

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

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

Year Ended December 31, 2020

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 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 Minnesota’s local public pension funds; and

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

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

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

Year Ended December 31, 2020



Office of the State Auditor

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2020**

	<u>Term Ending</u>
Directors	
Jeff Anderson	July 1, 2022
Todd Fedora	July 1, 2022
Craig Fellman	July 1, 2022
Kimberly Maki	July 1, 2021
Don McIsaac	July 1, 2021
Elissa Hansen	July 1, 2023
Anna Tanski	July 1, 2021
Executive Director	
Thomas Werner	
Officers	
President	
Anna Tanski	
Vice President	
Craig Fellman	
Secretary	
Kimberly Maki	



INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Airport Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Airport Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Airport Authority's basic financial statements. The Supplementary Information as listed 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2021, on our consideration of the Duluth Airport Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Duluth Airport Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Airport Authority’s internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Airport Authority’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

May 4, 2021

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020
(Unaudited)**

Our discussion and analysis of the Duluth Airport Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2020. Please read it in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The Duluth Airport Authority along with the rest of the world, faced substantial challenges in 2020 due to the COVID-19 pandemic. The financial impact of the pandemic on air service and airport revenues is apparent with major anomalies highlighted in the bullet points below.

- Total number of passengers including charters decreased 187.8 thousand, or 58.9 percent, for a total of 130.9 thousand in 2020.
- Total traffic count as recorded by the Federal Aviation Administration tower decreased by ten thousand, or 17.5 percent, to 48 thousand.
- Operating expenses (before depreciation and amortization) decreased \$38.5 thousand, or about one percent, compared to fiscal year 2019.
- Operating revenues decreased by nearly \$1.8 million, or 27.6 percent, primarily due to decreased non-aeronautical revenues including concession payments received.
- Nonoperating federal and state grant revenues decreased by \$1 million, or 7.4 percent, from 2019.
- Total net position increased \$1.7 million, or 1.5 percent, compared to fiscal year 2019.
- Landing fee revenues for 2020 decreased by \$156 thousand, or 37 percent.
- Passenger facility charge revenue decreased by \$369 thousand in 2020, or 56.5 percent, compared to 2019, which is attributed to the passenger count decreases in 2020.
- Customer facility charges collected in 2020 decreased by \$179.5 thousand, or 54 percent, from 2019.
- Total parking lot sales decreased by \$843.5 thousand, or 57.1 percent, for 2020.

- Total car rental concession sales decreased by \$126 thousand, or 20 percent, for 2020. Of the 2020 recorded sales, \$203 thousand is for unmet Minimum Annual Guarantees which have not yet been paid.
- No State Maintenance and Operations grant reimbursements were received due to the fact that CARES funds needed to be fully depleted prior to accessing the funds.
- The Transportation Security Administration's agreement with the Authority reimbursed the Authority approximately 12 hours per day for contracted law enforcement personnel, or approximately \$7.1 thousand per month when averaged. Checkpoint coverage was substantially reduced during COVID with the slowest month being May at a total of 3.24 hours per day.

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 Authority's financial condition and well-being. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, and other management tools were used for this analysis.

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

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

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

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The

financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

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

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

The Duluth International Airport consists of two runways, which provide take-off and landing facilities for all types of commercial and general aviation aircraft, as well as military aircraft. The main runway 9-27 is 10,591 feet long by 150 feet wide and can handle the world's largest aircraft. The cross runway 3-21 is 5,719 feet long by 150 feet wide. The Duluth International Airport is located on 3,294 acres of land and encompasses approximately one-half of the old Duluth Air Force Base. The Authority also operates Sky Harbor Airport, which is both a sea plane base and a general aviation airport. The landside runway is 2,600 feet long by 75 feet wide. In the bay, there is also a 10,000-foot by 2,000-foot water runway.

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

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position (000s)

	FY 2020	FY 2019
Current and other assets	\$ 12,117	\$ 8,336
Capital assets – net of accumulated depreciation	120,568	123,556
Construction in progress	290	837
Total Assets	\$ 132,975	\$ 132,729
Deferred Outflows of Resources	\$ 145	\$ 135
Current liabilities	\$ 2,162	\$ 2,555
Long-term liabilities	10,786	11,660
Total Liabilities	\$ 12,948	\$ 14,215
Deferred Inflows of Resources	\$ 228	\$ 442
Net Position		
Net investment in capital assets	\$ 113,396	\$ 115,969
Unrestricted	6,548	2,238
Total Net Position	\$ 119,944	\$ 118,207

As the table illustrates, net position increased by \$1.7 million to \$119.9 million in 2020. This was due in part to increased cash on hand and accounts receivable as well as decreased construction in progress as well as other adjustments.

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

	FY 2020		FY 2019
	Budget	Actual	Actual
Total operating revenues	\$ 6,089	\$ 4,702	\$ 6,492
Total operating expenses	(15,128)	(15,571)	(14,583)
Income (Loss)	\$ (9,039)	\$ (10,869)	\$ (8,091)
Nonoperating revenues	\$ 611	\$ 326	\$ 685
Capital contributions	2,956	12,555	13,571
Nonoperating expenses	(354)	(275)	(304)
Change in Net Position	\$ (5,826)	\$ 1,737	\$ 5,861

(Unaudited)

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REVENUES

Operating revenues decreased by nearly \$1.8 million, or 27.6 percent, in 2020 relative to 2019. The decrease is due primarily to decreases in passenger related non-aeronautical revenues of 43.7 percent, 9.5 percent less non-passenger aeronautical revenue and a 9.9 percent reduction in aeronautical revenue or landing fees. Decreased passenger demand for air service due to the pandemic affects both non-aeronautical revenues in the form of concessions as they are passenger related as well as landing-fees as less flights are flown. Continued efforts are being made to draw more commercial air service traffic and increase aeronautical revenues as well as the non-aeronautical revenues associated with the increased passenger traffic. The Authority had been fortunate to have most all vacant space occupied, which had led to increases in rent revenues over the past few years. The Authority is advertising all marketable space in hopes of continuing to have minimal vacant space and increased rent revenues in the future. A master plan is currently underway which is also set to identify some future opportunities for development of airport land and diversification of revenue sources.

EXPENSES

The Duluth Airport Authority's operating expenses exclusive of depreciation and amortization decreased by \$38.5 thousand to \$4.47 million in 2020, down from \$4.51 million in 2019. This decrease is partially due employee efforts to reduce spending where possible during the pandemic. There was a ten percent reduction in supplies which is an example of an area where employees had the most discretion in reducing their spending. Other less discretionary areas of spending such as maintenance contracts, utilities and personnel compensation and benefits saw some increases.

BUDGETARY HIGHLIGHTS

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

The COVID-19 pandemic had the unanticipated substantial effect of reducing airport revenues in 2020. Unfortunately, the expenses of running an airport cannot as easily be reduced in sync with passenger demand as the level of maintenance and focus on safety and security remains high. The Duluth Airport Authority did receive CARES grants to assist with the operations expenses of the airports. The budget for 2021 took into consideration the effect of the pandemic on airport revenues and expenses as well as the stimulus grants which will help support them.

The airline industry remains competitive and fluid, while adverse to risk. An industry pilot shortage due to regulations has makes it increasingly difficult to attract new or existing air carriers to add flights to new destinations, as regional air carriers do not have the pilots to fly their existing fleets. This issue is being monitored and considered as the establishment of additional air service to our market is continually being pursued. Unfortunately, American Airlines suspended service in April 2020. Positive for Duluth, daily flights from United Airlines between Duluth and its Chicago O'Hare hub have been successfully in place for more than ten years and Sun Country recently announced they will begin service in December of 2021. Competition increases growth and opportunity, which we look forward to in the coming years coming out of this pandemic. Finally, Monaco Air Duluth continues to have productive and successful operations as the FBO offering quality service with a well-respected reputation. Monaco's services and operations have led to activity for international, corporate, charter, and general aviation users of the Duluth Airport as well as revenues for the Authority. The Authority is working diligently to continue to offer safe operations, mitigate financial impacts to the best of its ability, and take advantage of programs which help support the operation of the airports.

The Authority continues to make improvements to facilities and infrastructure and respond to new security directives. In 2020, the following projects or additions to projects reached completion and were transferred to capital asset records: (1) runway and taxiway renovations and Duluth International and Sky Harbor Airports – \$7.7 million; (2) airport planning projects, including DLH master plan, Exhibit A, Sky Harbor Property Maps and a noise study – \$1.58 million; (3) vehicle and equipment acquisition – \$168 thousand, and (4) miscellaneous IT equipment – \$22 thousand.

Construction of the \$78 million passenger terminal was concluded in the fall of 2013. Federal, state, and local airport dollars funded the project. The parking structure construction was completed in the fall of 2014. Renovations to Hangar 103 for Lake Superior College's (LSC) Center for Advanced Aviation were completed in 2015. Since 2017 the major focus at both airports has been and will be runway and taxiway and apron reconstruction as well as replacing important pieces of our aging snow removal equipment fleet and potential for updated tower facilities. The Duluth Airport Authority is always searching for opportunities to update and improve infrastructure as well as for new funding sources for those opportunities.

The union contract between the Authority and AFSCME Local 66 was negotiated in 2020 and retro-actively went into effect for January 1, 2020 through December 31, 2022.

**Capital Assets
(000s)**

	FY 2020	FY 2019	Dollar Change Increase (Decrease)	Total Percent (%) Change
Land	\$ 3,376	\$ 3,376	\$ -	0.00%
Land improvements	26,262	26,262	-	0.00%
Runways	122,651	114,951	7,700	6.70%
Buildings	87,833	87,833	-	0.00%
Equipment	11,693	11,542	151	1.30%
Construction in progress	290	837	(547)	-65.39%
Total capital assets	\$ 252,105	\$ 244,801	\$ 7,304	2.98%
Less: accumulated depreciation	\$ (131,247)	\$ (120,408)	\$ (10,839)	9.00%
Net Capital Assets	\$ 120,858	\$ 124,393	\$ (3,535)	-2.84%

By the end of 2019, the Authority had invested approximately \$252.1 million in capital assets since its inception.

The Authority updates its Airport Capital Improvement Program annually each spring, which provides an itemized list of all anticipated future projects and funding sources for the next 20 years.

DEBT ADMINISTRATION

The City of Duluth obtained a \$500,000 loan from the Minnesota Investment Fund to remedy soil conditions on Duluth Airport Authority property in support of new business development. On December 20, 2005, the Authority entered into an agreement with the Duluth Economic Development Authority that provided the Authority make payments due on the loan in the amount of \$400,000. The loan is noninterest-bearing, payable in 180 monthly installments of \$2,222 which began February 2006. The current portion of the loan payable is \$2,223 and was paid in full January 2021.

The City of Duluth issued General Obligation Airport Improvement Bonds for the Authority with a face value of \$7,650,000 in May 2012. These bonds will be repaid over 15 years. The bond proceeds were used as the local match on federal and state grants for the “project,” including the terminal, access roads, apron, and parking ramp.

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

Finally, the City of Duluth issued General Obligation Airport Improvement Bonds for the Authority in November 2015 with a face value of \$2,855,000. These bonds will be repaid over a period of 15 years. The bond proceeds have been used for the renovation of Hangar 103 to suit the needs of LSC's Center for Advanced Aviation.

ECONOMIC AND OTHER FACTORS

When setting the 2021 budget, the Authority took many factors into consideration: the COVID pandemic and expected slow recovery, the continuing financial and operational turmoil of the commercial aviation sector; the continuing vigilance of security requirements and its effects on commercial air travel and airport passenger handling; weather conditions which dictate utility costs and overtime for snow removal crews; energy, operating supplies, labor, and benefits price increases; and a general review of all rates and services so that revenue will keep pace with expenses. The Authority continues to take steps to review and update all rental and concession fees to competitive rates and carefully manages its costs for equipment, supplies, and services.

The Authority actively seeks new lessees to occupy vacant or upcoming vacant space as well as economic development opportunities that are a good fit for the aviation sector. An example of this is the support of renovations to Hangar 103 where LSC houses its Center for Advanced Aviation to educate future employees of major economic players on the airfield, including Cirrus. In 2019, the Authority successfully began to utilize the terminal space for landline bus service to MSP in support of low-cost carrier flight opportunities. A master planning process which includes research on development of land for other business purposes is underway. The Authority continues to seek opportunities for diversifying revenue in order to be less reliant on airline revenue sources.

FINANCIAL CONTACT

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

BASIC FINANCIAL STATEMENTS

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Assets

Current assets

Cash and cash equivalents	\$ 3,137,764
Accounts receivable	614,206
Inventory	20,882
Prepaid items	51,455
Assets restricted for construction	
Cash and cash equivalents	156,331
Accounts receivable	17,063
Grants receivable	5,844,034

Total current assets **\$ 9,841,735**

Noncurrent assets

Capital assets

Nondepreciable	\$ 3,665,376
Depreciable	248,439,145
Less: accumulated depreciation	<u>(131,246,854)</u>

Total capital assets – net of accumulated depreciation **\$ 120,857,667**

Other assets

Airport planning costs – net of accumulated amortization of \$1,984,854	<u>\$ 2,275,525</u>
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Total noncurrent assets **\$ 123,133,192**

Total Assets **\$ 132,974,927**

Deferred Outflows of Resources

Deferred other postemployment benefits outflows	\$ 22,744
Deferred pension outflows	<u>121,939</u>

Total Deferred Outflows of Resources **\$ 144,683**

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Liabilities

Current liabilities payable from unrestricted assets

Accounts payable	\$	132,731
Accrued salaries payable		59,775
Accrued vacation payable		123,329
Construction contracts payable		102,124
Unearned revenue		489,385
Loans payable – City of Duluth		965,000
Loans payable		2,223
		2,223

Total current liabilities payable from unrestricted assets **\$ 1,874,567**

Current liabilities payable from restricted assets

Construction contracts payable		287,996
		287,996

Total current liabilities **\$ 2,162,563**

Noncurrent liabilities

Unearned revenue	\$	207,686
Loans payable – City of Duluth		6,495,000
Other postemployment benefits obligation		2,907,973
Net pension liability		1,175,111
		1,175,111

Total noncurrent liabilities **\$ 10,785,770**

Total Liabilities **\$ 12,948,333**

Deferred Inflows of Resources

Deferred other postemployment benefits inflows	\$	155,208
Deferred pension inflows		72,479
		72,479

Total Deferred Inflows of Resources **\$ 227,687**

Net Position

Net investment in capital assets	\$	113,395,444
Unrestricted		6,548,146
		6,548,146

Total Net Position **\$ 119,943,590**

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2020**

Operating Revenues	
Charges for services	<u>\$ 4,701,691</u>
Operating Expenses	
Personal services	\$ 2,238,775
Supplies	503,695
Utilities	478,065
Other services and charges	1,247,817
Depreciation	10,875,483
Amortization	<u>227,319</u>
Total Operating Expenses	<u>\$ 15,571,154</u>
Operating Income (Loss)	<u>\$ (10,869,463)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 41,924
Passenger facility charge	284,064
Gain (loss) on disposal of capital assets	(806)
Interest expense	<u>(274,455)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 50,727</u>
Net Income (Loss) Before Capital Contributions	<u>\$ (10,818,736)</u>
Capital Contributions	
Capital grants	
Federal	\$ 11,859,301
State	<u>696,295</u>
Total Capital Contributions	<u>\$ 12,555,596</u>
Change in Net Position	<u>\$ 1,736,860</u>
Net Position – January 1	<u>118,206,730</u>
Net Position – December 31	<u><u>\$ 119,943,590</u></u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020**

Cash Flows from Operating Activities	
Cash received from customers	\$ 4,838,295
Cash paid to suppliers	(2,274,165)
Cash paid to employees	(2,194,803)
Other cash receipts	<u>278,231</u>
Net cash provided by (used in) operating activities	<u>\$ 647,558</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on debt	\$ (961,667)
Interest paid on debt	(274,455)
Capital grants – federal	9,720,605
Capital grants – state	738,450
Passenger facility charge	316,306
Proceeds from sale of capital assets	2,381
Acquisition or construction of capital assets	<u>(9,672,266)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (130,646)</u>
Cash Flows from Investing Activities	
Interest received on investments	<u>\$ 41,924</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 558,836
Cash and Cash Equivalents – January 1	<u>2,735,259</u>
Cash and Cash Equivalents – December 31	<u><u>\$ 3,294,095</u></u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020**

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (10,869,463)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	10,875,483
Amortization	227,319
Changes in assets and liabilities	
(Increase) decrease in receivables	186,509
(Increase) decrease in inventory	5,938
(Increase) decrease in prepaid items	11,393
Increase (decrease) in payables	(43,431)
(Increase) decrease in deferred other postemployment benefits outflows	5,743
Increase (decrease) in deferred other postemployment benefits inflows	(39,194)
Increase (decrease) in other postemployment benefits liability	113,596
(Increase) decrease in deferred pension outflows	(15,330)
Increase (decrease) in deferred pension inflows	(175,032)
Increase (decrease) in net pension liability	135,701
Increase (decrease) in unearned revenue	228,326
	228,326
Net Cash Provided by (Used in) Operating Activities	<u>\$ 647,558</u>
Noncash Investing, Capital, and Financing Activities	
Carrying value of capital assets disposed of	3,187
Capital assets acquired by construction contracts payable	\$ (739,511)

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

1. Summary of Significant Accounting Policies

The accounting policies of the Duluth Airport Authority conform with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

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 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.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Authority uses the full accrual, economic resource basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

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

1. 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.

2. Accounts Receivable

Amounts due from individuals and organizations are recorded as receivables at year-end. These include amounts owed pursuant to lease agreements. No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

3. Inventory and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position
(Continued)

4. Restricted Assets

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

5. Capital Assets

Purchased or constructed capital assets are stated at cost. Donated capital assets are recorded at acquisition value on the date of donation. The Authority's policy is to capitalize assets with a useful life of one year or more and a minimum cost of \$5,000. Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Years</u>
Land improvements	15
Runways	10 to 15
Buildings and structures	20 to 30
Equipment	5 to 10

6. Other Assets

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources associated with other postemployment benefits (OPEB) and the defined benefit pension plan.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources associated with OPEB and the defined benefit pension plan.

8. Unearned Revenue

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

9. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

10. Classification of Net Position

Net position in the financial statements is classified in the following components:

- Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

F. 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.

G. Use of Estimates

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

A. Deposits and Investments

The Authority and the Duluth City Council are authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral.

The Authority may invest in the types of securities authorized by Minn. Stat. §§ 118A.04 and 118A.05.

The Authority invests funds in the City of Duluth's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations.

Additional disclosures, as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*; and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth's 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 as of December 31, 2020:

Cash and investments pooled with the City of Duluth	\$ 3,294,014
Petty cash funds	<u>81</u>
Total	<u>\$ 3,294,095</u>
Detail as shown on Statement of Net Position	
Current assets	
Cash and cash equivalents	\$ 3,137,764
Assets restricted for construction	
Cash and cash equivalents	<u>156,331</u>
Total Cash and Cash Equivalents	<u>\$ 3,294,095</u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of changes in capital assets as of December 31, 2020, follows:

	Balance January 1, 2020	Increase	Decrease	Transfers/ Reclassifications	Balance December 31, 2020
Capital assets not depreciated					
Land	\$ 3,375,534	\$ -	\$ -	\$ -	\$ 3,375,534
Construction in progress	837,421	8,871,737	-	(9,419,316)	289,842
Total capital assets not depreciated	<u>\$ 4,212,955</u>	<u>\$ 8,871,737</u>	<u>\$ -</u>	<u>\$ (9,419,316)</u>	<u>\$ 3,665,376</u>
Capital assets depreciated					
Land improvements	\$ 26,261,868	\$ -	\$ -	\$ -	\$ 26,261,868
Buildings and structures	87,833,240	-	-	-	87,833,240
Runways	114,950,484	-	-	7,700,817	122,651,301
Equipment	11,542,170	70,381	39,684	119,869	11,692,736
Total capital assets depreciated	<u>\$ 240,587,762</u>	<u>\$ 70,381</u>	<u>\$ 39,684</u>	<u>\$ 7,820,686</u>	<u>\$ 248,439,145</u>
Less: accumulated depreciation for					
Land improvements	\$ 18,022,646	\$ 1,677,592	\$ -	\$ -	\$ 19,700,238
Buildings and structures	26,160,972	3,025,106	-	-	29,186,078
Runways	66,500,918	5,953,172	-	-	72,454,090
Equipment	9,723,332	219,613	36,497	-	9,906,448
Total accumulated depreciation	<u>\$ 120,407,868</u>	<u>\$ 10,875,483</u>	<u>\$ 36,497</u>	<u>\$ -</u>	<u>\$ 131,246,854</u>
Total capital assets depreciated, net	<u>\$ 120,179,894</u>	<u>\$ (10,805,102)</u>	<u>\$ 3,187</u>	<u>\$ 7,820,686</u>	<u>\$ 117,192,291</u>
Capital Assets, Net	<u>\$ 124,392,849</u>	<u>\$ (1,933,365)</u>	<u>\$ 3,187</u>	<u>\$ (1,598,630)</u>	<u>\$ 120,857,667</u>

Transfers and reclassifications for 2020 do not net out to zero because there was construction in progress transferred to “Other Assets – Airport Planning Costs,” which is not included on this summary (\$1,589,270), and other minor reclassifications.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

C. Vacation and Sick Leave

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

Accrued vacation payable, January 1	\$	119,039
Vacation earned		97,794
Vacation used		<u>(93,504)</u>
Accrued vacation payable, December 31	\$	<u>123,329</u>

D. Leases

The Authority leases space and other facilities under various rates and terms. All such leases are considered to be operating leases. Minimum future rents receivable on noncancelable leases are:

Year Ending December 31		
2021	\$	155,587
2022		154,249
2023		152,613
2024		152,613
2025		152,613
After 2026		<u>3,151,167</u>
Total	\$	<u>3,918,842</u>

Contingent rental income from operating leases for 2020 was \$84,568.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

E. Budgets

The Duluth Airport Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budget for the fiscal year ended December 31, 2020, is:

	2020		Variance
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 6,089,462	\$ 4,701,691	\$ (1,387,771)
Operating Expenses			
Personal services	\$ 2,408,510	\$ 2,238,775	\$ 169,735
Supplies	606,835	503,695	103,140
Utilities	488,413	478,065	10,348
Other services and charges	1,388,829	1,247,817	141,012
Depreciation	10,003,489	10,875,483	(871,994)
Amortization	232,705	227,319	5,386
Total Operating Expenses	\$ 15,128,781	\$ 15,571,154	\$ (442,373)
Operating Income (Loss)	\$ (9,039,319)	\$ (10,869,463)	\$ (1,830,144)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 36,259	\$ 41,924	\$ 5,665
Passenger facility charge	574,621	284,064	(290,557)
Gain (loss) on disposal of capital assets	-	(806)	(806)
Interest expense	(354,455)	(274,455)	80,000
Total Nonoperating Revenues (Expenses)	\$ 256,425	\$ 50,727	\$ (205,698)
Net Income (Loss) Before Capital Contributions	\$ (8,782,894)	\$ (10,818,736)	\$ (2,035,842)
Capital Contributions			
Capital grants – federal	\$ 2,551,949	\$ 11,859,301	\$ 9,307,352
Capital grants – state	404,461	696,295	291,834
Total Capital Contributions	\$ 2,956,410	\$ 12,555,596	\$ 9,599,186
Change in Net Position	\$ (5,826,484)	\$ 1,736,860	\$ 7,563,344

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

F. Long-Term Debt

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 the 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.

In May 2012, the City of Duluth issued General Obligation Airport Improvement Bonds, Series 2012B, on behalf of the Duluth Airport Authority. The bonds have a face value of \$7,650,000 and will be repaid over a period of 15 years. Proceeds of the bonds were used to provide the local match of federal and state grants in relation to a new terminal facility and for funding involved with a new parking ramp, access road, and aprons. The Duluth Airport Authority entered into a loan agreement with the City of Duluth and makes loan payments to the City in sufficient amounts for the City to make the required payments on the bonds.

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

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

The annual requirements to service the debt at December 31, 2020, are as follows:

	<u>Year Ended December 31</u>	<u>MIF Loan Principal</u>		
	2021	\$ 2,223		
<u>Year Ended December 31</u>	<u>City of Duluth Loan 2012B</u>		<u>City of Duluth Loan 2013B</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 530,000	\$ 98,600	\$ 255,000	\$ 83,006
2022	540,000	85,350	265,000	73,444
2023	550,000	71,175	275,000	63,109
2024	570,000	55,363	285,000	51,971
2025	590,000	38,263	300,000	40,144
2026 to 2027	610,000	19,825	635,000	41,613
Total	<u>\$ 3,390,000</u>	<u>\$ 368,576</u>	<u>\$ 2,015,000</u>	<u>\$ 353,287</u>

	<u>Year Ended December 31</u>	<u>City of Duluth Loan 2015C</u>	
		<u>Principal</u>	<u>Interest</u>
2021		\$ 180,000	\$ 67,037
2022		185,000	61,638
2023		190,000	56,088
2024		195,000	50,388
2025		200,000	44,538
2026 to 2030		1,105,000	120,660
Total		<u>\$ 2,055,000</u>	<u>\$ 400,349</u>

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

F. Long-Term Debt (Continued)

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

Balance – January 1	\$ 8,423,890
Payments	<u>(961,667)</u>
Balance – December 31	<u>\$ 7,462,223</u>
Due Within One Year	<u>\$ 967,223</u>

G. Line of Credit

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

As of December 31, 2020, there was no outstanding balance on the line of credit.

H. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. The Authority participates in the City of Duluth Joint Powers Enterprise Trust to provide its employees health and dental benefits. The Authority purchases commercial insurance for all other risks of loss. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Employee health and dental benefits are provided through the City of Duluth Joint Powers Enterprise Trust at premium rates established by the Trust for all plan participants.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

I. Major Customers

Major customers are defined under accounting standards as a single customer from which the enterprise derives ten percent or more of its revenue. In 2020, the Duluth Airport Authority had one major customer of services provided by:

<u>Customer</u>	<u>Operating Revenues</u>	<u>Percentage of Total Operating Revenues</u>
Delta Airlines	\$ 787,183	16.7%

J. Other Postemployment Benefits (OPEB)

1. Plan Description

The Authority provides postemployment health care benefits and term life insurance coverage in accordance with union contract or Authority policy under a single-employer defined benefit plan. Union contract postemployment benefits extend to Authority employees retiring on or after January 1, 1983, who receive retirement benefits from PERA. In addition, the Authority has extended the same postemployment benefits to Authority employees retired prior to January 1, 1983.

The Authority participates in the City of Duluth Joint Powers Enterprise Trust and pays the required premiums to provide health care benefits and term life insurance for eligible retirees and claimed dependents. Health care premiums are paid by the Authority to the same extent as active employees for the life of the retiree or the surviving spouse. Life insurance premiums are also paid by the Authority for the life of the retiree. Premiums paid for eligible retirees and claimed dependents for health care insurance in 2020 totaled \$86,691.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does issue a stand-alone financial report.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB)

1. Plan Description (Continued)

As of the January 1, 2019, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	18
Active plan participants	<u>21</u>
Total	<u><u>39</u></u>

2. Total OPEB Liability

The Authority's total OPEB liability of \$2,907,973 was measured as of December 31, 2020, and was determined by an actuarial valuation as of January 1, 2019.

The total OPEB liability in the January 1, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.20 percent
Salary increases	3.50 percent, average wage inflation plus merit/productivity increases
Health care cost trend	9.00 percent, decreasing 0.50 percent per year to an ultimate rate of 5.00 percent

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

The current year discount rate is 3.64 percent, which was not changed from prior year. For the current valuation, the discount rate was selected from the S&P Municipal Bond 20-year High Grade Rate Index.

Mortality rates are based on SOA RPH-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality projected with Scale MP-2018.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	\$ 2,794,377
Changes for the year	
Service cost	\$ 99,481
Interest	100,806
Benefit payments	(86,691)
Net change	\$ 113,596
Balance at December 31, 2020	\$ 2,907,973

4. OPEB Liability Sensitivity

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

	Discount Rate	Total OPEB Liability
1% Decrease	2.64%	\$ 3,314,879
Current	3.64	2,907,973
1% Increase	4.64	2,501,301

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	8.00% Decreasing to 4.00%	\$ 2,492,505
Current	9.00% Decreasing to 5.00%	2,907,973
1% Increase	10.00% Decreasing to 6.00%	3,333,136

5. OPEB Expense

For the year ended December 31, 2020, the Authority recognized OPEB expense of \$80,145. The Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 22,744	\$ -
Changes in actuarial assumptions	-	155,208
Total	\$ 22,744	\$ 155,208

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

Year Ended December 31	OPEB Expense Amount
2021	\$ (33,451)
2022	(33,451)
2023	(33,451)
2024	(32,111)

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

J. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred for the 2019 valuation:

- Premium equivalent rates were updated to reflect current rates.

K. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the Duluth Airport Authority are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

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DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2020.

In 2020, the Authority was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The Authority's contributions for the General Employees Plan for the year ended December 31, 2020, were \$107,905. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2020, the Authority reported a liability of \$1,175,111 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 31, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the Authority's proportion was 0.0196 percent. It

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

4. Pension Costs (Continued)

was 0.0188 percent measured as of June 30, 2019. The Authority recognized pension expense of \$54,683 for its proportionate share of the General Employees Plan's pension expense.

The Authority also recognized \$3,153 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's expense related to its contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031.

The Authority's proportionate share of the net pension liability	\$	1,175,111
State of Minnesota's proportionate share of the net pension liability associated with the Authority		36,228
Total	\$	1,211,339

The Authority reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 10,274	\$ 4,447
Changes in actuarial assumptions	-	42,496
Difference between projected and actual investment earnings	20,275	-
Changes in proportion	35,947	25,536
Contributions paid to PERA subsequent to the measurement date	55,443	-
Total	\$ 121,939	\$ 72,479

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$55,443 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2021	\$ (80,049)
2022	12,347
2023	33,328
2024	28,391

5. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.25 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	7.50 percent

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

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. Inflation and investment assumptions were reviewed in the experience study report for the General Employees Plan.

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DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equities	35.50%	5.10%
Broad international stock pool	17.50	5.30
Bond pool	20.00	0.75
Alternatives	25.00	5.90
Cash equivalents	2.00	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2020, which remained consistent with 2019. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan (Continued)

7. Changes in Actuarial Assumptions and Plan Provisions

The following change in actuarial assumptions occurred in 2020:

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Annuitant Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

K. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions and Plan Provisions (Continued)

- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

8. Pension Liability Sensitivity

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

	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	6.50%	\$ 1,883,293
Current	7.50	1,175,111
1% Increase	8.50	590,915

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

REQUIRED SUPPLEMENTARY INFORMATION

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 99,481	\$ 96,118	\$ 109,931
Interest	100,806	97,223	99,052
Differences between expected and actual experience	-	34,230	-
Changes of assumption or other inputs	-	(233,596)	-
Benefit payments	<u>(86,691)</u>	<u>(65,207)</u>	<u>(63,207)</u>
Net change in total OPEB liability	\$ 113,596	\$ (71,232)	\$ 145,776
Total OPEB Liability – Beginning	<u>2,794,377</u>	<u>2,865,609</u>	<u>2,719,833</u>
Total OPEB Liability – Ending	<u>\$ 2,907,973</u>	<u>\$ 2,794,377</u>	<u>\$ 2,865,609</u>
Covered-employee payroll	\$ 1,272,474	\$ 1,229,443	\$ 1,159,978
Net OPEB liability (asset) as a percentage of covered-employee payroll	228.53%	227.29%	247.04%

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Duluth Airport Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.0196 %	\$ 1,175,111	\$ 36,228	\$ 1,211,339	\$ 1,396,787	84.13 %	79.06 %
2019	0.0188	1,039,410	32,165	1,071,575	1,327,160	78.32	80.23
2018	0.0187	1,037,399	34,005	1,071,404	1,268,706	81.77	79.53
2017	0.0203	1,295,939	16,256	1,312,195	1,304,653	99.33	75.90
2016	0.0193	1,567,066	20,517	1,587,583	1,197,973	130.81	68.91
2015	0.0192	995,044	N/A	995,044	1,125,678	88.40	78.19

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2020	\$ 107,906	\$ 107,906	\$ -	\$ 1,438,747	7.50 %
2019	103,457	103,457	-	1,379,427	7.50
2018	95,897	95,897	-	1,278,624	7.50
2017	93,927	93,927	-	1,252,360	7.50
2016	92,898	92,898	-	1,238,640	7.50
2015	90,803	90,803	-	1,210,707	7.50

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020

1. Other Postemployment Benefits Funded Status

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

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

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

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

2019

- Premium equivalent rates were updated to reflect current rates.

2018

- The per-capita costs were updated to reflect experience since the previous valuation.
- The health care trend was shifted to maintain the same immediate rate.
- The mortality was updated to reflect more current rates based on the 2014 SOA study.
- The actuarial cost method was changed to Entry Age Normal as a level percentage of payroll, per GASB 75 standards.
- The discount rate decreased from 5.70 percent to 3.70 percent to reflect the current municipal bond market, per GASB 75 standards.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

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

General Employees Retirement Plan

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two through five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the PUB-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

General Employees Retirement Plan

2020 (Continued)

- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

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

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

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

General Employees Retirement Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**STATEMENT OF OPERATING REVENUES
YEAR ENDED DECEMBER 31, 2020**

Operating Revenues

Charges for services

Non-aeronautical

Space rental	\$ 228,780
Parking	632,872
Car rental commissions	505,120
Customer facility charge	151,008
Advertising	80,800
Utility sales	34,292
Concessions	81,583
State aid for marketing	55,690
Permits	8,358
Other income	147,337

Total non-aeronautical

\$ 1,925,840

Non-passenger aeronautical

Hangar space rental	\$ 540,729
Fuel flowage fees	57,922
Transportation Security Administration charges	86,014
Rental income	606,743
Fuel sales	66,047
Landing fees	48,929
Ramp fees	18,596
Other income	29,061

Total non-passenger aeronautical

\$ 1,454,041

Passenger airline aeronautical

Landing fees	\$ 217,925
Space rental	1,103,885

Total passenger airline aeronautical

\$ 1,321,810

Total Operating Revenues

\$ 4,701,691

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

<u>Federal Grantor Pass-Through Agency Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grant Numbers</u>	<u>AIP Grant Numbers</u>	<u>Expenditures</u>
U.S. Department of Defense				
Direct				
Military Construction, National Guard	12.400			<u>\$ 1,803,668</u>
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation – Aeronautics				
Airport Improvement Program	20.106	1026302	AIP 11	\$ 11,786
Airport Improvement Program	20.106	1029437	AIP 12	44,525
Airport Improvement Program	20.106	1031787	AIP 13	49,446
Airport Improvement Program	20.106	1036285	AIP 14	2,320,308
Airport Improvement Program	20.106	104453	AIP 15	38,571
Airport Improvement Program	20.106	1032177	AIP 62	261,862
Airport Improvement Program	20.106	1035025	AIP 63	358,876
Airport Improvement Program	20.106	1034983	AIP 64	495,595
Airport Improvement Program	20.106	1044884	AIP 65	2,499,148
COVID-19 Airport Improvement Program	20.106	1044210	AIP 66	3,929,661
Airport Improvement Program	20.106	Not available	Not available	<u>45,855</u>
Total Airport Improvement Program				<u>\$ 10,055,633</u>
Total Federal Awards				<u>\$ 11,859,301</u>

The Duluth Airport Authority did not pass any federal awards through to subrecipients for the year ended December 31, 2020.

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Airport Authority under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Duluth Airport Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Duluth Airport Authority.

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

2. De Minimis Cost Rate

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR AND EACH QUARTER WITHIN THE YEAR ENDED DECEMBER 31, 2020**

	<u>Application Ten*</u>	<u>Application Eleven*</u>	<u>Application Twelve*</u>
Passenger Facility Charge Collections**			
Prior to January 1, 2020	<u>\$ 4,017,813</u>	<u>\$ 849,902</u>	<u>\$ 649,225</u>
Collections in 2020			
First quarter	\$ 127,737	\$ -	\$ 100,409
Second quarter	32,880	-	-
Third quarter	49,214	-	-
Fourth quarter	<u>41,510</u>	<u>-</u>	<u>-</u>
Total collections in 2020	<u>\$ 251,341</u>	<u>\$ -</u>	<u>\$ 100,409</u>
Total Collected Through December 31, 2020	<u>\$ 4,269,154</u>	<u>\$ 849,902</u>	<u>\$ 749,634</u>
Approved expenses through December 31, 2020	<u>(4,313,977)</u>	<u>(849,902)</u>	<u>(749,634)</u>
Unexpended Balance – December 31, 2020	<u><u>\$ (44,823)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

*Federal Aviation Administration's Acknowledgment of Intent of passenger facility charge effective date for Application Ten is January 20, 2011; Application Eleven is January 16, 2013; and Application Twelve is May 25, 2016.

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



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

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Airport Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Duluth Airport Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 4, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

May 4, 2021

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND FOR THE PASSENGER FACILITY CHARGE PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Airport Authority
Duluth, Minnesota

**Report on Compliance for Each Major Federal Program and for the Passenger Facility
Charge Program**

We have audited the Duluth Airport Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2020. The Duluth Airport Authority is a component unit of the City of Duluth, Minnesota. 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.

We have also audited the Duluth Airport Authority's compliance regarding the receiving, holding, and using of passenger facility charge (PFC) revenue, as well as whether the quarterly reports filed by the Authority fairly represent the net transactions of the PFC account in accordance with the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) for the year ended December 31, 2020.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs and its PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Duluth Airport Authority's major federal programs and PFC program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the Guide. Those standards, the Uniform Guidance, and the Guide 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 on compliance for each of the major federal programs and the PFC program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program and the Passenger Facility Charge Program

In our opinion, the Duluth Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs or its PFC program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the Duluth Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or on its PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and the PFC program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

noncompliance with a type of compliance requirement of a federal program or the PFC program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or the PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the Guide. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

May 4, 2021

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

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

The major federal programs are:

Military Construction, National Guard	CFDA No. 12.400
Airport Improvement Program	CFDA No. 20.106

The threshold for distinguishing between Types A and B programs was \$750,000.

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

**DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. FINDINGS – PASSENGER FACILITY CHARGE (PFC) REGULATIONS

None.