

# 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, 2006 AND 2005

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

The mission of the State Auditor's Office 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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**For the Years Ended December 31, 2006 and 2005**



**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, 2006**

	<u>Term Ending</u>
<b>Directors</b>	
Nancy Aronson Norr	July 1, 2007
David Boe	July 1, 2008
John Eagleton	July 1, 2007
Conrad Firling	July 1, 2009
James Laumeyer	July 1, 2007
Michael Orman	July 1, 2009
Robert Pearson	July 1, 2009
<b>Executive Director</b>	
Brian Ryks	
<b>Officers</b>	
<b>President</b>	
James Laumeyer	
<b>Vice President</b>	
Nancy Aronson Norr	
<b>Secretary</b>	
Michael Orman	

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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, 2006 and 2005. 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, 2006 and 2005, 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 basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We 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 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. 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 19, 2007, 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 19, 2007

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

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(Unaudited)**

Our discussion and analysis of the Duluth Airport Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- Operating expenses increased \$234.8 thousand, or 4 percent, compared to fiscal year 2005. The increase is attributed primarily to increased services and charges and an increase in depreciation and amortization from significant capital asset additions the last couple of years.
- Operating revenues increased \$384.7 thousand, or 14 percent, due in large part to increased rental revenues and to concession revenue growth from the new fixed base operator (FBO), Monaco Air.
- Nonoperating federal and state grant revenues declined \$396.8 thousand, or 3 percent, from 2005. Total net assets increased \$10.7 million, or 23 percent, compared to fiscal year 2005.
- Total number of passengers decreased by 15.3 thousand, or 5 percent, for a total of 290.4 thousand in 2006.
- Total traffic count as recorded by the FAA tower decreased by 4.4 thousand, or 7 percent. Of this figure, approximately 80 percent is commercial and general aviation traffic, with the remaining 20 percent military traffic.
- Landing fee revenues for 2006 decreased by \$45 thousand, or 12 percent, due to a decreased traffic count and lighter equipment usage by the primary airline.
- Passenger facility charge revenue increased \$141.2 thousand in 2006, or 36 percent, compared to 2005 which is attributed to 12 months of collection for PFC 7 versus 9 months' collection in 2005.
- Total parking lot gross sales decreased by \$8 thousand, or 1.3 percent, for 2006.
- Total car rental gross sales increased by \$11.7 thousand for 2006.

- The 2006/2007 state maintenance and operations agreement, which became effective July 1, 2006, provided for \$188.9 thousand of state aid, unchanged from the previous year.
- The Transportation Security Administration extended its agreement with the Authority effective October 1, 2006, through September 30, 2007, to reimburse the Authority 14 hours per day for contracted law enforcement personnel, or approximately \$7.3 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 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 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 both a sea plane base and a general aviation airport. The landside runway is 3,050 long by 75 feet wide. In the bay, there is also a 10,000-foot by 2,000-foot water runway.

Operating revenue for the Duluth Airport Authority comes from a variety of sources including: car rental concessions, parking, space and land rentals, FBO concessions, Transportation Security Administration (TSA) reimbursement for law enforcement, maintenance, and operations grant funds from the State of Minnesota, landing fees, airport food and beverage concessions, and Air National Guard joint use funds. The Authority is self-sufficient and is not subsidized by the City of Duluth for operations or capital improvement costs.

## FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding year-to-year variances follow.

### Condensed Statement of Net Assets (000s)

	FY 2006	FY 2005	FY 2004
Current and restricted assets	\$ 9,167	\$ 5,663	\$ 3,764
Capital assets	28,225	25,791	26,470
Construction in progress	29,254	20,606	8,129
<b>Total Assets</b>	<b>\$ 66,646</b>	<b>\$ 52,060</b>	<b>\$ 38,363</b>
Current liabilities	\$ 7,745	\$ 4,191	\$ 1,883
Long-term liabilities	981	670	203
<b>Total Liabilities</b>	<b>\$ 8,726</b>	<b>\$ 4,861</b>	<b>\$ 2,086</b>
Net Assets			
Restricted passenger facility charge revenues	\$ -	\$ -	\$ 168
Invested in capital assets	56,439	45,622	34,599
Unrestricted	1,481	1,577	1,510
<b>Total Net Assets</b>	<b>\$ 57,920</b>	<b>\$ 47,199</b>	<b>\$ 36,277</b>

As can be seen from the table, net assets increased by \$10.7 million to \$57.9 million in 2006, up from \$47.2 million in 2005. The increase in net assets was primarily due to the \$10.8 million increase in invested in capital assets, as well as a decrease of \$96 thousand in unrestricted net assets.

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

	FY 2006 Actual	FY 2006 Budget	FY 2005 Actual	FY 2004 Actual
Total operating revenues	\$ 3,196	\$ 3,118	\$ 2,811	\$ 2,888
Total operating expenses	(5,509)	(5,237)	(5,275)	(5,015)
<b>Income (Loss)</b>	<b>\$ (2,313)</b>	<b>\$ (2,119)</b>	<b>\$ (2,464)</b>	<b>\$ (2,127)</b>
Nonoperating revenues	621	560	575	779
Other revenues	12,413	12,847	12,811	6,786
<b>Change in Net Assets</b>	<b>\$ 10,721</b>	<b>\$ 11,288</b>	<b>\$ 10,922</b>	<b>\$ 5,438</b>

## **REVENUES**

Operating revenues increased by \$384.7 thousand, or 14 percent, in 2006 relative to 2005. The increase is due to several factors, the most significant being additional property and hangar rental revenues, additional car rental concessions, and concession revenue growth from Monaco Air.

## **EXPENSES**

The Duluth Airport Authority's operating expenses increased by \$234.8 thousand to \$5,509 thousand in 2006, up from \$5,275 thousand in 2005. The increase was due primarily to increased employee benefits expense in workers' compensation and an increase in depreciation and amortization expense. Expenses for airport security increased by \$7.3 thousand due to increased TSA requirements. Interest expense increased by \$38.4 thousand due to a full year of interest on the former North Country Lease Acquisition Note. Employee benefits expenses increased by \$155.8 thousand, primarily due to an increase of \$138.4 thousand in workers' compensation costs. Payroll costs decreased from \$896 thousand in 2005 to \$867 thousand in 2006.

## **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 past five years have been the most challenging ever experienced in the aviation industry. The return of passenger travel has been sluggish, and the effects of 9/11 are still felt. Security has taken on an ever encompassing role with the creation of the TSA and the federalization of security screening personnel.

The airline industry remains in turmoil. In the fall of 2005, both Northwest Airlines (NWA) and Mesaba Airlines filed for bankruptcy under which both carriers are still operating. The industry remains intensely competitive and volatile. On positive notes, Allegiant Airlines had a full and productive year of service to Las Vegas from Duluth twice weekly beginning in January 2006 and, beginning in March 2007, Midwest Airlines began operating two flights daily from Duluth to Milwaukee. Additionally, Monaco Air has had a full and successful year of operations as the FBO. That transition began in November 2005. Its new operation has led to more services for corporate, charter, and general aviation users, as well as increased revenues for the Authority.

The Authority continued to make improvements to facilities and infrastructure and responds to new security directives with the following major projects completed or underway in 2006.

1. Runway 9/27 shoulder and lighting project - \$3.9 million
2. Construction of Phase 2 to the aircraft rescue and fire fighting facility is underway - \$7.4 million
3. TSA baggage screening improvements are still underway - \$2.2 million

The union contract between the Duluth Airport Authority and AFSCME Local 66 was renegotiated in 2006 and is effective through December 31, 2009.

**Capital Assets  
(000s)**

	FY 2006	FY 2005	Dollar Change Increase (Decrease)	Total Percent (%) Change
Land	\$ 2,898	\$ 2,228	\$ 670	30.07
Runways	41,441	37,450	3,991	10.66
Buildings	15,777	15,737	40	0.25
Equipment	4,763	4,733	30	0.63
Construction in progress	29,254	20,606	8,648	41.97
 Total Capital Assets	 \$ 94,133	 \$ 80,754	 \$ 13,379	 16.57
Less: accumulated depreciation	37,318	35,132	2,186	6.22
 Net Capital Assets	 <u>\$ 56,815</u>	 <u>\$ 45,622</u>	 <u>\$ 11,193</u>	 24.53

At the end of 2006, the Duluth Airport Authority has invested approximately \$94 million in capital assets. The \$13 million increase in capital assets this past year is primarily due to several major projects including the Phase 3 construction of Runway 9/27 shoulders, the North Perimeter Road and Fencing construction, Aircraft Rescue and Firefighting Facility Phase 2 construction, Terminal Building improvements, land acquisition and site improvements, and equipment purchases.

The Duluth Airport Authority recently submitted a new Airport Capital Improvement Program (ACIP) through 2016, which includes for 2007:

- \$500 thousand for an additional passenger loading bridge;
- \$90 thousand towards General Aviation (GA) development design;
- \$764 thousand for GA apron rehabilitation, expansion, and lighting; and
- \$931 thousand for GA apron snow melter construction.

**DEBT ADMINISTRATION**

The City of Duluth obtained a \$500,000 loan from the Minnesota Investment Fund to remedy soil conditions on the Duluth Airport Authority property. On December 20, 2005, the Authority entered into an agreement with the Duluth Economic Development Authority that provided that the Authority 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 \$348,889.

The Duluth Airport Authority entered into a Lease Acquisition Agreement with North Country Aviation (NCA) on November 1, 2005, where the Authority 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 Authority as Airport Facility Revenue Note, Series 2005A. The note is for a term of 13 years, payable each June 1 and December 1, commencing June 1, 2007. Interest is compounded at 8.85 percent per annum.

A summary of changes in the revenue note balances are:

<b>Revenue Note (000s)</b>	<u>FY 2006</u>
Balance - January 1	\$ 497
Additions	-
Payments	-
Balance - December 31	<u>\$ 497</u>

## **ECONOMIC AND OTHER FACTORS**

When setting the 2006 budget, the Duluth Airport Authority took many factors into consideration: the potential loss of the 148th Fighter Wing's F-16 operation, the continuing financial turmoil of the commercial aviation sector, the still lingering effects of 9/11 and its effects on commercial air travel, as well as airport security, weather conditions which dictate utility costs and overtime for snow removal crews, energy 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 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 on the former Duluth Air Force Base. The Duluth Airport Authority will continue to seek diversifying revenue sources in order to be less reliant on airline revenue sources.

Effective March 4, 2007, Midwest Airlines began regular scheduled service to Duluth from Milwaukee with two flights daily. On May 1, 2007, flights will increase to three daily. The new service is expected to generate increased revenues for the Authority by the increased competitiveness with Northwest Airlines and the increased passenger activity due to more travel options.

## **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, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,456,121	\$ 1,540,208
Accounts receivable	405,343	487,478
Grants receivable	57,855	59,078
Inventory	64,759	54,984
Prepaid items	49,375	59,615
Assets restricted for construction		
Cash and cash equivalents	4,487,234	759,281
Accounts receivable	75,272	59,657
Grants receivable	2,570,990	2,642,992
<b>Total current assets</b>	<b>\$ 9,166,949</b>	<b>\$ 5,663,293</b>
<b>Noncurrent assets</b>		
<b>Capital assets</b>		
Nondepreciable	\$ 32,151,871	\$ 22,834,242
Depreciable	61,980,161	57,920,193
Less: allowance for depreciation	(37,317,485)	(35,131,946)
<b>Net capital assets</b>	<b>\$ 56,814,547</b>	<b>\$ 45,622,489</b>
<b>Other assets</b>		
Airport planning costs, net of accumulated amortization of \$481,881 in 2006 and \$420,138 in 2005	\$ 208,996	\$ 257,384
Lease buyout costs, net of accumulated amortization of \$72,460 in 2006 and \$10,352 in 2005	454,919	517,027
<b>Total other assets</b>	<b>\$ 663,915</b>	<b>\$ 774,411</b>
<b>Total noncurrent assets</b>	<b>\$ 57,478,462</b>	<b>\$ 46,396,900</b>
<b>Total Assets</b>	<b>\$ 66,645,411</b>	<b>\$ 52,060,193</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT A  
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 70,793	\$ 100,758
Due to City of Duluth	29,939	335,636
Due to other governments	24,573	45,561
Accrued salaries payable	21,008	25,114
Accrued vacation payable	57,234	40,289
Construction contracts payable	2,898,574	3,137,845
Accrued interest payable	52,904	7,274
Deferred revenue	4,563,133	468,761
Advances payable	-	30,000
Loans payable	26,667	-
<b>Total current liabilities</b>	<b>\$ 7,744,825</b>	<b>\$ 4,191,238</b>
<b>Noncurrent liabilities</b>		
Deferred revenue	\$ 134,433	\$ 172,238
Loans payable	348,889	-
Revenue notes payable	497,379	497,379
<b>Total noncurrent liabilities</b>	<b>\$ 980,701</b>	<b>\$ 669,617</b>
<b>Total Liabilities</b>	<b>\$ 8,725,526</b>	<b>\$ 4,860,855</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 56,438,991	\$ 45,622,489
Unrestricted	1,480,894	1,576,849
<b>Total Net Assets</b>	<b>\$ 57,919,885</b>	<b>\$ 47,199,338</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT B**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Operating Revenues</b>		
Charges for services	\$ 3,195,847	\$ 2,811,160
<b>Operating Expenses</b>		
Personal services	\$ 1,259,992	\$ 1,269,934
Supplies	110,802	100,571
Utilities	452,535	486,393
Other services and charges	1,373,499	1,252,703
Depreciation	2,188,723	2,091,247
Amortization	123,851	73,759
<b>Total Operating Expenses</b>	<b>\$ 5,509,402</b>	<b>\$ 5,274,607</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (2,313,555)</b>	<b>\$ (2,463,447)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Earnings on investments	\$ 91,401	\$ 68,435
Passenger facility charge	528,706	387,531
Gain (loss) on disposal of capital assets	-	(1,732)
Interest expense	(45,630)	(7,274)
Marketing grant	46,042	21,217
Small community air service development grant	-	106,912
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 620,519</b>	<b>\$ 575,089</b>
<b>Net Income (Loss) Before Other Revenues</b>	<b>\$ (1,693,036)</b>	<b>\$ (1,888,358)</b>
<b>Other Revenues</b>		
Capital grants		
Federal	\$ 12,199,085	\$ 12,582,790
State	120,066	227,583
Contributed capital	94,432	-
<b>Total Other Revenues</b>	<b>\$ 12,413,583</b>	<b>\$ 12,810,373</b>
<b>Change in Net Assets</b>	<b>\$ 10,720,547</b>	<b>\$ 10,922,015</b>
<b>Net Assets - January 1</b>	<b>47,199,338</b>	<b>36,277,323</b>
<b>Net Assets - December 31</b>	<b>\$ 57,919,885</b>	<b>\$ 47,199,338</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT C**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 3,066,836	\$ 2,330,292
Cash paid to suppliers	(2,293,021)	(1,440,731)
Cash paid to employees	(1,247,153)	(1,263,565)
Other cash receipts	223,476	203,752
	<b>\$ (249,862)</b>	<b>\$ (170,252)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Small community air service development grant	<b>\$ 76,493</b>	<b>\$ 106,912</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal paid on loans	\$ (24,444)	\$ -
Capital grants - federal	16,242,713	11,167,557
Capital grants - state	161,760	256,136
Passenger facility charge	513,091	330,322
Proceeds from sale of capital assets	-	7,790
Acquisition or construction of capital assets	(13,167,286)	(11,792,963)
	<b>\$ 3,725,834</b>	<b>\$ (31,158)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	<b>\$ 91,401</b>	<b>\$ 68,435</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 3,643,866</b>	<b>\$ (26,063)</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>2,299,489</b>	<b>2,325,552</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 5,943,355</b>	<b>\$ 2,299,489</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>		
Net operating income (loss)	\$ (2,313,555)	\$ (2,463,447)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	2,188,723	2,091,247
Amortization	123,851	73,759
Marketing grant	46,042	17,861
Changes in assets and liabilities		
Decrease (increase) in receivables	83,358	(258,461)
Decrease (increase) in inventory	(9,775)	17,093
Decrease (increase) in prepaids	10,240	(3,797)
Increase (decrease) in payables	(343,811)	392,009
Increase (decrease) in deferred revenue	(34,935)	(36,516)
	<b>\$ (249,862)</b>	<b>\$ (170,252)</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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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	
	2006	2005
City pooled cash and investments	\$ 242,582	\$ 452,177
Authority checking accounts	6,816	17,963
Authority savings account	5,693,707	1,829,099
Petty cash funds	250	250
Total	\$ 5,943,355	\$ 2,299,489

	December 31	
	2006	2005
Detail as shown on Comparative Balance Sheet		
Current assets		
Cash and cash equivalents	\$ 1,456,121	\$ 1,540,208
Assets restricted for construction	4,487,234	759,281
Total Cash and Cash Equivalents	\$ 5,943,355	\$ 2,299,489

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of changes in capital assets at December 31, 2006 and 2005, follows:

	Balance January 1, 2006	Increase	Decrease	Transfers	Balance December 31, 2006
Capital assets not depreciated					
Land	\$ 2,228,456	\$ 518,603	\$ -	\$ 151,301	\$ 2,898,360
Construction in progress	20,605,786	12,807,998	-	(4,160,273)	29,253,511
<b>Total capital assets not depreciated</b>	<b>\$ 22,834,242</b>	<b>\$ 13,326,601</b>	<b>\$ -</b>	<b>\$ (4,008,972)</b>	<b>\$ 32,151,871</b>
Capital assets depreciated					
Buildings	\$ 15,737,438	\$ 39,425	\$ -	\$ -	\$ 15,776,863
Runways	37,449,467	-	-	3,991,307	41,440,774
Equipment	4,733,288	28,110	3,184	4,310	4,762,524
<b>Total capital assets depreciated</b>	<b>\$ 57,920,193</b>	<b>\$ 67,535</b>	<b>\$ 3,184</b>	<b>\$ 3,995,617</b>	<b>\$ 61,980,161</b>
Less: accumulated depreciation for					
Buildings	\$ 8,214,890	\$ 434,219	\$ -	\$ -	\$ 8,649,109
Runways	23,535,228	1,549,527	-	-	25,084,755
Equipment	3,381,828	204,977	3,184	-	3,583,621
<b>Total accumulated depreciation</b>	<b>\$ 35,131,946</b>	<b>\$ 2,188,723</b>	<b>\$ 3,184</b>	<b>\$ -</b>	<b>\$ 37,317,485</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 22,788,247</b>	<b>\$ (2,121,188)</b>	<b>\$ -</b>	<b>\$ 3,995,617</b>	<b>\$ 24,662,676</b>
<b>Capital Assets, Net</b>	<b>\$ 45,622,489</b>	<b>\$ 11,205,413</b>	<b>\$ -</b>	<b>\$ (13,355)</b>	<b>\$ 56,814,547</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

	Balance January 1, 2005	Increase	Decrease	Transfers	Balance December 31, 2005
Capital assets not depreciated					
Land	\$ 2,228,456	\$ -	\$ -	\$ -	\$ 2,228,456
Construction in progress	8,129,305	13,463,088	51,235	(935,372)	20,605,786
 Total capital assets not depreciated	 \$ 10,357,761	 \$ 13,463,088	 \$ 51,235	 \$ (935,372)	 \$ 22,834,242
Capital assets depreciated					
Buildings	\$ 15,620,521	\$ 13,118	\$ -	\$ 103,799	\$ 15,737,438
Runways	37,237,850	3,819	-	207,798	37,449,467
Equipment	4,175,286	18,617	84,390	623,775	4,733,288
 Total capital assets depreciated	 \$ 57,033,657	 \$ 35,554	 \$ 84,390	 \$ 935,372	 \$ 57,920,193
Less: accumulated depreciation for					
Buildings	\$ 7,781,222	\$ 433,668	\$ -	\$ -	\$ 8,214,890
Runways	22,099,819	1,435,409	-	-	23,535,228
Equipment	3,231,914	222,170	72,256	-	3,381,828
 Total accumulated depreciation	 \$ 33,112,955	 \$ 2,091,247	 \$ 72,256	 \$ -	 \$ 35,131,946
 Total capital assets depreciated, net	 \$ 23,920,702	 \$ (2,055,693)	 \$ 12,134	 \$ 935,372	 \$ 22,788,247
 Capital Assets, Net	 \$ 34,278,463	 \$ 11,407,395	 \$ 63,369	 \$ -	 \$ 45,622,489

Included in capital asset additions for 2006 is \$94,432 in contributed capital. This is comprised of \$89,406 from the City of Duluth for soil cleanup on Airport grounds, and \$5,026 from an Airport lessee for improvement to the restaurant facilities.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

As of December 31, 2006, the Authority had the following commitments with respect to unfinished construction projects:

Projects	Remaining Construction Commitment
AIP 38	\$ 384,742
AIP 39	173,382
AIP 40	1,024,043
AIP 41	549,098
AIP 42	1,561,230
SP 6901-151	252,450
Air National Guard By-pass Project	397,282
Air National Guard ARFF II/paving	4,142,886
Total	\$ 8,485,113

As of December 31, 2005, the Authority had the following commitments with respect to unfinished construction projects:

Projects	Remaining Construction Commitment
AIP 37	\$ 438,239
AIP 38	840,854
AIP 39	343,507
AIP 40	1,371,220
Air National Guard ARFF Project	98,300
Air National Guard By-pass Project	1,835,712
Transportation Security Administration Safety Project	43,928
Total	\$ 4,971,760

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.

**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:

2007	\$	174,957
2008		174,957
2009		174,957
2010		174,957
2011		159,703
After 2011		<u>1,919,805</u>
Total	\$	<u>2,779,336</u>

Contingent rental income from operating leases for 2006 and 2005 was \$957,269 and \$875,635, 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, 2006 and 2005, is:

	2006		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 3,117,756	\$ 3,195,847	\$ 78,091
Operating Expenses			
Personal services	\$ 1,561,600	\$ 1,259,992	\$ 301,608
Supplies	154,200	110,802	43,398
Utilities	520,180	452,535	67,645
Other services and charges	906,250	1,373,499	(467,249)
Depreciation	2,005,000	2,188,723	(183,723)
Amortization	90,000	123,851	(33,851)
Total Operating Expenses	<u>\$ 5,237,230</u>	<u>\$ 5,509,402</u>	<u>\$ (272,172)</u>
Net Operating Income (Loss)	<u>\$ (2,119,474)</u>	<u>\$ (2,313,555)</u>	<u>\$ (194,081)</u>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

E. Budgets (Continued)

	2006		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Nonoperating Revenues (Expenses)</b>			
Earnings on investments	\$ 40,000	\$ 91,401	\$ 51,401
Passenger facility charge	520,000	528,706	8,706
Interest expense	-	(45,630)	(45,630)
Marketing grant	-	46,042	46,042
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 560,000</b>	<b>\$ 620,519</b>	<b>\$ 60,519</b>
<b>Net Income (Loss) Before Other Revenues</b>	<b>\$ (1,559,474)</b>	<b>\$ (1,693,036)</b>	<b>\$ (133,562)</b>
<b>Other Revenues</b>			
Capital grants - federal	\$ 10,388,045	\$ 12,199,085	\$ 1,811,040
Capital grants - state	2,459,290	120,066	(2,339,224)
Contributed capital	-	94,432	94,432
<b>Total Other Revenues</b>	<b>\$ 12,847,335</b>	<b>\$ 12,413,583</b>	<b>\$ (433,752)</b>
<b>Change in Net Assets</b>	<b>\$ 11,287,861</b>	<b>\$ 10,720,547</b>	<b>\$ (567,314)</b>
	2005		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues</b>			
Charges for services	\$ 2,580,817	\$ 2,811,160	\$ 230,343
<b>Operating Expenses</b>			
Personal services	\$ 1,385,700	\$ 1,269,934	\$ 115,766
Supplies	109,300	100,571	8,729
Utilities	389,393	486,393	(97,000)
Other services and charges	833,695	1,252,703	(419,008)
Depreciation	1,950,000	2,091,247	(141,247)
Amortization	70,000	73,759	(3,759)
<b>Total Operating Expenses</b>	<b>\$ 4,738,088</b>	<b>\$ 5,274,607</b>	<b>\$ (536,519)</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (2,157,271)</b>	<b>\$ (2,463,447)</b>	<b>\$ (306,176)</b>

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

E. Budgets (Continued)

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 35,000	\$ 68,435	\$ 33,435
Passenger facility charge	465,000	387,531	(77,469)
Gain (loss) on disposal of assets	-	(1,732)	(1,732)
Interest expense	-	(7,274)	(7,274)
Marketing grant	-	21,217	21,217
Small community air service development grant	-	106,912	106,912
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 500,000</b>	<b>\$ 575,089</b>	<b>\$ 75,089</b>
<b>Net Income (Loss) Before Other Revenues</b>	<b>\$ (1,657,271)</b>	<b>\$ (1,888,358)</b>	<b>\$ (231,087)</b>
Other Revenues			
Capital grants - federal	\$ 10,198,900	\$ 12,582,790	\$ 2,383,890
Capital grants - state	1,029,500	227,583	(801,917)
<b>Total Other Revenues</b>	<b>\$ 11,228,400</b>	<b>\$ 12,810,373</b>	<b>\$ 1,581,973</b>
<b>Change in Net Assets</b>	<b>\$ 9,571,129</b>	<b>\$ 10,922,015</b>	<b>\$ 1,350,886</b>

F. Long-Term Debt

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

The City of Duluth obtained a loan from the Minnesota Investment Fund (MIF). Proceeds from the loan have been used to remedy soil conditions on 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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

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>
2007	\$ -	\$ 60,000	\$ 26,667
2008	-	75,000	26,667
2009	22,170	52,830	26,667
2010	33,673	41,327	26,667
2011	36,719	38,281	26,667
2012 - 2016	239,848	135,152	133,334
2017 - 2021	164,969	22,531	108,887
Total	<u>\$ 497,379</u>	<u>\$ 425,121</u>	<u>\$ 375,556</u>

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

	<u>2006</u>	<u>2005</u>
Balance - January 1	\$ 497,379	\$ -
Additions	400,000	497,379
Payments	(24,444)	-
Balance - December 31	<u>\$ 872,935</u>	<u>\$ 497,379</u>
Due Within One Year	<u>\$ 26,667</u>	<u>\$ -</u>

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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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3. Risk Management (Continued)

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 2006 were:

	Operating Revenues	Percentage of Total Operating Revenues
Northwest Airlines	\$ 495,750	15.5
APCOA, Inc.	638,755	20.0

Major customers of services provided by the Duluth Airport Authority in 2005 were:

	Operating Revenues	Percentage of Total Operating Revenues
Northwest Airlines	\$ 417,720	14.9
APCOA, Inc.	647,075	23.0

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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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5. Pension Plans

A. Plan Description (Continued)

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.

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 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.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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5. Pension Plans (Continued)

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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Authority is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

The Authority's contributions for the years ending December 31, 2006, 2005, and 2004, were \$51,299, \$44,088, and \$43,166, respectively, equal to the contractually required contributions for each year as set by state statute.

6. Other Postemployment Benefits

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. Seventeen retirees meet these eligibility requirements.

**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

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6. Other Postemployment Benefits (Continued)

The Authority participates in the City of Duluth Group Health Internal Service Fund and pays the required premiums to provide health care benefits and term life insurance for eligible retirees and claimed dependents. Health care premiums are paid by the Authority to the same extent as active employees for the life of the retiree or the surviving spouse. Life insurance premiums are 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 2006 totaled \$121,046 and \$496, respectively. In 2005, the amounts paid were \$120,683 and \$360.

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**SUPPLEMENTARY INFORMATION**

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 1**

**COMPARATIVE STATEMENT OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Operating Revenues</b>		
<b>Charges for services</b>		
<b>Tower building</b>		
Space rental and services	\$ 211,110	\$ 203,661
<b>Terminal building</b>		
Loading bridges rent	\$ 32,620	\$ 32,647
Space rental	344,807	343,126
Utility sales	32,436	35,620
Car rental commissions	370,244	358,520
Other commissions	1,974	4,784
Percentage of lessees' sales	12,312	21,450
Other income	146,411	24,387
<b>Total terminal building</b>	\$ 940,804	\$ 820,534
<b>Parking lot</b>		
Parking lot commissions	\$ 638,755	\$ 647,075
<b>Land, field, and runways</b>		
Airport use contract - Minnesota Air National Guard	\$ 50,000	\$ 50,000
Transportation Security Administration charges	88,938	97,814
State aid for maintenance and operation	176,211	132,795
Rental income	331,511	256,829
Fuel flowage fees	121,807	34,868
Landing fees	316,589	361,547
Percentage of lessees' sales	30,690	7,011
Utility sales	10,563	11,336
<b>Total land, field, and runways</b>	\$ 1,126,309	\$ 952,200
<b>Hangar</b>		
Space rental	\$ 126,021	\$ 47,502
Utility sales	25,390	30,759
<b>Total hangar</b>	\$ 151,411	\$ 78,261
<b>Sky Harbor</b>		
State aid for maintenance and operation	\$ 20,285	\$ 20,585
Rental income	24,368	22,225
Fuel sales	73,146	61,012
Percentage of lessees' sales	2,947	60
Other income	6,712	5,547
<b>Total Sky Harbor</b>	\$ 127,458	\$ 109,429
<b>Total Operating Revenues</b>	\$ 3,195,847	\$ 2,811,160

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 2**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**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. A finding relative to a major federal award program for the Duluth Airport Authority was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - National Guard Military Operations  
and Maintenance Projects
  - CFDA #12.401
- H. The threshold for distinguishing between Types A and B programs was \$365,973.
- 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

ITEM ARISING THIS YEAR

06-1 Segregation of Duties

Due to the limited number of office personnel within the Duluth Airport Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the Duluth Airport Authority's management be aware of the lack of segregation of accounting functions and develop oversight procedures to ensure that the Authority's internal control policies and procedures are followed by staff.

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**

COMPLIANCE

ITEM ARISING THIS YEAR

06-2 National Guard Military Construction Cooperative Agreement - Cash Management - CFDA #12.401

The Duluth Airport Authority has been earning interest on funds advanced to them from the National Guard Bureau through Military Construction Cooperative Agreements and using the interest earned to fund operations of the Authority.

In accordance with National Guard Regulation 5-1, Chapter 32, Paragraph 7 and the Military Construction Cooperative Agreements: “The amount of interest due the United States on funds advanced to the Duluth Airport Authority or of interest due to the Duluth Airport Authority shall be determined and paid in accordance with 31 U.S.C. section 6503 and such regulations as have been issued by the U.S Department of Treasury and the Department of Defense.”

We recommend the Authority determine the amount of interest earned on these advances and return it to the grantor in accordance with the cooperative agreements.

Client’s Response:

Contact Person:

*Randy Overby - Director of Finance and Administration*

Corrective Action Planned:

*The Authority management will communicate with the federal funds issuing entity to clarify interpretations of at what point and by whom interest may be earned on advanced funds. Interest received outside of federal allowable requirements will be returned.*

Estimated Completion Date:

*July 31, 2007.*

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

None.

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## **OTHER REQUIRED REPORTS**

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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, 2006, and have issued our report thereon dated June 19, 2007. 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.

Duluth Airport Authority's written response to the significant deficiency identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, 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 19, 2007

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REBECCA OTTO  
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# STATE OF MINNESOTA

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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, 2006. 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, 2006. 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, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-2.

#### 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*.

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 financial statements of the Duluth Airport Authority as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. 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.

Duluth Airport Authority's written response to the findings identified in our audit are included in the accompanying 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, 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 19, 2007

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**DULUTH AIRPORT AUTHORITY  
DULUTH, MINNESOTA**

Schedule 3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<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-3-27-0025-04	20.106	6901-26	\$ 491,557
AIP-3-27-0024-37	20.106	6901-142	635,180
AIP-3-27-0024-38	20.106	6901-144	530,368
AIP-3-27-0024-39	20.106	6901-147	150,043
AIP-3-27-0024-40	20.106	6901-149	385,948
AIP-3-27-0024-41	20.106	6901-150	5,784,278
AIP-3-27-0024-42	20.106	6901-151	569,906
<b>Total CFDA No. 20.106</b>			<b>\$ 8,547,280</b>
<b>Department of Defense - National Guard Bureau</b>			
Direct			
Military Construction Cooperative Agreement	12.401	DAHA21-02-2-2101	\$ 294,031
Military Construction Cooperative Agreement	12.401	W912LM-05-2-1051	83,435
Military Construction Cooperative Agreement	12.401	W912LM-05-2-2101	1,438,431
Military Construction Cooperative Agreement	12.401	W912LM-06-2-2101	1,698,500
<b>Total CFDA No. 12.401</b>			<b>\$ 3,514,397</b>
<b>Department of Labor</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Workforce Investment Act - Dislocated Workers	17.260	5774500	\$ 92,312
<b>Department of Homeland Security</b>			
Direct			
Port Security Research and Development Grant	97.060	HSTS04-05-A-DEP348	\$ 45,096
<b>Total Expenditures of Federal Awards</b>			<b>\$ 12,199,085</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 2006, 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, 2006**

<b>Application</b>			
<b>Seventh Application*</b>			
Passenger Facility Charge Collections**			
Prior to January 1, 2006***	\$	497,888	
Collections in 2006			
First quarter	\$	104,875	
Second quarter		175,259	
Third quarter		140,286	
Fourth quarter		92,671	
<b>Total collections in 2006</b>	<b>\$</b>	<b>513,091</b>	
<b>Total Collected Through December 31, 2006</b>	<b>\$</b>	<b>1,010,979</b>	
<b>Approved expenses through December 31, 2006</b>		<b>(1,010,979)</b>	
<b>Unexpended Balance - December 31, 2006</b>	<b>\$</b>	<b>-</b>	

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

\*\*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 over-collections from PFC 's sixth application.