

BEMIDJI REGIONAL AIRPORT AUTHORITY
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016 AND 2015

BEMIDJI REGIONAL AIRPORT AUTHORITY
BEMIDJI, MINNESOTA
DECEMBER 31, 2016 AND 2015

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BEMIDJI REGIONAL AIRPORT AUTHORITY
OFFICIAL DIRECTORY
DECEMBER 31, 2016
(Unaudited)

Marshall Froyd	Authority Chairperson (Resigned January 2016)
John Knorr	Authority Chairperson (Elected February 2016)
Joe Vene	Authority Member
Roger Hellquist	Authority Member
Ron Johnson	Authority Member
Jim Lucachick	Authority Member
Karen Weller	Executive Director
Sarah Blomdahl	Administrative Assistant



MILLER MCDONALD, INC.
Certified Public Accountants
513 Beltrami Avenue
P.O. Box 486
Bemidji, MN 56619
(218) 751 - 6300
Fax (218) 751 - 0782
www.miller-mcdonald.com

INDEPENDENT AUDITOR'S REPORT

**To the Bemidji Regional Airport Authority
Bemidji, Minnesota**

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund activity of the Bemidji Regional Airport Authority, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Bemidji Regional Airport 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 entity'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 entity'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund activity of the Bemidji Regional Airport Authority, as of December 31, 2016 and 2015, and the respective changes in its financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of the Authority's Proportionate Share of the Net Pension Liability and the Schedule of Authority's Contributions on pages 5 through 8 and pages 24 through 26, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bemidji Regional Airport Authority's basic financial statements. The Schedule of Passenger Facility Charge Revenue is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The Schedule of Passenger Facility Charge Revenue is the responsibility of management and was derived from and relate 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 Schedule of Passenger Facility Charge Revenue is fairly stated in all material respects in relation to the basic financial statements as a whole.

The official directory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2018, on our consideration of Bemidji Regional 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 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 Bemidji Regional Airport Authority's internal control over financial reporting and compliance.

Miller McDonald, Inc.

January 11, 2018
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport Authority's financial activities during the year 2016 using the best current data and information, decisions and existing conditions. It should be read in conjunction with the financial statements provided as a part of this audit.

Financial Highlights

The Authority receives the majority of its funding from three sources: property taxes, state and federal grants, and rent. Other revenue sources include investment earnings and miscellaneous income. The property tax revenue for the year ended 2016 was \$523,500, state and federal grants amounted to \$1,369,943 and rents were \$369,176. Investment earnings and other income totaled \$103,094. Total expenses for FY 2016 of \$2,557,364 exceeded total revenues of \$2,365,713 resulting in a decrease in net position of \$191,651. The prior year decrease in net position was \$622,371.

	2016		2015		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Operating Revenues:						
Rents	\$ 369,176	15.61%	\$ 358,513	17.85%	\$ 10,663	2.97%
Property Taxes	523,500	22.13%	500,049	24.90%	23,451	4.69%
Other	101,872	4.31%	35,099	1.75%	66,773	190.24%
Total Operating Revenues	994,548	42.04%	893,661	44.50%	100,887	11.29%
Non-Operating Revenues:						
State and Federal Grants	1,369,943	57.91%	1,113,763	55.46%	256,180	23.00%
Interest Income	1,222	0.05%	864	0.04%	358	41.44%
Total Non-Operating Revenues	1,371,165	57.96%	1,114,627	55.50%	256,538	23.02%
Total Revenues	2,365,713	100.00%	2,008,288	100.00%	357,425	17.80%
Operating Expenses:						
Salaries and Wages	241,908	9.46%	233,537	8.88%	8,371	3.58%
Payroll Taxes and Employee Benefits	90,994	3.56%	78,166	2.97%	12,828	16.41%
Utilities	129,183	5.05%	125,210	4.76%	3,973	3.17%
Maintenance and Repairs	67,543	2.64%	85,192	3.24%	(17,649)	-20.72%
Supplies	45,171	1.77%	41,451	1.58%	3,720	8.97%
Other Services and Charges	185,506	7.25%	233,539	8.88%	(48,033)	-20.57%
Depreciation and Amortization	1,762,229	68.91%	1,798,191	68.36%	(35,962)	-2.00%
Total Operating Expenses	2,522,534	98.64%	2,595,286	98.66%	(72,752)	-2.80%
Non-Operating Expense:						
Interest Expense	34,830	1.36%	34,967	1.33%	(137)	-0.39%
Loss on Disposal	-	0.00%	406	0.02%	(406)	-100.00%
Total Non-Operating Expense	34,830	1.36%	35,373	1.34%	(543)	-1.54%
Total Expenses	2,557,364	100.00%	2,630,659	100.00%	(73,295)	-2.79%
Changes in Net Position	\$ (191,651)		\$ (622,371)		\$ 430,720	

BEMIDJI REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016

The Authority's total net position was \$25,067,096 at December 31, 2016 (see the following table). At December 31, 2015 the net position was \$25,258,747 with a decrease of \$191,651 from operating activities for the year ended December 31, 2016.

	2016	2015	Net Change	
			Amount	Percent
Current and Other Assets	\$ 1,488,309	\$ 1,171,641	\$ 316,668	27.03%
Capital assets, net of depreciation	25,446,601	25,741,539	(294,938)	-1.15%
Total assets	26,934,910	26,913,180	21,730	0.08%
Deferred Outflows of Resources	96,979	19,381	77,598	400.38%
Current liabilities	566,131	292,316	273,815	93.67%
Long-term liabilities:				
Due within one year	67,196	66,568	628	0.94%
Due after one year	1,293,987	1,262,336	31,651	2.51%
Total Liabilities	1,927,314	1,621,220	306,094	18.88%
Deferred Inflows of Resources	37,479	52,594	(15,115)	-28.74%
Net Position:				
Net Investment in Capital Assets	24,381,601	24,621,539	(239,938)	-0.97%
Restricted	41,639	41,639	-	0.00%
Undesignated	643,856	595,569	48,287	8.11%
Total Net Position	\$ 25,067,096	\$ 25,258,747	\$ (191,651)	-0.76%

The Bemidji Regional Airport Authority continues to be adequately funded for daily operations and maintenance through revenue generated by user fees, lease payments, passenger facility charges, and the operating levy. The 2018 levy for daily operations will be increased by approximately 4.2% due in part to plans to hire another full-time employee as well as an increase maintenance, supplies and utilities associated with the snow removal equipment (SRE) building which was completed in 2017. The 2018 levy for the Authority's capital improvement program will remain the same as 2017. The capital improvement levy funds are extremely important, as they provide the local match to the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) annual Entitlement Grant of \$1,000,000, as well as most grants offered by Mn/DOT Aeronautics. The FAA has determined our area to be an economically distressed community, thereby allowing its share of AIP funding to be increased to 95% of eligible expenses. As part of the Mn/DOT Aeronautics spending plan for the \$15 million that was returned to the State Airports Fund from the State Legislature, it currently matches AIP grants at half of the local share. In Bemidji Regional Airport's case the match is 2.5%, leaving just a 2.5% local

BEMIDJI REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016

share match for the Authority. This allows the local share to go further and accomplish more capital improvement projects. With these funds returned, Mn/DOT Aeronautics continues to offer additional state funds to airports through an increase in the Maintenance and Operations Grant, as well as increasing funding rates on grants for land purchases, building construction, equipment purchases, and revenue-generating projects. In 2017 the Authority completed the SRE building and began work on several airfield improvement projects: T-Hangars; Taxiways J and K; panel replacement on the general aviation ramp and a large new airside ramp. Completing the T-Hangars, Taxiways J and K, panel replacement on the general aviation ramp and the new airside ramp as well as acquiring a new Aircraft Rescue and Firefighting truck and sealcoating existing airfield pavements are planned for 2018.

The Authority received federal grant revenue under the Airport Improvement Program to complete the multiple projects listed above. Federal grant proceeds recognized in 2016 were \$749,643.

Charges for services include revenue from the Passenger Facility Charges (PFC's) as well as revenue from leases, landing fees and hangar rent.

Bemidji Regional Airport Authority Debt

Long-term Debt: At the end of the fiscal year ending December 31, 2016, the Bemidji Regional Airport Authority had \$1,065,000 in bond debt outstanding and a note payable of \$23,916. The full faith and credit of the Authority back this entire bonded debt. Primary sources of repayment include property tax revenue which will be offset by the collection of Passenger Facility Charges which are intended to abate the local property tax repayment of this bond, along with other revenues generated by the Authority.

	<u>12/31/15</u> Balance	<u>Additions</u>	<u>Payments</u>	<u>12/31/16</u> Balance
Long-Term Debt:				
G.O. Revenue Bonds	\$ 1,120,000	\$ -	\$ 55,000	\$ 1,065,000
Unamortized Bond Discount	<u>(9,530)</u>	-	<u>(633)</u>	<u>(8,897)</u>
Total General Obligation Bonds	1,110,470	-	54,367	1,056,103
 Note Payable	 <u>36,468</u>	 -	 <u>12,552</u>	 <u>23,916</u>
 Total Long-Term Debt	 <u><u>1,146,938</u></u>	 <u><u>-</u></u>	 <u><u>66,919</u></u>	 <u><u>1,080,019</u></u>

Capital Investments

Major equipment or structure additions or improvements: During the year, the Authority purchased land and continued work on the snow removal building project. Total capital additions for 2016 and 2015 totaled \$1,466,658 and \$898,040 respectively.

BEMIDJI REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016

Bemidji Regional Airport Authority as a Whole

Financial Statement: The attached audit accurately reflects the financial position at the end of FY2016. When viewed in conjunction with the above provided comments; the audit provides a whole and complete picture of the financial health of the Authority and its expenses, revenues, liabilities, assets, and capital improvements.

Passenger Facility Charges (PFCs):

During 2016 the Authority collected and distributed passenger facility charge funds, as approved on application 15-04-C-00-BJI, and continued to pay for the local share on its snow blower; snow plow and sander; Airport Rescue and Firefighting facility expansion design and construction; rehabilitation and improvement of the terminal – phases 2 and 3, utilities, airside ramp and parking lot; passenger boarding bridge and wildlife hazard assessment (AIPs 21, 22, 23, 24, 25, 26, 27, 28 and 29) This PFC application is to collect \$605,197 at the \$4.50 level and is estimated to expire in October 2021. In addition, these PFCs are for repayment to the Authority for funds already expended, and are being used to abate the levy assessment assigned for meeting the debt payments on the Airport Bond.

Fiscal Year 2018's Budget requirements: For 2018, the Authority continues to be adequately funded for operations and maintenance through revenue generated by user fees, lease payments, passenger facility charges, the operating levy and a continued increase in the Maintenance and Operations Grant for State fiscal years 2018 (July 2017 to June 2018) and 2019 (July 2018 to June 2019). The financial impact of the Authority taking over FAA required Aircraft Rescue and Firefighting personnel coverage during air carrier operations from the City of Bemidji will be determined in 2018, and adjusted as needed with the 2019 budget. In addition, with the increased frequency of ice storms, the Authority will explore and plan for the use of deicing and anti-icing chemicals for runways and taxiways.

Financial Contact: The Authority's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Authority's finances and to demonstrate accountability. Questions should be directed to the Bemidji Regional Airport Authority Manager at 3824 Moberg Dr. NW, Suite 101, Bemidji, Minnesota 56601.

BEMIDJI REGIONAL AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 807,395	\$ 601,159
Accounts Receivable	22,074	5,910
Property Taxes Receivable	26,227	31,126
Due from Other Governmental Units	582,888	484,848
Prepaid Insurance	26,839	27,028
Total Current Assets	<u>1,465,423</u>	<u>1,150,071</u>
<u>Capital Assets</u>		
Land	1,521,769	975,667
Buildings	13,822,993	13,822,993
Runways and Improvements	23,213,384	23,213,384
Equipment	3,093,191	3,074,451
Construction In Progress	1,552,863	651,047
	<u>43,204,200</u>	<u>41,737,542</u>
Less: Accumulated Depreciation	(17,757,599)	(15,996,003)
Total Capital Assets, net	<u>25,446,601</u>	<u>25,741,539</u>
<u>Non-Current Assets</u>		
Capital Credits Receivable	<u>22,886</u>	<u>21,570</u>
<u>Total Assets</u>	<u>26,934,910</u>	<u>26,913,180</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	<u>96,979</u>	<u>19,381</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	541,500	263,218
Accrued Interest Payable	14,084	14,654
Current Portion of Bonds Payable	55,000	55,000
Current Portion of Note Payable	12,196	11,568
Accrued Liabilities	436	4,804
Unearned Rental Income	10,111	9,640
Total Current Liabilities	<u>633,327</u>	<u>358,884</u>
<u>Long-Term Liabilities</u>		
Bonds Payable, net	1,001,103	1,055,470
Note Payable, net	11,720	24,900
Accrued Compensated Absences	45,698	47,221
Net Pension Liability	235,466	134,745
Total Long-Term Liabilities	<u>1,293,987</u>	<u>1,262,336</u>
<u>Total Liabilities</u>	<u>1,927,314</u>	<u>1,621,220</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	<u>37,479</u>	<u>52,594</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	24,381,601	24,621,539
Restricted	41,639	41,639
Unrestricted	643,856	595,569
<u>Total Net Position</u>	<u>\$ 25,067,096</u>	<u>\$ 25,258,747</u>

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues</u>		
Rents	\$ 369,176	\$ 358,513
Property Taxes	523,500	500,049
Other	101,872	35,099
Total Revenues	<u>994,548</u>	<u>893,661</u>
<u>Operating Expenses</u>		
Salaries and Wages	241,908	233,537
Payroll Taxes and Employee Benefits	90,994	78,166
Utilities	129,183	125,210
Maintenance and Repairs	67,543	85,192
Supplies	45,171	41,451
Other Services and Charges	185,506	233,539
Depreciation and Amortization	1,762,229	1,798,191
Total Expenses	<u>2,522,534</u>	<u>2,595,286</u>
<u>Operating Loss</u>	<u>(1,527,986)</u>	<u>(1,701,625)</u>
<u>Non-Operating Revenues (Expense)</u>		
State and Federal Grants	1,369,943	1,113,763
Gain (Loss) on Disposal	-	(406)
Interest Income	1,222	864
Interest Expense	(34,830)	(34,967)
Total Non-Operating Revenues (Expense)	<u>1,336,335</u>	<u>1,079,254</u>
<u>Net Income (Loss)</u>	(191,651)	(622,371)
<u>Net Position, Beginning of Year</u>	<u>25,258,747</u>	<u>25,881,118</u>
<u>Net Position, End of Year</u>	<u>\$ 25,067,096</u>	<u>\$ 25,258,747</u>

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities</u>		
Cash Received From Users	\$ 981,967	\$ 885,734
Cash Paid to Suppliers and Employees	<u>(479,816)</u>	<u>(568,748)</u>
Net Cash Provided by (Used in) Operating Activities	<u>502,151</u>	<u>316,986</u>
<u>Cash Flows from Non-Capital Financing Activities</u>		
Proceeds of Federal and State Grants	<u>157,068</u>	<u>193,829</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of Property and Equipment	(1,466,658)	(898,040)
Proceeds from Note Payable	-	36,468
Principal Paid on Notes Payable	(12,552)	-
Principal Paid on Bonds	(55,000)	(55,000)
Proceeds of Federal and State Capital Grants	1,114,835	772,862
Interest Paid on Bonds and Notes	<u>(34,830)</u>	<u>(34,967)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(454,205)</u>	<u>(178,677)</u>
<u>Cash Flows from Investing Activities</u>		
Interest	<u>1,222</u>	<u>864</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>206,236</u>	<u>333,002</u>
<u>Cash and Cash Equivalents, Beginning of Year</u>	<u>601,159</u>	<u>268,157</u>
<u>Cash and Cash Equivalents, End of Year</u>	<u>\$ 807,395</u>	<u>\$ 601,159</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
<u>Operating Loss</u>	\$ (1,527,986)	\$ (1,701,625)
Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	1,762,229	1,798,191
Changes in Assets, Liabilities, and Deferrals		
(Increase) Decrease in Accounts Receivable	(17,480)	(1,698)
(Increase) Decrease in Property Tax Receivable	4,899	(6,229)
(Increase) Decrease in Prepaid Insurance	189	(1,107)
(Increase) Decrease in Deferred Outflows of Resources	(77,598)	(14,663)
Increase (Decrease) in Accounts Payable	278,282	233,944
Increase (Decrease) in Accrued Interest Payable	(570)	(970)
Increase (Decrease) in Accrued Liabilities	(4,368)	201
Increase (Decrease) in Accrued Compensated Absences	(1,523)	10,775
Increase (Decrease) in Deferred Rental Income	471	(3,970)
Increase (Decrease) in Net Pension Liability	100,721	(48,457)
Increase (Decrease) in Deferred Inflows of Resources	<u>(15,115)</u>	<u>52,594</u>
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>\$ 502,151</u>	<u>\$ 316,986</u>

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. **Summary of Significant Accounting Policies**

Organization - Beltrami County and the City of Bemidji, Minnesota entered into an agreement, effective January 1, 1981, providing for the joint operation of the Bemidji Regional Airport. The agreement provides that the City and County shall contribute equally toward the operation of the Airport.

An Airport Commission was created to operate, maintain, enlarge and improve the existing airport. The Commission was empowered to exercise on behalf of the County and City all the powers of each of the municipalities as granted by Minnesota State Statutes. In 2009, an Airport Authority was created. The transition to an Airport Authority allows the Bemidji Regional Airport additional powers under Minnesota Statutes, including the ability to levy taxes.

The Airport Authority consists of five members. The City Council and County Board each appoint two elected members to the Authority. A Community member who is mutually appointed by the City Council and County Board serves as Chairperson of the Authority.

The agreement is to be in effect for a term of five years and thereafter for like periods of five years until terminated by a one-year written notice from either the County or City and mutual agreement of all members of the Authority.

Basis of Presentation - The accounts of the Authority are presented as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and net income is desired for purposes of facilitating management control and accountability.

Enterprise funds distinguish operating items from non-operating 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 for rent and property taxes collected. All revenues not meeting this definition are reported as non-operating items.

Basis of Accounting - The Authority follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Capital Assets – All capital assets acquired after December 31, 1980, are capitalized and recorded at cost. Capital assets contributed or assigned by the City to the joint airport were not capitalized or recorded since historical cost data was not available. Depreciation is calculated on property and equipment that has been capitalized. The straight-line method is used over the estimated useful lives of the assets. Expenditures for repairs and maintenance are charged to operating expense as incurred.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10-40
Runways and Improvements	3-20
Equipment	3-15

Capital assets not being depreciated include land and construction in progress, if any.

Cash and Cash Equivalents – For purposes of the statement of cash flows, all highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management’s assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that bad debt losses on balances outstanding at year-end will be immaterial.

Due from Other Governments – This represents amounts due from other governmental units. This consists of amounts primarily due from the Minnesota Department of Transportation and from the Federal Government through the Minnesota Department of Transportation. State and federal aids and grants under various specific programs are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually received. The difference between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state aids are recorded as revenue at the time of receipt or when they are both measurable and available.

Prepays – Prepays record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has only one item that qualifies for reporting in this category. It is the deferred resources related to pensions.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority has one type of item that qualifies for reporting in this category. It is the deferred resources related to pensions.

Pensions – 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.

For PERA’s 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. Investments are reported at fair value.

Use of Estimates in the Preparation of Financial Statements – 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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. **Deposits**

Authority - In accordance with *Minnesota Statutes*, the Bemidji Regional Airport Authority maintains deposits at those depository banks authorized by the Authority Board. All such depositories are members of the Federal Reserve System. *Minnesota Statutes* require that all Authority deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. *Minnesota Statutes* require that securities pledged as collateral be held in safekeeping by the Authority Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk – The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority’s deposits may not be covered. The Authority’s policy for custodial credit risk is to maintain compliance with *Minnesota Statutes* that require all the Authority’s deposits to be protected by insurance, surety bond, or pledged collateral. The Authority’s custodial credit risk at December 31, 2016 was zero.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. **Revenues**

Grants and Rents - The Authority has an agreement with the State of Minnesota that provides State operating funds annually, as well as Federal and State grants that are applied for as needed. The Authority has entered into other agreements with air carriers serving Bemidji which provide landing fee and rental revenues based on levels of usage.

Property Tax Revenue - The Authority annually adopts a tax levy and certifies it to the County by July 1st for collection in the following year. Such taxes become a lien on January 1 and are recorded as a receivable by the Authority at that date. The County is responsible for billing and collecting all property taxes for itself, the Authority, and other taxing authorities. These taxes are payable by May 15 and October 15 of each calendar year by the property owners. These taxes are collected by the County and remitted to the Authority by approximately July 15 and December 15. Additionally, delinquent collections (November through December) are remitted to the Authority each January. The Authority has no ability to enforce payment of property taxes by property owners. The County possesses this authority. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land (as defined in State Statutes) in which event the property is subject to such sale after five years.

4. **Capital Assets**

Capital asset activity for the year ended December 31, 2016 is as follows:

	<u>1/1/2016 Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2016 Balance</u>
Non-Depreciable Capital Assets				
Land	\$ 975,667	\$ 546,102	\$ -	\$ 1,521,769
Construction in Progress	651,048	951,976	50,161	1,552,863
Total Non-Depreciable Capital Assets	<u>1,626,715</u>	<u>1,498,078</u>	<u>50,161</u>	<u>3,074,632</u>
Depreciable Capital Assets				
Buildings	13,822,993	-	-	13,822,993
Runways and Improvements	23,213,384	-	-	23,213,384
Equipment	3,074,450	18,741	-	3,093,191
Total Depreciable Capital Assets	40,110,827	18,741	-	40,129,568
Less Accumulated Depreciation	<u>(15,996,003)</u>	<u>(1,761,596)</u>	-	<u>(17,757,599)</u>
Depreciable Capital Assets, Net	<u>24,114,824</u>	<u>(1,742,855)</u>	-	<u>22,371,969</u>
Total Capital Assets, Net	<u>\$ 25,741,539</u>	<u>\$ (244,777)</u>	<u>\$ 50,161</u>	<u>\$ 25,446,601</u>

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

5. Defined Benefit Pension Plan – Statewide

Plan Description

The Bemidji Regional Airport Authority participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (Accounted for in the General Employees Fund)

All full-time and certain part-time employees of the Bemidji Regional Airport Authority are covered by the General Employees Plan. General Employees Plan 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.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

General Employees Plan 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 PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The Bemidji Regional Airport Authority was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Bemidji Regional Airport Authority contributions to the General Employees Fund for the year ended December 31, 2016, were \$13,614. The Bemidji Regional Airport Authority contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the Bemidji Regional Airport Authority reported a liability of \$235,466 for its proportionate share of the General Employees Fund's net pension liability. The Bemidji Regional Airport Authority net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Bemidji Regional Airport Authority totaled \$3,036. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Bemidji Regional Airport Authority's proportion of the net pension liability was based on the Bemidji Regional Airport Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Bemidji Regional Airport Authority's proportion was .0029% which was an increase of .0003% from its proportion measured as of June 30, 2015.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

For the year ended December 31, 2016, the Bemidji Regional Airport Authority recognized pension expense of \$21,622 for its proportionate share of the General Employees Plan's pension expense.

At December 31, 2016, the Bemidji Regional Airport Authority reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 18,606
Changes in actuarial assumptions	46,104	-
Difference between projected and actual investment earnings	43,589	-
Changes in proportion	-	18,873
Contributions paid to PERA subsequent to the measurement date	7,286	-
Total	<u><u>\$ 96,979</u></u>	<u><u>\$ 37,479</u></u>

\$7,286 reported as deferred outflows of resources related to pensions resulting from Bemidji Regional Airport Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ 8,727
2018	8,727
2019	26,257
2020	8,503

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefits increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by .25% to 3.25% for payroll growth and 2.5% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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:

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	<u>2%</u>	0.50%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in *Minnesota Statutes*. Based on that assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
Authority's proportionate share of the General Employees Fund net pension liability:	\$ 334,431	\$ 235,466	\$ 153,945

Pension Plan Fiduciary Net Position

Detailed information about each 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.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

6. **Compensated Absences**

The Authority permits employees to accumulate unused paid time off. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating leave benefits that is vested as severance pay.

7. **Long-Term Liabilities**

General Obligation Revenue Bonds were issued for the purpose of financing a portion of the costs of a project consisting of improving the terminal building, expanding the aircraft rescue and firefighting equipment building, and the addition of a passenger jet bridge. The \$1,280,000 of General Obligation Revenue Bonds, Series 2010, was issued September 8, 2010 with interest ranging from 2.5% to 3.75%. Interest payments began on February 1, 2011, and are due each February 1 thereafter through year 2031. Principal payments commenced on February 1, 2012, and are due each February 1 thereafter through year 2031 in amounts ranging from \$50,000 to \$90,000.

A Note Payable was obtained for the purpose of financing the purchase of land for a runway. The \$36,468 note payable was issued on December 7, 2015 with an administrative fee of 5.0%. Payments are due December 1st of each year through December 1, 2018, ranging from 11,568 to 12,754 for principal amounts.

The following is a schedule of changes in long-term debt for the year ended December 31, 2016:

	12/31/15 Balance	Additions	Payments	12/31/16 Balance
Long-Term Liabilities:				
G.O. Revenue Bonds	\$ 1,120,000	\$ -	\$ 55,000	\$ 1,065,000
Unamortized Bond Discount	(9,530)	-	(633)	(8,897)
Total General Obligation Bonds	1,110,470	-	54,367	1,056,103
Note Payable	36,468	-	12,552	23,916
Compensated Absences	47,221	22,081	23,604	45,698
Net Pension Liability	134,745	100,721	-	235,466
Total Long-Term Liabilities	<u>\$ 1,328,904</u>	<u>\$ 122,802</u>	<u>\$ 90,523</u>	<u>\$ 1,361,183</u>

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

The annual requirements to amortize long-term debt outstanding at December 31, 2016, including interest are as follows:

Year	G.O. Revenue Bonds		Notes Payable		Total
	Principal	Interest	Principal	Interest	
2017	\$ 55,000	\$ 33,186	\$ 12,196	\$ 1,196	\$ 101,578
2018	60,000	31,749	11,720	586	104,055
2019	60,000	30,249	-	-	90,249
2020	60,000	28,719	-	-	88,719
2021	65,000	27,045	-	-	92,045
2022-2026	345,000	105,503	-	-	450,503
2027-2031	420,000	39,912	-	-	459,912
Total	\$ 1,065,000	\$ 296,363	\$ 23,916	\$ 1,782	\$ 1,387,061

General Obligation bond issues sold by the Bemidji Regional Airport Authority are financed by ad valorem tax levies levied against properties. When a bond issue to be financed partially or completely by ad valorem tax levies is sold, specific annual amounts of such tax levies are stated in the bond resolution and the County Auditor is notified and instructed to levy these taxes over the appropriate years. The future tax levies are subject to cancellation when and if the Authority has provided alternative sources of financing. The Authority is required to levy any additional taxes found necessary for full payment of principal and interest.

The future scheduled tax levies for bonds outstanding at December 31, 2016 total \$1,353,898.

8. Risk Management

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. There were no significant reductions in insurance coverage from the prior year. There were no settlements in excess of insurance for any of the past three years.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

9. **Commitments and Contingencies**

The Authority participates in numerous grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grant, refunds of money received may be required and the ability to collect any related receivable at December 31, 2016 may be impaired. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Authority has entered into various construction contracts and as of December 31, 2016, the Authority had an outstanding construction contract totaling \$1,187,384. This will be funded by grants and future revenues.

BEMIDJI REGIONAL AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2016

Last 10 Fiscal Years*

For Measurement Date June 30:	Authority's Proportion of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	Authority's Covered- Employee Payroll	Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>General Employees Plan:</u>					
2016	0.0029%	\$ 235,466	\$ 172,712	136.33%	68.9%
2015	0.0026%	134,745	153,944	87.53%	78.2%

* - Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

See Accompanying Notes to the Required Supplementary Information.

BEMIDJI REGIONAL AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
DECEMBER 31, 2016

Last 10 Fiscal Years*

<u>For the Year Ended December 31:</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Authority's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
<u>General Employees Plan:</u>					
2016	\$ 13,614	\$ 13,614	\$ -	\$ 181,519	7.50%
2015	13,183	13,183	-	182,988	7.20%

* - Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

See Accompanying Notes to the Required Supplementary Information.

BEMIDJI REGIONAL AIRPORT AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

Note 1 – Pensions

There are no factors that affect trends in the amounts reported for benefit terms. The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by .25% to 3.25% for payroll growth and 2.5% for inflation.

With only two years reported in the RSI, there is no additional information to include in the notes. Details, if necessary, can be obtained from PERA CAFR.

BEMIDJI REGIONAL AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE
DECEMBER 31, 2016

	Application Five <u>15-04-C-00-BJI</u>
Passenger Facility Charge Collections*	
Prior to January 1, 2016	<u>\$ 10,084</u>
Collections in 2016:	
First Quarter	23,243
Second Quarter	25,615
Third Quarter	25,638
Fourth Quarter	<u>23,526</u>
Total Collections in 2016	<u>98,022</u>
Total Collected Through December 31, 2016	108,106
Approved Expenses Through December 31, 2016	<u>108,106</u>
Unexpended Balance - December 31, 2016	<u><u>\$ -</u></u>

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



MILLER MCDONALD, INC.
Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED
 ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
 IN ACCORDANCE WITH MINNESOTA LEGAL COMPLIANCE
 AUDIT GUIDE FOR OTHER POLITICAL SUBDIVISIONS**

To the Bemidji Regional Airport Authority
 Bemidji, 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 business-type activities of the Bemidji Regional Airport Authority as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprises the Bemidji Regional Airport Authority's basic financial statements, and have issued our report thereon dated January 11, 2018.

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: 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 we did not test for compliance with the provisions for tax increment financing because the Bemidji Regional Airport Authority did not have any tax increment financing during the period audited.

In connection with our audit, nothing came to our attention that caused us to believe that Bemidji Regional Airport Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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 Bemidji Regional Airport Authority's noncompliance with the above referenced provisions.

This purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Miller McDonald, Inc.

January 11, 2018
 Bemidji, Minnesota



MILLER MCDONALD, INC.
Certified Public Accountants
513 Beltrami Avenue
P.O. Box 486
Bemidji, MN 56619
(218) 751 - 6300
Fax (218) 751 - 0782
www.millermcdonald.com

INDEPENDENT AUDITOR'S 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

To the Bemidji Regional Airport Authority
Bemidji, Minnesota

We have audited, in accordance with the 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 enterprise fund activity of Bemidji Regional Airport Authority, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Bemidji Regional Airport Authority's basic financial statements and have issued our report thereon dated January 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bemidji Regional Airport Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bemidji Regional Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Bemidji Regional Airport Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2016-001.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses to be a significant deficiency: 2007-001.

Compliance and Other Matters

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

Bemidji Regional Airport Authority's Response to Findings

Bemidji Regional Airport Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Bemidji Regional Airport Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Miller McDonald, Inc.

January 11, 2018
Bemidji, Minnesota



MILLER MCDONALD, INC.
Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**INDEPENDENT AUDITOR'S REPORT ON
 COMPLIANCE FOR THE PASSENGER
 FACILITY CHARGE PROGRAM**

To the Bemidji Regional Airport Authority
 Bemidji, Minnesota

Report on Compliance for the Passenger Facility Charge Program

We have audited Bemidji Regional 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 Bemidji Regional Airport 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, 2016.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Bemidji Regional Airport Authority's PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Guide, issued by the Federal Aviation Administration. Those standards 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 the PFC program occurred. An audit includes examining, on a test basis, evidence about the Bemidji Regional 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 PFC program. However, our audit does not provide a legal determination of Bemidji Regional Airport Authority's compliance with those requirements.

Opinion on the Passenger Facility Charge Program

In our opinion, the Bemidji Regional 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 PFC program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Bemidji Regional 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 Bemidji Regional Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect 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 PFC program and to test and report on internal control over compliance in accordance with 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 Bemidji Regional Airport 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 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 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 Guide. Accordingly, this report is not suitable for any other purpose.

Miller McDonald, Inc.

January 11, 2018
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

A. **Findings Related to Financial Statements Audited in Accordance with *Government Audit Standards*.**

Finding: 2016-001 – Segregation of Duties

Condition

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties were not sufficiently segregated:

1. Cash receipting, depositing and recording

Criteria

Proper segregation of duties mitigates the risk of misappropriation of assets.

Effect

The impact to the financial statements has not been determined.

Cause

The limited number of staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Authority members remain involved in the financial affairs of the Authority to provide oversight and independent review functions.

Recommendation

We recommend that Authority management develop an accounting and internal control manual that would identify the specific duties of the accounting employees with internal controls and segregation of accounting duties in mind.

Management's Response - Corrective Action Plan (CAP):

1. **Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

2. **Actions Planned in Response to Finding**

The Authority will modify duties where possible to mitigate some of the internal control risk.

BEMIDJI REGIONAL AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

3. Official Responsible for Ensuring CAP Implementation

Karen Weller, Executive Director

4. Planned Completion of CAP

December 31, 2017

5. Plan to Monitor Completion of CAP

The Executive Director will monitor these processes to determine if there is appropriate segregation with the limited number of staff available.

Finding: 2007-001 – Auditor Prepares the Financial Statements

Condition

The Authority's Auditor prepares the financial statements. This is not unusual in entities the size the Bemidji Regional Airport Authority; however, the Authority's management and governance personnel should be aware that even though they assume responsibility for the financial statements the fact that the Auditor has prepared the financial statements indicates a control deficiency by management.

Criteria

The Authority should have controls in place to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Effect

The impact on the financial statements is that the potential exists that a material misstatement could exist in the financial statements.

Cause

The Authority has not adopted an internal control policy over the annual financial reporting under generally accepted accounting principles (GAAP), however, management has reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation

We recommend that management become knowledgeable in financial statement preparation so that management can prepare the financial statements for audit purposes. If management does not feel that it desires to obtain this knowledge and expertise then it should consider contracting with a third party accountant that would prepare year end adjusting entries to the financial records and also prepare the financial statements for audit purposes.

BEMIDJI REGIONAL AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

Management's Response - Corrective Action Plan (CAP):

1. Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

5. Actions Planned in Response to Finding

The Authority has noted the finding and will take this recommendation under advisement. The Authority does not feel it has a pressing need to resolve anytime soon. Management will continue to have the auditor prepare the financial statements. When or if the audit firm is no longer able to provide this service because of a violation of their ethics, generally accepted auditing standards or law, we will then consider other options.

6. Official Responsible for Ensuring CAP Implementation

Karen Weller, Executive Director

7. Planned Completion of CAP

Ongoing

5. Plan to Monitor Completion of CAP

The Authority will continue to review the audited financial statements.

B. Findings and Questioned Costs for Passenger Facility Charge Program

None

C. Findings and Questioned Costs for Minnesota Legal Compliance Manual

None