>	<b>23.02%</b>	<b>\$ (189)</b>	<b>9.75%</b>
Nonoperating revenues	779	519	500	260	50.10%	279	55.80%
Other revenues	6,786	7,379	3,517	(593)	-8.04%	3,269	92.95%
<b>Change in Net Assets</b>	<b>\$ 5,438</b>	<b>\$ 6,169</b>	<b>\$ 2,079</b>	<b>\$ (731)</b>	<b>-11.85%</b>	<b>\$ 3,359</b>	<b>161.57%</b>

**Revenues**

Operating revenues increased by \$179,000, or 6.6 percent, in 2004 due to several factors, the first of which was the arrival back of American Eagle Airlines for the period March 4 to September 1, 2004. The Authority earned approximately \$97,000 of additional income in office/loading bridges/tug tunnel space rental, landing fees, and utilities income from American Eagle. Auto rental and parking fees increased by \$173,000 as an indirect result of the American Eagle return.

Revenues from the operation of the bar and restaurant decreased by \$194,000 in 2004 due to this operation having been previously bid out to a private contractor in November 2003.

### **Expenses**

The Authority's expenses increased by \$368,000 to \$5,015,000 in 2004. The increase was due primarily to an increase in depreciation expense. Depreciation and amortization increased from \$1,908,000 to \$2,178,000, or \$270,000. The food and beverage workers were paid a severance of \$77,000 in wages and benefits in 2004. Another result of the bar and restaurant operation being contracted out was that cost of goods sold was reduced from \$69,000 to zero in 2004. Several other areas did see increases in spending. Expenses for utilities increased by \$26,000 from \$360,000 in 2003 to \$386,000 in 2004. Expenses for repairs and maintenance increased \$16,000, from \$362,000 in 2003, to \$378,000 in 2004. Payroll and benefits were reduced from \$1,329,000 in 2003 to \$1,309,000 in 2004.

### **Budgetary Highlights**

The Authority develops an annual operating budget which includes proposed expenses as well as proposed sources of revenue to pay for them. The Authority Board approves the operating budget, and it also receives final approval from the Duluth City Council. The Authority's operating budget 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 past three years have been the most challenging ever experienced in the aviation industry. The return of passenger travel has been sluggish, and the effects of the September 11th terrorist attack are still felt. Security has taken on an increasing role with the creation of the TSA and the federalization of security screening personnel.

In March 2004, American Eagle returned after having departed in December 2002. They returned as part of a \$1,000,000 Small Community Air Service Development Pilot Program with the U.S. Department of Transportation. American Eagle departed in September of 2004.

The Authority continued to make capital improvements and respond to new security directives with the following major projects in 2004: (1) design of air rescue firefighting facility (ARFF), design and construction of the aircraft arresting system and emergency repair of taxiway A - \$2,600,000; (2) design and construction of runway 9/27 shoulder and lighting - \$4,200,000; (3) environmental assessment for perimeter road and security fencing - \$172,000; (4) air service marketing - \$155,000; (5) north perimeter road, fence ARFF, snow removal equipment facility (SRE) and passengers (PAX) bridge - \$5,100,000.

The union contract between the Authority and AFSCME Local 66, which expired in January 2004, has not been renegotiated.

The total number of passengers reached a five-year high of 316,900 thousand in 2004, up 25 percent from 253,500 in 2003.

The interest earned in our long-term savings account increased four percent from \$28,000 in 2003 to \$29,000 in 2004 due to increased interest rates.

The Authority took over as fixed base operator of Sky Harbor Airport on December 1, 2004, when the contract for Orville Air was not extended.

**Capital Assets  
(000's)**

	FY 2004	FY 2003	Dollar Change Increase (Decrease)	Total % Change
Land	\$ 2,228	\$ 2,215	\$ 13	0.59%
Runways	37,237	32,495	4,742	14.59%
Buildings	15,621	11,619	4,002	34.44%
Equipment	4,175	4,328	(153)	-3.54%
Construction in progress	8,129	9,331	(1,202)	-12.88%
<b>Total Capital Assets</b>	<b>\$ 67,390</b>	<b>\$ 59,988</b>	<b>\$ 7,402</b>	<b>12.34%</b>
Less: accumulated depreciation	33,113	31,207	1,906	6.11%
<b>Net Capital Assets</b>	<b>\$ 34,277</b>	<b>\$ 28,781</b>	<b>\$ 5,496</b>	<b>19.10%</b>

At the end of 2004, the Authority has invested approximately \$67,000,000 in capital assets. The \$7,400,000 increase in capital assets was due to the completion of several runway projects, including the design and construction of phase I of runway 9/27 lighting and drainage and the design of the ARFF and construction of the aircraft arresting system and emergency repair of taxiway A.

The Authority has recently submitted a new Airport Capital Improvement Program through 2015, which includes for 2005:

- \$30,000 to construct a seaplane dock extension at Sky Harbor Airport;
- \$420,000 for apron reconstruction at Sky Harbor Airport;
- \$530,000 to design PAX terminal/parking security and safety requirements and modification;
- \$40,000 to update Storm Water Pollution Prevention Plan (SWPPP);
- \$1,700,000 to design and construct a general aviation arrivals building;
- \$2,782,000 for Phase II (west) design and construct runway 9/27 paved shoulders, HIRLS, drains, west BAK replacement;
- \$2,650,000 to construct north perimeter road - phase II;
- \$1,400,000 to construct north perimeter fence - phase II;

- \$525,000 wetland purchase - EA perimeter road/fence;
- \$200,000 passenger terminal/parking lot improvements;
- \$60,000 to purchase a plow truck replacement for SRE; and
- \$35,000 to purchase a 3/4-ton pickup replacement for maintenance.

**Debt Administration**

The Authority entered into hangar financing and repayment agreements in 1993 and 1995 with the State of Minnesota Department of Transportation for the construction of ranch and t-hangars. The 1993 loan of \$161,000 for ranch hangars is interest free and was paid off in January 2003. The 1995 loan of \$212,000 is interest free with monthly principal payments of \$1,770, with the final payment paid in December 2004.

**Debt**

	<u>FY 2004</u>	<u>FY 2003</u>
A summary of changes in the loan balances are:		
Balance - January 1	\$ 19,470	\$ 42,033
Payments	<u>(19,470)</u>	<u>(22,563)</u>
Balance - December 31	<u>\$ -</u>	<u>\$ 19,470</u>

**Economic and Other Factors**

When setting the 2005 budget, the Authority took many factors into consideration: the loss of American Eagle Airlines, lingering effects of the September 11th terrorist attack and its effects on commercial air travel, as well as airport security, weather conditions which dictate utility costs and overtime for snow removal crews, and a general review of all rates and services so that revenue will keep pace with expenses. The Authority has already taken steps to: raise hangar rates, raise parking rates, raise landing fee rates for commercial as well as general aviation aircraft and also cost cutting measures such as utility conservation, reductions in operating supplies, travel, professional services, overtime pay, and contract services. The Authority aggressively seeks new lessees to occupy space as well as economic development opportunities that are a good fit for the aviation sector. An example of this is the Authority’s lobbying effort to attain the former Navy Reserve building. The Authority will continue to seek diversifying revenue sources in order to be less reliant on airline revenue sources.

Effective March 4, 2004, American Eagle Airlines reinstated air service to Duluth from Chicago. This new air service was made possible by a \$1,000,000 small community air service grant received from the U.S. Department of Transportation. However, they departed in September of 2004. One of the challenges facing the Authority will be to find a replacement airline for American Eagle and to maintain Northwest’s service to Detroit.

## **Financial Contact**

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

## **FINANCIAL STATEMENTS**

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT A**

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,554,861	\$ 1,548,014
Accounts receivable	196,506	345,753
Grants receivable	88,233	55,991
Inventory	72,077	72,029
Prepaid items	55,818	57,824
Assets restricted for construction		
Cash and cash equivalents	770,691	51,390
Accounts receivable	2,448	28,867
Grants receivable	1,023,412	590,148
<b>Total current assets</b>	<b>\$ 3,764,046</b>	<b>\$ 2,750,016</b>
Capital assets	\$ 67,391,418	\$ 59,988,202
Less: allowance for depreciation	(33,112,955)	(31,207,078)
<b>Net capital assets</b>	<b>\$ 34,278,463</b>	<b>\$ 28,781,124</b>
<b>Other assets</b>		
Airport planning costs, net of accumulated amortization of \$356,730 in 2004 and \$279,384 in 2003	\$ 320,792	\$ 398,138
<b>Total Assets</b>	<b>\$ 38,363,301</b>	<b>\$ 31,929,278</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 51,526	\$ 55,351
Due to City of Duluth	-	43,307
Due to other governments	44,789	259,722
Accrued salaries payable	19,187	75,742
Accrued vacation payable	39,847	48,390
Construction contracts payable	1,482,192	309,222
Deferred revenue	244,965	50,425
Loan payable - Minnesota Department of Transportation	-	19,470
<b>Total current liabilities</b>	<b>\$ 1,882,506</b>	<b>\$ 861,629</b>
<b>Long-term liabilities</b>		
Deferred revenue	203,472	228,582
<b>Total Liabilities</b>	<b>\$ 2,085,978</b>	<b>\$ 1,090,211</b>
<b>Net Assets</b>		
Invested in capital assets	\$ 34,599,255	\$ 29,159,792
Restricted passenger facility charge revenue	167,848	-
Unrestricted	1,510,220	1,679,275
<b>Total Net Assets</b>	<b>\$ 36,277,323</b>	<b>\$ 30,839,067</b>

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

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT B**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Operating Revenues</b>		
Sales (net of discounts)	\$ -	\$ 197,987
Less: cost of goods sold	-	(68,967)
<b>Gross profit on sales</b>	<b>\$ -</b>	<b>\$ 129,020</b>
Charges for services	2,888,530	2,580,419
<b>Total Operating Revenues</b>	<b>\$ 2,888,530</b>	<b>\$ 2,709,439</b>
<b>Operating Expenses</b>		
Personal services	\$ 1,267,658	\$ 1,295,519
Supplies	46,820	59,349
Utilities	386,634	360,368
Other services and charges	1,135,767	1,023,976
Depreciation	2,100,949	1,833,892
Amortization	77,346	74,353
<b>Total Operating Expenses</b>	<b>\$ 5,015,174</b>	<b>\$ 4,647,457</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (2,126,644)</b>	<b>\$ (1,938,018)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Earnings on investments	\$ 28,118	\$ 26,634
Passenger facility charge	522,774	458,811
Gain (loss) on disposal of capital assets	111,500	1,881
Marketing grant	116,608	12,451
Small community air service development grant	854,442	-
American Eagle minimum revenue guarantee	(854,442)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 779,000</b>	<b>\$ 499,777</b>
<b>Net Income (Loss) Before Other Revenues</b>	<b>\$ (1,347,644)</b>	<b>\$ (1,438,241)</b>
<b>Other Revenues</b>		
Capital grants		
Federal	\$ 6,687,803	\$ 3,368,371
State	98,097	149,223
<b>Total Other Revenues</b>	<b>\$ 6,785,900</b>	<b>\$ 3,517,594</b>
<b>Change in Net Assets</b>	<b>\$ 5,438,256</b>	<b>\$ 2,079,353</b>
<b>Net Assets - January 1</b>	<b>30,839,067</b>	<b>28,759,714</b>
<b>Net Assets - December 31</b>	<b>\$ 36,277,323</b>	<b>\$ 30,839,067</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT C**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,875,696	\$ 2,516,729
Cash paid to suppliers	(1,604,328)	(1,437,798)
Cash paid to employees	(1,332,756)	(1,297,313)
Other cash receipts	291,379	141,962
	<b>\$ 229,991</b>	<b>\$ (76,420)</b>
<b>Net cash provided by (used for) operating activities</b>		
<b>Cash Flows from Noncapital Financing Activities</b>		
Small community air service development grant	\$ 854,442	\$ -
American Eagle minimum revenue guarantee	(854,442)	-
	<b>\$ -</b>	<b>\$ -</b>
<b>Net cash provided by (used for) noncapital financing activities</b>		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal paid on hangar loan	\$ (19,470)	\$ (22,563)
Capital grants - federal	6,225,423	5,072,799
Capital grants - state	26,711	134,204
Passenger facility charge	549,193	459,486
Proceeds from sale of fixed assets	111,500	1,881
Acquisition or construction of fixed assets	(6,425,318)	(5,745,912)
	<b>\$ 468,039</b>	<b>\$ (100,105)</b>
<b>Net cash provided by (used for) capital and related financing activities</b>		
<b>Cash Flows from Investing Activities</b>		
Interest on investments	\$ 28,118	\$ 26,634
	<b>\$ 28,118</b>	<b>\$ 26,634</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 726,148</b>	<b>\$ (149,891)</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>1,599,404</b>	<b>1,749,295</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 2,325,552</b>	<b>\$ 1,599,404</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities</b>		
Net operating income (loss)	\$ (2,126,644)	\$ (1,938,018)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	2,100,949	1,833,892
Amortization	77,346	74,353
Marketing grant	116,608	12,451
Changes in assets and liabilities		
Decrease (increase) in receivables	117,005	(88,949)
Decrease (increase) in inventory	(48)	21,243
Decrease (increase) in prepaids	2,006	(14,397)
Increase (decrease) in payables	(102,163)	66,222
Increase (decrease) in deferred revenue	44,932	(43,217)
	<b>\$ 229,991</b>	<b>\$ (76,420)</b>
<b>Net Cash Provided by (Used for) Operating Activities</b>		

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

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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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 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 that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

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, then unrestricted resources as they are needed.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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 \$300.

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 are being amortized by the straight-line method over 10 to 20 years.

L. Deferred Revenue

Amounts received as advance payments for 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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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.

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*, 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	
	2004	2003
City pooled cash and investments	\$ 196,578	\$ 275,069
Authority checking accounts	566,530	9,186
Authority savings account	1,562,194	1,314,899
Petty cash funds	250	250
Total	\$ 2,325,552	\$ 1,599,404

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

A. Deposits and Investments (Continued)

	December 31	
	2004	2003
Detail as shown on Comparative Balance Sheet		
Current assets		
Cash and cash equivalents	\$ 1,554,861	\$ 1,548,014
Assets restricted for construction		
Cash and cash equivalents	770,691	51,390
 Total Cash and Cash Equivalents	 \$ 2,325,552	 \$ 1,599,404

B. Changes in Capital Assets

A summary of changes in capital assets at December 31, 2004 and 2003, follows:

	Balance January 1, 2004	Depreciation Expense	Additions	Deductions	Reclassification	Balance December 31, 2004
Land	\$ 2,215,327	\$ -	\$ 13,129	\$ -	\$ -	\$ 2,228,456
Buildings	11,618,878	-	27,878	(16,656)	3,990,421	15,620,521
Runways	32,494,716	-	-	-	4,743,134	37,237,850
Equipment	4,328,531	-	26,498	(197,308)	17,565	4,175,286
Construction in Progress	9,330,750	-	7,556,926	(7,251)	(8,751,120)	8,129,305
Total	\$ 59,988,202	\$ -	\$ 7,624,431	\$ (221,215)	\$ -	\$ 67,391,418
Less: accumulated depreciation	(31,207,078)	(2,100,947)	-	195,070	-	(33,112,955)
Net	\$ 28,781,124	\$ (2,100,947)	\$ 7,624,431	\$ (26,145)	\$ -	\$ 34,278,463

	Balance January 1, 2003	Depreciation Expense	Additions	Deductions	Reclassification	Balance December 31, 2003
Land	\$ 2,063,397	\$ -	\$ -	\$ -	\$ 151,930	\$ 2,215,327
Buildings	11,347,605	-	75,721	(528)	196,080	11,618,878
Runways	27,361,915	-	-	-	5,132,801	32,494,716
Equipment	4,271,492	-	23,701	(36,567)	69,905	4,328,531
Construction in progress	10,250,639	-	4,225,524	-	(5,145,413)	9,330,750
Total	\$ 55,295,048	\$ -	\$ 4,324,946	\$ (37,095)	\$ 405,303	\$ 59,988,202
Less: accumulated depreciation	(29,361,066)	(1,833,892)	-	33,223	(45,343)	(31,207,078)
Net	\$ 25,933,982	\$ (1,833,892)	\$ 4,324,946	\$ (3,872)	\$ 359,960	\$ 28,781,124

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

B. Changes in Capital Assets (Continued)

As of December 31, 2004, the Authority had the following commitments with respect to unfinished construction projects:

Projects	<u>Remaining Construction Commitment</u>
SP6901-137	\$ 28,237
SP6901-143	107,466
AIP 36	75,761
AIP 37	4,779,887
Air National Guard ARFF Project	101,500
Air National Guard BAK Project	<u>41,252</u>
Total	<u>\$ 5,134,103</u>

As of December 31, 2003, the Authority had the following commitments with respect to unfinished construction projects:

Projects	<u>Remaining Construction Commitment</u>
SP6901-137	\$ 148,016
AIP 34	295,859
AIP 35	<u>76,028</u>
Total	<u>\$ 519,903</u>

C. Vacation and Sick Leave

Full-time employees are granted from 12 to 28 days of vacation time per year depending upon 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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

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 noncancellable leases are:

2005	\$ 214,519
2006	130,831
2007	130,617
2008	129,549
2009	129,549
After 2009	<u>1,060,081</u>
Total	<u>\$ 1,795,146</u>

Contingent rental income from operating leases for 2004 and 2003 was \$873,402 and \$680,594, respectively.

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, 2004 and 2003, is:

	2004		Variance
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 2,639,952	\$ 2,888,530	\$ 248,578
Operating Expenses			
Personal services	\$ 1,289,500	\$ 1,267,658	\$ 21,842
Supplies	103,920	46,820	57,100
Utilities	373,872	386,634	(12,762)
Other services and charges	781,811	1,135,767	(353,956)
Depreciation	1,700,000	2,100,949	(400,949)
Amortization	120,000	77,346	42,654
Total Operating Expenses	\$ 4,369,103	\$ 5,015,174	\$ (646,071)
Net Operating Loss	\$ (1,729,151)	\$ (2,126,644)	\$ (397,493)



**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

E. Budgets (Continued)

	2003		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Expenses			
Personal services	\$ 1,419,200	\$ 1,295,519	\$ 123,681
Supplies	130,200	59,349	70,851
Utilities	361,350	360,368	982
Other services and charges	1,219,809	1,023,976	195,833
Depreciation	1,495,000	1,833,892	(338,892)
Amortization	70,000	74,353	(4,353)
<b>Total Operating Expenses</b>	<b>\$ 4,695,559</b>	<b>\$ 4,647,457</b>	<b>\$ 48,102</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (1,635,537)</b>	<b>\$ (1,938,018)</b>	<b>\$ (302,481)</b>
Nonoperating Revenues (Expenses)			
Passenger facility charge	\$ 370,000	\$ 458,811	\$ 88,811
Earnings on investments	43,000	26,634	(16,366)
Gain/loss on disposal of assets	-	1,881	1,881
Marketing grant	-	12,451	12,451
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 413,000</b>	<b>\$ 499,777</b>	<b>\$ 86,777</b>
<b>Net Income (Loss) Before Other Revenues</b>	<b>\$ (1,222,537)</b>	<b>\$ (1,438,241)</b>	<b>\$ (215,704)</b>
Other Revenues			
Capital grants - federal	\$ 5,192,402	\$ 3,368,371	\$ (1,824,031)
Capital grants - state	48,000	149,223	101,223
<b>Total Other Revenues</b>	<b>\$ 5,240,402</b>	<b>\$ 3,517,594</b>	<b>\$ (1,722,808)</b>
<b>Change in Net Assets</b>	<b>\$ 4,017,865</b>	<b>\$ 2,079,353</b>	<b>\$ (1,938,512)</b>

F. Long-Term Debt

The Authority entered into Hangar Financing and Repayment Agreements in 1993 and 1995 with the State of Minnesota Department of Transportation for the construction of hangars. The 1993 loan of \$161,140 is interest free with monthly principal payments of \$1,343, final payment due April 2003. The 1995 loan of \$212,400 is interest free with monthly principal payments of \$1,770, final payment due December 2004.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes

F. Long-Term Debt (Continued)

A summary of changes in the loan balances are:

	2004	2003
Balance - January 1	\$ 19,470	\$ 42,033
Payments	(19,470)	(22,563)
Balance - December 31	\$ -	\$ 19,470
Due Within One Year	\$ -	\$ 19,470

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**

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4. Major Customers

Major customers of services provided by the Duluth Airport Authority in 2004 were:

	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Northwest Airlines	\$ 478,765	16.6%
APCOA, Inc.	656,875	22.7%

Major customers of services provided by the Duluth Airport Authority in 2003 were:

	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Northwest Airlines	\$ 450,159	16.6%
APCOA, Inc.	512,188	18.9%

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). The 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.

The 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 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**

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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. 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.

The 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 web at [mnpera.org](http://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. 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 9.10 and 5.10 percent, respectively, of their annual covered salary. The Authority is required to contribute the following percentages of annual covered payroll:

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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5. Pension Plans

B. Funding Policy (Continued)

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53%

The Authority's contributions for the years ending December 31, 2004, 2003, and 2002, were \$43,166, \$48,387, and \$53,330, respectively, equal to the contractually required contributions for each year as set by state statute.

6. Other Post-Employment Benefits

The Authority provides post-employment health care benefits and term life insurance coverage in accordance with union contract or Authority policy. Union contract post-employment 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 post-employment benefits to Authority employees retired prior to January 1, 1983. Fifteen 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 paid by the Authority for the life of the retiree. Premiums paid for eligible retirees and claimed dependents for health care and life insurance in 2004 totaled \$109,692 and \$360, respectively. In 2003, the amounts paid were \$105,037 and \$345.

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 1**

**COMPARATIVE STATEMENT OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Sales</b>		
<b>Afterburner Restaurant</b>		
Sales	\$ -	\$ 203,370
Sale discounts	-	(5,383)
Cost of goods sold	-	(68,967)
<b>Net sales</b>	<b>\$ -</b>	<b>\$ 129,020</b>
<b>Charges for Services</b>		
<b>Tower Building</b>		
Space rental and services	<b>\$ 197,635</b>	<b>\$ 188,542</b>
<b>Terminal building</b>		
Loading bridges rent	\$ 39,738	\$ 30,365
Space rental	407,162	346,177
Utility sales	35,053	26,050
Car rental commissions	365,956	320,670
Other commissions	6,902	8,530
Percentage of lessee sales	19,299	18,029
Other income	44,254	104,109
<b>Total terminal building</b>	<b>\$ 918,364</b>	<b>\$ 853,930</b>
<b>Parking lot</b>		
Parking lot commissions	<b>\$ 656,875</b>	<b>\$ 512,188</b>
<b>Land, field, and runways</b>		
Airport use contract - Minnesota Air National Guard	\$ 50,000	\$ 57,500
Transportation Security Administration charges	110,559	155,303
State aid for maintenance and operation	192,879	125,803
Rental income	239,404	224,601
Fuel flowage fees	26,268	16,414
Landing fees	358,433	320,749
Percentage of lessees' sales	8,719	5,414
Utility sales	13,028	13,236
<b>Total land, field, and runways</b>	<b>\$ 999,290</b>	<b>\$ 919,020</b>
<b>Hangar</b>		
Space rental	\$ 51,988	\$ 48,869
Utility sales	31,371	32,681
<b>Total hangar</b>	<b>\$ 83,359</b>	<b>\$ 81,550</b>
<b>Sky harbor</b>		
State aid for maintenance and operation	\$ 14,134	\$ 11,349
Rental income	16,507	12,762
Percentage of lessees' sales	1,602	1,078
Other income	764	-
<b>Total sky harbor</b>	<b>\$ 33,007</b>	<b>\$ 25,189</b>
<b>Total charges for services</b>	<b>\$ 2,888,530</b>	<b>\$ 2,580,419</b>
<b>Total Operating Revenues</b>	<b>\$ 2,888,530</b>	<b>\$ 2,709,439</b>

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**MANAGEMENT AND COMPLIANCE SECTION**

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 2**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of the Duluth Airport Authority.
- B. No matters involving internal control over financial reporting were reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- 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:

Airport Improvement Program	CFDA #20.106
Small Community Air Service Development Pilot Program	CFDA #20.930
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Duluth Airport Authority was not determined to be a low-risk auditee.

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

None.

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

COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Allowable Costs - CFDA #20.106 (03-1)**

Questioned costs in the amount of \$225,000 were reported for AIP project number 3-27-0024-34.

**Resolution**

The \$225,000 questioned costs were repaid to the Federal Aviation Administration on June 2, 2004.

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

None.

**V. OTHER FINDINGS AND RECOMMENDATIONS**

OTHER ITEM FOR CONSIDERATION

PREVIOUSLY REPORTED ITEM RESOLVED

**Post Employment Health Care Benefits**

Over the past four years, retiree health insurance premiums increased at an average annual rate of 29 percent. This expense is expected to continue to increase significantly due to an increasing number of retirees and increasing health insurance premium rates. The Authority should seek methods of controlling and funding this benefit.

**Resolution**

In 2003, the Authority negotiated a change in retirement health care benefits and is monitoring benefit costs.



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**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of Directors  
Duluth Airport Authority

We have audited the financial statements of the Duluth Airport Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated March 22, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 22, 2005



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PATRICIA ANDERSON  
STATE AUDITOR

**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**

Board of Directors  
Duluth Airport Authority

Compliance

We have audited the compliance of the Duluth Airport Authority 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, 2004. 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, 2004. 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; and 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 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, 2004.

#### 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 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 the internal control over compliance in accordance with OMB Circular A-133 and the FAA's *Passenger Facility Charge Audit Guide for Public Agencies*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program or PFC program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

We have audited the financial statements of the Duluth Airport Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated March 22, 2005. 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, management, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 22, 2005

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

Schedule 3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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>Federal Aviation Administration</b>			
Passed Through Minnesota Department of Transportation - Aeronautics			
AIP-3-27-0025-02	20.106	6901A-24	\$ 9,742
AIP-3-27-0025-03	20.106	6901-134	15,969
AIP-3-27-0024-32	20.106	6901-127	(2,495)
AIP-3-27-0024-33	20.106	6901-133	2,379
AIP-3-27-0024-34	20.106	6901-135	34,446
AIP-3-27-0024-35	20.106	6901-138	68,425
AIP-3-27-0024-36	20.106	6901-141	3,552,554
AIP-3-27-0024-37	20.106	6901-142	785,177
<b>Total CFDA 20.106</b>			<b>\$ 4,466,197</b>
<b>Department of Defense - National Guard Bureau</b>			
Direct			
Military Construction Cooperative Agreement	12.401	DAHA21-03-2-2101	\$ 209,870
Military Construction Cooperative Agreement	12.401	W912LM-04-2-1051	193,505
Military Construction Cooperative Agreement	12.401	W912LM-04-2-1052	1,414,802
Military Construction Cooperative Agreement	12.401	W912LM-04-2-1053	403,429
<b>Total CFDA 12.401</b>			<b>\$ 2,221,606</b>
<b>Department of Transportation</b>			
Direct			
Small Community Air Service Development Pilot Program	20.930	DOT Order 2003-9-14	\$ 854,442
<b>Total Expenditures of Federal Awards</b>			<b>\$ 7,542,245</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 financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. During 2004, the Duluth Airport Authority did not pass any federal money to subrecipients.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 4**

**SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED  
FOR THE YEAR AND EACH QUARTER WITHIN THE YEAR ENDED DECEMBER 31, 2004**

<u>Application</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
<b>Sixth Application*</b>					
Balance - January 1					\$ (80,470)
Amendment No. 1					98,740
Collections**	\$ 117,627	\$ 159,254	\$ 176,717	\$ 95,595	549,193
Expenses	(3,520)	-	-	-	(3,520)
Interest	-	-	288	54	342
<b>Balance - December 31</b>					<b><u>\$ 564,285</u></b>

\*Federal Aviation Administration Record of Decision passenger facility charge effective date for Application Six is April 1, 2003.

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