STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2015

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 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, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

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Introductory Section

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

ORGANIZATION
DECEMBER 31, 2015

	Term Ending
Directors	
Kenneth Butler	July 1, 2018
Patrick Mullen	July 1, 2018
Heather Rand	July 1, 2016
Anna Tanski	July 1, 2018
Sue Ross	July 1, 2017
Richard Stewart	July 1, 2017
Kenneth Stromquist	July 1, 2016

Executive Director
Thomas Werner

Officers
President
Kenneth Stromquist
Vice President
Patrick Mullen
Secretary
Heather Rand

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

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, 2015, 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, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

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 GASB, 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 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 16, 2016, on our consideration of the Duluth Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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) 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) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 16, 2016

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. Please read it in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Operating expenses (before depreciation and amortization) decreased $126 thousand, or 3.0 percent, compared to fiscal year 2014, due to a significant decrease in utility costs as well as other adjustments.

- Operating revenues decreased $222 thousand, or 4.4 percent, primarily due to parking sales and landing fee decreases.

- Nonoperating federal and state grant revenues decreased $4.4 million, or 71.1 percent, from 2014; the decreases are due to nearing the completion of the new terminal project closeouts. Total net position decreased $6.3 million, or 5.8 percent, compared to fiscal year 2014.

- Total number of passengers including charters decreased by 43 thousand, or 13.7 percent, for a total of 270.7 thousand in 2015. The decrease was due to the suspension of all Allegiant flights.

- Total traffic count as recorded by the FAA tower increased by 118, or 0.2 percent, to 59,579.

- Landing fee revenues for 2015 decreased by $19.6 thousand, or 6.6 percent.

- Passenger facility charge revenue decreased by $106.2 thousand in 2015, or 17.5 percent, compared to 2014, which is attributed to the passenger count decrease from 2014.

- Customer Facility Charges collected in 2015 increased by $3.2 thousand, or 1.2 percent, from 2014.

- Total parking lot sales decreased by $136.8 thousand, or 10.8 percent, for 2015.

- Total car rental concession sales increased by $4.9 thousand, or 1.1 percent, for 2015.

- The 2014/2015 State Maintenance and Operations Agreements provided for a total of $244 thousand of state aid with $224.1 thousand for Duluth International Airport and $20.3 thousand for Sky Harbor Airport.

- The Transportation Security Administration's agreement with the Authority reimbursed the Authority around 13 hours per day for contracted law enforcement personnel, or approximately $7.6 thousand per month.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the Duluth Airport Authority's financial statements. The MD&A represents management's examination and analysis of the 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 historical cost basis. 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 receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The financial statements were prepared by the 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 (amended October 16, 1986, and September 16, 1997). These Bylaws established regular monthly meetings, a term for officers, and the appointment of an Executive Director.

The Duluth Airport Authority's vision is to be the region's center of aviation, supporting economic development by growing travel, cargo, and business services for our customers and communities. Their mission is, "We are committed to providing our customers with superior services in a safe, secure, professional environment."

The Duluth International Airport consists of two runways, which provide take-off and landing facilities for all types of commercial and general aviation aircraft, as well as military aircraft. The main runway 9-27 is 10,152 feet long by 150 feet wide and can handle the world's largest aircraft. The cross runway 3-21 is 5,699 feet long by 150 feet wide. The Duluth International Airport is located on 3,294 acres of land and encompasses approximately one-half of the old Duluth Air Force Base. The Authority also operates Sky Harbor Airport, which is both a sea plane base and a general aviation airport. The landside runway is 3,050 long by 75 feet wide. In the bay, there is also a 10,000-foot by 2,000-foot water runway.

Operating revenue for the Authority comes from a variety of sources including: car rental concessions, parking, space and land rentals, Fixed Base Operator (FBO) concessions, Transportation Security Agency 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 2015	FY 2014
Current and other assets	$ 7,924	$ 10,102
Capital assets	111,306	115,673
Construction in progress	1,142	316
Total Assets	$ 120,372	$ 126,091
Deferred Outflows of Resources	$ 142	$ -
Current liabilities	$ 3,814	$ 5,328
Noncurrent liabilities	13,794	10,702
Total Liabilities	$ 17,608	$ 16,030
Deferred Inflows of Resources	$ 71	$ -
Net Position		
Net investment in capital assets	$ 100,732	$ 105,002
Unrestricted	2,103	5,059
Total Net Position, as reported	$ 102,835	$ 110,061
Change in accounting principle*		890
Total Net Position, as restated		$ 109,171

*This is the first year the Authority implemented the new pension accounting and financial reporting standards in Governmental Accounting Standards Board Statements 68, 71, and 82. The Authority had to make a prior year change in accounting principles to record the Authority's net pension liability and related deferred outflows of resources.

As the table illustrates, net position decreased by $6.3 million to $102.8 million in 2015. The decrease in net position was primarily due to significant changes to capital assets, other current assets, and construction in progress, with an overall decrease of $5.7 million, as well as an increase of $1.5 million in liabilities. Other changes include the addition of deferred outflows of resources, deferred inflows of resources, and net pension liability.

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

	FY 2015 Budget	FY 2015 Actual	FY 2014 Actual
Total operating revenues	$ 4,835	$ 4,820	$ 5,043
Total operating expenses	(12,162)	(13,348)	(12,703)
Income (Loss)	$ (7,327)	$ (8,528)	$ (7,660)
Nonoperating revenues	596	545	673
Other revenues	1,660	1,979	6,308
Nonoperating expenses	(110)	(332)	(522)
Change in Net Position	$ (5,181)	$ (6,336)	$ (1,201)

REVENUES

Operating revenues decreased by $222.4 thousand, or 4.4 percent, in 2015 relative to 2014. The operating revenue decrease is due primarily to final suspension of Allegiant service. The suspension in service affects concession payments, including parking and restaurant concessions as well as landing fees and other airline-related revenues. A positive note is the relationship with Minnesota State Colleges and Universities and Lake Superior College (LSC) for the complete rental of Hangar 103 for their Center for Advanced Aviation. The revenues of this rental help offset revenue loss due to airline-related changes and volatility.

EXPENSES

Duluth Airport Authority's operating expenses increased by $645.4 thousand to $13.3 million in 2015, up from $12.7 million in 2014. This increase is due solely to the increased depreciation expenses as significant depreciable improvements have been made to airport infrastructure in recent years. The change in depreciation itself accounts for an increase of $755 thousand. Operating expenses before depreciation and amortization are down from 2014. Personal services expenses increased by $137.6 thousand, or 7.6 percent, while utilities expenses went down $164 thousand, and other services and charges decreased $557.5 thousand, or 35.2 percent, compared to 2014.

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 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 airline industry remains competitive and fluid while adverse to risk. Though fuel prices have become much more attractive, airlines have seized the opportunity to strengthen their balance sheets, not passing the savings on to the passenger. In addition, an industry pilot shortage due to new regulations is making 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. Positive for Duluth, daily flights from United Airlines between Duluth and its Chicago O'Hare hub have been successfully in place for more than five years. Finally, Monaco Air 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 more activity for international, corporate, charter, and general aviation users of the Duluth Airport as well as increased revenues for the Authority.

The Authority continued to make improvements to facilities and infrastructure and respond to new security directives. In 2014, the following projects or additions to projects reached completion and were transferred to fixed asset records: (1) Hangar 103 renovations - $7.7 million; (2) airfield equipment - $880 thousand; (3) apron and crack sealing work - $607.7 thousand; (4) parking structure, skywalk, and signage - $293.4 thousand; (5) water main, fence, and gate projects - $234.5 thousand; (6) tower repairs - $190 thousand; and Building 311 roof repairs of $7.7 thousand as well as multiple planning projects.

Ground breaking began in 2009 for the new $78 million Passenger Terminal Building and supporting infrastructure. During 2010, Phase I, consisting of site work, new roadways, infrastructure, and new parking lots, was completed. Phase II, involving New Terminal Building foundation, structure, and enclosure, was completed in early 2013. Demolition of the former terminal began on February 1, 2013, with apron completion in fall 2013. Federal, state, and local airport dollars have funded the project. The parking structure ground breaking began in early 2014 and was completed in fall 2014. Renovations to Hangar 103 for LSC's Center for Advanced Aviation began in early 2015 and were completed for fall session classes to begin. The Duluth Airport Authority continues to search for opportunities to continue 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 2013 effective 2014 through December 31, 2016.

Capital Assets
(000s)

	FY 2015	FY 2014	Dollar Change Increase (Decrease)
Land	$ 3,361	$ 3,361	$ -
Land improvements	23,491	-	23,491
Runways	67,408	84,213	(16,805)
Buildings and structures	87,067	84,585	2,482
Equipment	12,407	17,130	(4,723)
Construction in progress	1,142	316	826
Total capital assets	$ 194,876	$ 189,605	$ 5,271
Less: accumulated depreciation	(82,428)	(73,616)	(8,812)
Net Capital Assets	$ 112,448	$ 115,989	$ (3,541)

At the end of 2015, the Authority has invested approximately $194.8 million in capital assets since its inception.

The Authority recently updated its Airport Capital Improvement Program through 2025, which includes for 2016:

- $7,226,800 for the design, plans, specifications, construction and administration of Runway 9/27 Phase 2 (West);
- $675,000 for security fence updates;
- $641,500 for Sky Harbor runway relocation permitting, mitigation, AGIS and Final Design, plans and specification;
- $100,000 for pavement maintenance; and
- $54,400 for a tandem axle truck with a lift gate.

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 beginning February 2006. The noncurrent portion of the loan payable is $108,889.

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

A summary of changes in the revenue note balances are:

Debt
(000s)

	FY 2015
Balance - January 1	$ 274
Additions	-
Principal payments	(52)
Balance - December 31	$ 222

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 are being 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 are being 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 2015 budget, the Authority took many factors into consideration: 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 has taken steps to raise 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 space as well as economic development opportunities that are a good fit for the aviation sector. Examples of this are the Authority's development efforts and partnership with the Duluth Economic Development Authority to facilitate usage of the former Northwest Airlines Maintenance Facility by AAR Corp. Another is the support of renovations to hangar 103 where LSC now houses its Center for Advanced Aviation to educate future employees of major economic players on the airfield, including Cirrus and AAR. The renovations were completed in 2015. 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.

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BASIC FINANCIAL STATEMENTS

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015

Assets		
Current assets		
Cash and cash equivalents	$	1,160,485
Accounts receivable		549,766
Grants receivable		196,335
Inventory		22,190
Prepaid items		20,078
Assets restricted for construction		
Cash and cash equivalents		304,320
Accounts receivable		44,835
Grants receivable		4,138,799
Total current assets	**$**	**6,436,808**
Noncurrent assets		
Capital assets		
Nondepreciable	$	4,503,363
Depreciable		190,372,958
Less: accumulated depreciation		(82,428,098)
Total capital assets - net of accumulated depreciation	**$**	**112,448,223**
Other assets		
Airport planning costs - net of accumulated amortization of $859,290	$	1,356,847
Lease buyout costs - net of accumulated amortization of $396,972		130,410
Total other assets	**$**	**1,487,257**
Total noncurrent assets	**$**	**113,935,480**
Total Assets	**$**	**120,372,288**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**141,846**

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

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2015

Liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	$	144,647
Accrued salaries payable		19,121
Accrued vacation payable		92,675
Construction contracts payable		572,917
Unearned revenue		19,781
Revenue notes payable		56,615
Loans payable - City of Duluth		825,000
Loans payable		26,667
Total current liabilities payable from unrestricted assets	**$**	**1,757,423**
Current liabilities payable from restricted assets		
Construction contracts payable		2,056,764
Total current liabilities	**$**	**3,814,187**
Noncurrent liabilities		
Unearned revenue	$	312,875
Revenue notes payable		164,969
Loans payable - City of Duluth		11,060,000
Loans payable		108,889
Net other postemployment benefits liability		1,152,095
Net pension liability		995,044
Total noncurrent liabilities	**$**	**13,793,872**
Total Liabilities	**$**	**17,608,059**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**71,306**
Net Position		
Net investment in capital assets	$	100,731,988
Unrestricted		2,102,781
Total Net Position	**$**	**102,834,769**

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

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues		
Charges for services	**$**	**4,819,963**
Operating Expenses		
Personal services	$	1,959,943
Supplies		523,611
Utilities		510,396
Other services and charges		1,026,401
Depreciation		9,088,580
Amortization		239,340
Total Operating Expenses	**$**	**13,348,271**
Operating Income (Loss)	**$**	**(8,528,308)**
Nonoperating Revenues (Expenses)		
Investment earnings	$	7,974
Passenger facility charge		500,595
Gain (loss) on disposal of capital assets		36,561
Net loan issuance expense		(4,967)
Interest expense		(327,162)
Total Nonoperating Revenues (Expenses)	**$**	**213,001**
Net Income (Loss) Before Capital Contributions	**$**	**(8,315,307)**
Capital Contributions		
Capital grants		
Federal	$	1,302,037
State		501,624
Other		25,772
Contributions		
Transportation Security Administration (TSA)		13,394
Other		136,659
Total Capital Contributions	**$**	**1,979,486**
Change in Net Position	**$**	**(6,335,821)**
Net Position - January 1, as restated (Note 1.G.)		**109,170,590**
Net Position - December 31	**$**	**102,834,769**

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

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash Flows from Operating Activities		
Cash received from customers	$	4,538,742
Cash paid to suppliers		(2,058,193)
Cash paid to employees		(1,890,628)
Other cash receipts		155,930
Net cash provided by (used in) operating activities	**$**	**745,851**
Cash Flows from Noncapital Financing Activities		
Principal paid on revenue note	**$**	**(51,919)**
Cash Flows from Capital and Related Financing Activities		
Proceeds from draw on line of credit	$	2,125,000
Repayment of line of credit		(3,775,000)
Principal paid on loans		(711,666)
Loan proceeds		2,855,000
Loan issuance and interest costs		(332,129)
Capital grants - federal		2,083,742
Capital grants - state		1,293,197
Capital contributions		258,778
Passenger facility charge		524,927
Proceeds from sale of capital assets		262,765
Acquisition or construction of capital assets		(5,857,130)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,272,516)**
Cash Flows from Investing Activities		
Interest on investments	**$**	**7,974**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(570,610)**
Cash and Cash Equivalents - January 1		**2,035,415**
Cash and Cash Equivalents - December 31	**$**	**1,464,805**

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

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(8,528,308)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation		9,088,580
Amortization		239,340
Changes in assets and liabilities		
(Increase) decrease in receivables		(193,212)
(Increase) decrease in inventory		66,588
(Increase) decrease in prepaid items		929
Increase (decrease) in payables		4,013
Increase (decrease) in deferred pension outflows		(101,949)
Increase (decrease) in deferred pension inflows		71,306
Increase (decrease) in net pension liability		64,939
Increase (decrease) in unearned revenue		33,625
Net Cash Provided by (Used in) Operating Activities	**$**	**745,851**
Noncash Investing, Capital, and Financing Activities		
Carrying value of capital assets disposed of	$	226,204
Capital assets acquired by construction contracts payable		103,705

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

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1. Summary of Significant Accounting Policies

The accounting policies of the Duluth Airport Authority conform with generally accepted accounting principles (GAAP). 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 Governmental Accounting Standards Board (GASB) for determining the financial reporting entity. Specific criteria include: the management of the Authority is vested in seven Directors appointed by the Mayor of Duluth and approved by the City Council, and the City Council approves the budget of the Authority.

B. Basis of Presentation

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

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

C. Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

1. Summary of Significant Accounting Policies (Continued)

D. Budget

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

E. Assets, Liabilities, Deferred Outflows of Resources, Deferred 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.

3. Inventory

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

4. Restricted Assets

Monies restricted for the payment of construction contracts and passenger facility charge revenues are accounted for as restricted assets. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

1. Summary of Significant Accounting Policies

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

5. Capital Assets

Purchased or constructed capital assets are stated at cost. Donated capital assets are stated at their estimated fair value at the time of the 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:

Classification	Years
Land improvements	15
Runways	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 10 to 20 years.

7. Deferred Outflows of Resources and Deferred 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. Currently, the Authority has one item, deferred pension outflows, that qualifies for reporting in this category. The pension obligation amounts are deferred, and the length of the expense recognition period is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows of Resources and Deferred 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 so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, deferred pension inflows, that qualifies for reporting in this category. The differences between projected and actual earnings on pension plan investments are recognized over a five-year period.

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.

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows of Resources, Deferred 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.

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. Change in Accounting Principles

During the year ended December 31, 2015, the Authority adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27,* requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

1. Summary of Significant Accounting Policies

G. Change in Accounting Principles (Continued)

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the Authority to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Authority's net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	$	110,060,798
Change in accounting principles		(890,208)
Net Position, January 1, 2015, as restated	$	109,170,590

H. Use of Estimates

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

2. Detailed Notes

A. Deposits and Investments

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

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

2. Detailed Notes

A. Deposits and Investments (Continued)

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:

City's pooled cash and investments	$	1,464,718
Petty cash funds		87
Total	$	1,464,805

Detail as shown on Statement of Net Position		
Current assets		
Cash and cash equivalents	$	1,160,485
Assets restricted for construction		
Cash and cash equivalents		304,320
Total Cash and Cash Equivalents	$	1,464,805

B. Capital Assets

A summary of changes in capital assets at December 31, 2015, follows:

	Balance January 1, 2015	Increase	Decrease	Transfers/ Reclassifications	Balance December 31, 2015
Capital assets not depreciated					
Land	$ 3,361,434	$ -	$ -	$ -	$ 3,361,434
Construction in progress	315,703	5,941,516	-	(5,115,290)	1,141,929
Total capital assets not depreciated	$ 3,677,137	$ 5,941,516	$ -	$ (5,115,290)	$ 4,503,363
Capital assets depreciated					
Land improvements	$ 23,824,076	$ 244	$ -	$ (332,977)	$ 23,491,343
Buildings and structures	84,076,005	7,775	234,533	3,217,158	87,066,405
Runways	66,233,261	-	-	1,175,053	67,408,314
Equipment	11,794,737	11,300	268,520	869,379	12,406,896
Total capital assets depreciated	$ 185,928,079	$ 19,319	$ 503,053	$ 4,928,613	$ 190,372,958

2. Detailed Notes

B. Capital Assets (Continued)

		Balance January 1, 2015		Increase		Decrease		Transfers/ Reclassifications		Balance December 31, 2015
Less: accumulated depreciation for										
Land improvements	$	9,663,305	$	1,557,688	$	-	$	(138,720)	$	11,082,273
Buildings and structures		11,132,975		2,940,471		35,180		-		14,038,266
Runways		46,337,871		3,286,701		-		138,720		49,763,292
Equipment		6,482,215		1,303,720		241,668		-		7,544,267
Total accumulated depreciation	$	73,616,366	$	9,088,580	$	276,848	$	-	$	82,428,098
Total capital assets depreciated, net	$	112,311,713	$	(9,069,261)	$	226,205	$	4,928,613	$	107,944,860
Capital Assets, Net	$	115,988,850	$	(3,127,745)	$	226,205	$	(186,677)	$	112,448,223

Transfers and reclassifications do not net out to zero because there was construction in progress of $186,677 transferred to “Other Assets - Airport Planning Costs” which is not included on this summary.

As of December 31, 2015, the Authority had the following commitments with respect to unfinished construction projects:

Projects		Remaining Construction Commitment
AIP 09	$	127,969
AIP 10		16,622
AIP 52		43,963
AIP 54		357,413
AIP 59		12,344,411
AIP 60		291,852
Parking and Skywalk		332,605
SP 6901-178		992
SP 6901-181		15,472
Hangar 103		56,204
Total	$	13,587,503

2. Detailed Notes (Continued)

C. Vacation and Sick Leave

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

D. Leases

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

2016	$ 135,614
2017	135,614
2018	134,614
2019	116,744
2020	115,241
After 2020	1,153,360
Total	$ 1,791,187

Contingent rental income from operating leases was $243,418.

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 year ended December 31, 2015, is:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	$ 4,834,569	$ 4,819,963	$ (14,606)
Operating Expenses			
Personal services	$ 1,776,551	$ 1,959,943	$ (183,392)
Supplies	232,973	523,611	(290,638)
Utilities	637,909	510,396	127,513
Other services and charges	1,419,837	1,026,401	393,436
Depreciation	7,892,277	9,088,580	(1,196,303)
Amortization	202,332	239,340	(37,008)
Total Operating Expenses	$ 12,161,879	$ 13,348,271	$ (1,186,392)
Operating Income (Loss)	$ (7,327,310)	$ (8,528,308)	$ (1,200,998)
Nonoperating Revenues (Expenses)			
Investment earnings	$ 34,300	$ 7,974	$ (26,326)
Passenger facility charge	562,000	500,595	(61,405)
Gain (loss) on disposal of capital assets	-	36,561	36,561
Net loan issuance expense	-	(4,967)	(4,967)
Interest expense	(110,000)	(327,162)	(217,162)
Total Nonoperating Revenues (Expenses)	$ 486,300	$ 213,001	$ (273,299)
Net Income (Loss) Before Capital Contributions	$ (6,841,010)	$ (8,315,307)	$ (1,474,297)
Capital Contributions			
Capital grants - federal	$ 1,453,000	$ 1,302,037	$ (150,963)
Capital grants - state	207,034	501,624	294,590
Capital grants - other	-	25,772	25,772
Contributions - TSA	-	13,394	13,394
Contributions - other	-	136,659	136,659
Total Capital Contributions	$ 1,660,034	$ 1,979,486	$ 319,452
Change in Net Position	$ (5,180,976)	$ (6,335,821)	$ (1,154,845)

2. Detailed Notes (Continued)

F. Long-Term Debt

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

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

2. Detailed Notes

F. Long-Term Debt (Continued)

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.

The annual requirements to service the debt follow:

Year Ended December 31	Revenue Note Principal	Revenue Note Interest	MIF Loan Principal
2016	$ 56,615	$ 18,385	$ 26,667
2017	61,737	13,263	26,667
2018	67,321	7,679	26,667
2019	35,911	1,589	26,667
2020	-	-	26,667
2021	-	-	2,221
Total	$ 221,584	$ 40,916	$ 135,556

Year Ended December 31	City of Duluth Loan 2012B Principal	City of Duluth Loan 2012B Interest	City of Duluth Loan 2013B Principal	City of Duluth Loan 2013B Interest
2016	$ 470,000	$ 150,981	$ 225,000	$ 115,571
2017	485,000	141,581	225,000	111,071
2018	490,000	131,881	230,000	105,446
2019	500,000	122,081	240,000	98,776
2020	515,000	110,831	245,000	91,336
2021 to 2025	2,780,000	348,751	1,380,000	311,674
2026 to 2027	610,000	19,825	635,000	41,613
Total	$ 5,850,000	$ 1,025,931	$ 3,180,000	$ 875,487

2. Detailed Notes

F. Long-Term Debt (Continued)

Year Ended December 31	City of Duluth Loan 2015C Principal	City of Duluth Loan 2015C Interest
2016	$ 130,000	$ 112,785
2017	160,000	87,138
2018	165,000	82,337
2019	170,000	77,388
2020	175,000	72,287
2021 to 2025	950,000	279,688
2026 to 2030	1,105,000	120,660
Total	$ 2,855,000	$ 832,283

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

Balance - January 1, 2015	$ 10,150,725
Additions	2,855,000
Payments	(763,585)
Balance - December 31, 2015	$ 12,242,140
Due Within One Year	$ 908,282

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.

At December 31, 2014, there was $1,650,000 outstanding. During 2015, draws on the line of credit were taken by the Authority totaling $2,125,000, and repayments of $3,775,000 were made on the draws, leaving a zero balance as of December 31, 2015.

3. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. The Authority participates in the City of Duluth 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.

4. Major Customers

Major customers are defined under accounting standards as a single customer from which the enterprise derives 10 percent or more of its revenue. Major customers of services provided by the Duluth Airport Authority in 2015 were:

	Operating Revenues	Percentage of Total Operating Revenues
Delta Airlines	$ 552,310	11.5%

5. Defined Benefit Pension Plan

A. Plan Description

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

5. Defined Benefit Pension Plan

A. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Authority employees belong to the Basic Plan.

B. 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. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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 five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service.

5. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

For General Employees Retirement Fund 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.

C. 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. Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2015.

In 2015, the Authority was required to contribute the following percentage of annual covered salary:

General Employees Retirement Fund	
Coordinated Plan members	7.50%

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Authority's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were $90,803. The contributions are equal to the contractually required contributions as set by state statute.

5. Defined Benefit Pension Plan (Continued)

D. Pension Costs

At December 31, 2015, the Authority reported a liability of $995,044 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Authority's proportion was 0.0192 percent. It was 0.0198 percent measured as of June 30, 2014. The Authority recognized pension expense of $122,275 for its proportionate share of the General Employees Retirement Fund's pension expense.

The Authority reported its proportionate share of the General Employees Retirement Fund'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	$ -	$ 50,167
Difference between projected and actual investment earnings	94,196	-
Changes in proportion	-	21,139
Contributions paid to PERA subsequent to the measurement date	47,650	-
Total	$ 141,846	$ 71,306

5. Defined Benefit Pension Plan

D. Pension Costs (Continued)

A total of $47,650 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ (220)
2017	(220)
2018	(220)
2019	23,550

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

5. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position 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.

5. Defined Benefit Pension Plan (Continued)

G. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	$ 1,564,562	$ 995,044	$ 524,709

H. 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.

6. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy

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

6. Other Postemployment Benefits (OPEB) (Continued)

B. Annual OPEB Cost and Net OPEB Obligation

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 2015 totaled $52,594.

The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost for 2015, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

ARC	$	182,278
Interest on net OPEB obligation		59,065
Adjustment to ARC		(72,880)
Annual OPEB cost	$	168,463
Contributions during the year		(52,594)
Increase in net OPEB obligation	$	115,869
Net OPEB - Beginning of Year		1,036,226
Net OPEB - End of Year	$	1,152,095

6. Other Postemployment Benefits (OPEB)

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

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

	Fiscal Year Ended December 31		
	2013	2014	2015
Percentage of Annual OPEB Cost Contributed	32.45%	30.44%	31.22%
Annual OPEB cost	$ 197,813	$ 196,030	$ 168,463
Employer contributions	64,181	59,672	52,594
Net Increase in Net OPEB Obligation	$ 133,632	$ 136,358	$ 115,869

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at January 1, 2015, as of the most recent actuarial valuation date, is $1,666,623. The Authority currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is $1,140,000. The ratio of the unfunded actuarially accrued liabilities to covered payroll is 146.20 percent.

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

6. Other Postemployment Benefits (OPEB) (Continued)

D. Actuarial Methods and Assumptions

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

In the January 1, 2015, actuarial valuation (latest available), the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.7 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Authority. The annual health care cost trend rate is 10.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after 10 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

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REQUIRED SUPPLEMENTARY INFORMATION

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-1

SCHEDULE OF FINDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2015	$ -	$ 1,666,623	$ 1,666,623	0.00%	$ 1,140,000	146,20%
January 1, 2013	-	1,891,190	1,891,190	0.00	1,010,000	187.25
June 1, 2011	-	1,911,042	1,911,042	0.00	858,000	222.73

Notes to Schedule of Funding Progress - Other Postemployment Benefits Plan

The Duluth Airport Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2007.

Actuarial valuations were performed in 2007, 2009, 2011, 2013, and 2015. No valuations were performed in 2008, 2010, 2012, or 2014; therefore, funding progress information for 2008, 2010, 2012, and 2014 are not included on this schedule. Standards require reporting the three most recent actuarial valuations.

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

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-2

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0192%	$ 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.

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-3

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

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)
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 Duluth Airport Authority's year-end is December 31.

SUPPLEMENTARY INFORMATION

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B-1

STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues		
Charges for services		
Non-Aeronautical		
Space rental	$	1,260,251
Parking		1,134,480
Car rental commissions		453,481
Customer facility charge		266,231
State aid for maintenance and operation		244,473
Advertising		81,000
Utility sales		69,598
Concessions		61,889
State aid for marketing		38,155
Permits		3,085
Other income		91,864
Total non-aeronautical	**$**	**3,704,507**
Non-passenger Aeronautical		
Hangar space rental	$	324,673
Fuel flowage fees		104,932
Transportation Security Administration charges		91,965
Rental income		81,098
Fuel sales		79,449
Landing fees		44,722
Ramp fees		17,803
Other income		12,789
Total non-passenger aeronautical	**$**	**757,431**
Passenger Airline Aeronautical		
Landing fees		232,985
Space rental	$	116,346
Other income		8,694
Total passenger airline aeronautical	**$**	**358,025**
Total Operating Revenues	**$**	**4,819,963**

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

EXHIBIT C-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number		Expenditures
Federal Aviation Administration				
Passed Through Minnesota Department of Transportation - Aeronautics				
Airport Improvement Program (AIP 08)	20.106	02038	$	(1,686)
Airport Improvement Program (AIP 09)	20.106	06643		341,436
Airport Improvement Program (AIP 10)	20.106	1001666		102,252
Airport Improvement Program (AIP 11)	20.106	Not Provided		3,060
Airport Improvement Program (AIP 47)	20.106	95387		(5,718)
Airport Improvement Program (AIP 48)	20.106	97303		7,704
Airport Improvement Program (AIP 50)	20.106	98961		(115,046)
Airport Improvement Program (AIP 51)	20.106	99711		(314,103)
Airport Improvement Program (AIP 52)	20.106	99712		(109,066)
Airport Improvement Program (AIP 53)	20.106	99850		(157,679)
Airport Improvement Program (AIP 54)	20.106	01997		15,444
Airport Improvement Program (AIP 56)	20.106	06792		51,677
Airport Improvement Program (AIP 57)	20.106	06642		541,521
Airport Improvement Program (AIP 58)	20.106	1001102		200,924
Airport Improvement Program (AIP 59)	20.106	1001520		712,643
Airport Improvement Program (AIP 60)	20.106	Not Provided		28,674
Total Expenditures of Federal Awards			**$**	**1,302,037**

The Duluth Airport Authority did not pass any federal awards through to subrecipients for the year ended December 31, 2015.

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Duluth Airport Authority under programs of the federal government for the year ended December 31, 2015. 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.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or 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. No indirect costs were charged to this grant.

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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, 2015

	Application Seven*	Application Eight**	Application Nine**	Application Ten**	Application Eleven**
Passenger Facility Charge Collections***					
Prior to January 1, 2015	**$ 2,446,424**	**$ 514,305**	**$ 201,822**	**$ 2,383,570**	**$ 119,747**
Collections in 2015					
First quarter	$ -	$ -	$ -	$ 138,450	$ -
Second quarter	-	-	-	138,366	-
Third quarter	-	-	-	113,668	-
Fourth quarter	-	-	-	134,443	-
Total collections in 2015	**$ -**	**$ -**	**$ -**	**$ 524,927**	**$ -**
Total Collected Through December 31, 2015	**$ 2,446,424**	**$ 514,305**	**$ 201,822**	**$ 2,908,497**	**$ 119,747**
Approved expenses through December 31, 2015	**(2,113,428)**	**(514,305)**	**(201,822)**	**(2,658,656)**	**(702,584)**
Unexpended Balance - December 31, 2015	**$ 332,996**	**$ -**	**$ -**	**$ 249,841**	**$ (582,837)**

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

**Federal Aviation Administration's Acknowledgment of Intent of passenger facility charge effective date for Application Eight is September 30, 2008; Application Nine is October 1, 2010; Application Ten is January 20, 2011; and Application Eleven is January 16, 2013.

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

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Management and Compliance Section

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DULUTH AIRPORT AUTHORITY
DULUTH, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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 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 program is:

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**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2006-001

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Due to the limited number of office personnel within the Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Context: This is not unusual in operations the size of the Duluth Airport Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of the Duluth Airport Authority and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend the Authority's management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. FINDINGS - PASSENGER FACILITY CHARGE (PFC) REGULATIONS

None.

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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

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, 2015, 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 16, 2016.

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 to determine the 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2006-001, that we consider to be a significant deficiency.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for deposits and investments because that was tested in conjunction with our audit of the City of Duluth, Minnesota, who holds the Authority's cash and investments. We also did not test for compliance with the provisions of tax increment financing because the Authority did not administer any tax increment financing districts.

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 *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions.* 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.

Duluth Airport Authority's Response to Finding

The Duluth Airport Authority's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Other Political Subdivisions* 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 16, 2016

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REBECCA OTTO
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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

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 compliance of the Duluth Airport Authority, a component unit of the City of Duluth, Minnesota, 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 the Authority's major federal program for the year ended December 31, 2015. The Duluth Airport Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2015.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal programs and its PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Duluth Airport Authority's major federal program 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; 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 the major federal program and the PFC program. However, our audit does not provide a legal determination of the Authority's compliance with those requirements.

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 its major federal program or its PFC program for the year ended December 31, 2015.

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 its 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 the 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.

Purpose of This Report

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/Rebecca Otto *|* */s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 16, 2016