

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**BEMIDJI, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2015 AND 2014**

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**BEMIDJI, MINNESOTA**  
**DECEMBER 31, 2015 AND 2014**

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**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**OFFICIAL DIRECTORY**  
**DECEMBER 31, 2015**  
**(Unaudited)**

<b>Marshall Froyd</b>	<b>Authority Chairperson</b>
<b>Joe Vene</b>	<b>Authority Member</b>
<b>Roger Hellquist</b>	<b>Authority Member</b>
<b>Ron Johnson</b>	<b>Authority Member</b>
<b>Jim Lucachick</b>	<b>Authority Member</b>
<b>Karen Weller</b>	<b>Executive Director</b>
<b>Sarah Blomdahl</b>	<b>Administrative Assistant</b>



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## **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 business-type activity of the Bemidji Regional Airport Authority, as of and for the years ended December 31, 2015 and 2014, 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 business-type activity of the Bemidji Regional Airport Authority, as of December 31, 2015 and 2014, 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.

### Change in Accounting Principle

As described in Note 1 to the financial statements, in fiscal year ended December 31, 2015, the Bemidji Regional Airport Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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, 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 23 through 25, 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 expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of passenger facility charge revenue and the schedule of expenditures of federal awards are the responsibility of management and were 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 and the schedule of expenditures of federal awards are 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 June 23, 2016, 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.*

June 23, 2016  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2015**

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport Authority's financial activities during the year 2015 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 2015 was \$500,049, state and federal grants amounted to \$1,113,763 and rents were \$358,513. Investment earnings and other income totaled \$35,963. Total expenses for FY 2015 of \$2,630,659 exceeded total revenues of \$2,008,288 resulting in a decrease in net position of \$622,371. The prior year decrease in net position was \$837,234.

	2015		2014		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<b>Operating Revenues:</b>						
Rents	\$ 358,513	17.85%	\$ 351,951	20.82%	\$ 6,562	1.86%
Property Taxes	500,049	24.90%	437,750	25.90%	62,299	14.23%
Other	35,099	1.75%	28,517	1.69%	6,582	23.08%
<b>Total Operating Revenues</b>	<b>893,661</b>	<b>44.50%</b>	<b>818,218</b>	<b>48.41%</b>	<b>75,443</b>	<b>9.22%</b>
<b>Non-Operating Revenues:</b>						
State and Federal Grants	1,113,763	55.46%	854,500	50.55%	259,263	30.34%
Interest Income	864	0.04%	593	0.04%	271	45.70%
Gain on Disposal	-	n/a	16,992	n/a	(16,992)	n/a
<b>Total Non-Operating Revenues</b>	<b>1,114,627</b>	<b>55.50%</b>	<b>872,085</b>	<b>51.59%</b>	<b>242,542</b>	<b>27.81%</b>
<b>Total Revenues</b>	<b>2,008,288</b>	<b>100.00%</b>	<b>1,690,303</b>	<b>100.00%</b>	<b>317,985</b>	<b>18.81%</b>
<b>Operating Expenses:</b>						
Salaries and Wages	233,537	9.00%	241,285	9.69%	(7,748)	-3.21%
Payroll Taxes and Employee Benefits	78,166	3.01%	25,116	1.01%	53,050	211.22%
Utilities	125,210	4.82%	126,065	5.06%	(855)	-0.68%
Maintenance and Repairs	85,192	3.28%	104,355	4.19%	(19,163)	-18.36%
Supplies	41,451	1.60%	59,560	2.39%	(18,109)	-30.40%
Other Services and Charges	233,539	9.00%	235,870	9.47%	(2,331)	-0.99%
Depreciation and Amortization	1,798,191	69.29%	1,698,323	68.19%	99,868	5.88%
<b>Total Operating Expenses</b>	<b>2,595,286</b>	<b>100.00%</b>	<b>2,490,574</b>	<b>100.00%</b>	<b>104,712</b>	<b>4.20%</b>
<b>Non-Operating Expense:</b>						
Interest Expense	34,967	1.33%	36,963	1.38%	(1,996)	-5.40%
Loss on Disposal	406	0.02%	-	0.00%	406	n/a
<b>Total Non-Operating Expense</b>	<b>35,373</b>	<b>1.34%</b>	<b>36,963</b>	<b>1.46%</b>	<b>(1,590)</b>	<b>-4.30%</b>
<b>Total Expenses</b>	<b>2,630,659</b>	<b>100.00%</b>	<b>2,527,537</b>	<b>100.00%</b>	<b>103,122</b>	<b>4.08%</b>
<b>Changes in Net Position</b>	<b>\$ (622,371)</b>		<b>\$ (837,234)</b>		<b>\$ 214,863</b>	<b>-25.66%</b>

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2015**

The Authority's total net position was \$25,258,747 at December 31, 2015 (see the following table). At December 31, 2014 the net position was \$25,881,118 with a decrease of \$622,371 from operating activities for the year ended December 31, 2015.

	2015	2014	Net Change	
			Amount	Percent
Current and Other Assets	\$ 1,171,641	\$ 682,533	\$ 489,108	71.66%
Capital assets, net of depreciation	25,741,539	26,641,463	(899,924)	-3.38%
<b>Total assets</b>	<b>26,913,180</b>	<b>27,323,996</b>	<b>(410,816)</b>	<b>-1.50%</b>
Deferred Outflows of Resources	19,381	4,718	14,663	310.79%
Current liabilities	292,316	63,111	229,205	363.18%
Long-term liabilities:				
Due within one year	66,568	55,000	11,568	21.03%
Due after one year	1,262,336	1,329,485	(67,149)	-5.05%
<b>Total Liabilities</b>	<b>1,621,220</b>	<b>1,447,596</b>	<b>173,624</b>	<b>11.99%</b>
Deferred Inflows of Resources	52,594	-	52,594	N/A
<b>Net Position:</b>				
Net Investment in Capital Assets	24,621,539	25,466,463	(844,924)	-3.32%
Restricted	41,639	41,639	-	0.00%
Undesignated	595,569	373,016	222,553	59.66%
<b>Total Net Position</b>	<b>\$ 25,258,747</b>	<b>\$ 25,881,118</b>	<b>\$ (622,371)</b>	<b>-2.40%</b>

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 2017 levy for daily operations will be reduced by 3.5% due in part to an increase in the Maintenance and Operations Grant from Mn/DOT Aeronautics. The 2017 levy for the Authority's capital improvement program will remain the same as 2016. 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 the area to be an economically distressed community, thereby allowing its share of AIP funding to be increased to 95%. 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 this case the match is 2.5%, leaving just a 2.5% local 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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2015**

has offered additional state funds to airports through increases 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 2015 the Authority completed several airfield improvement projects: a new taxi lane, crack sealing on runways, and sealcoating on taxiways and the general aviation ramp. A snow removal equipment storage building for the Authority's equipment and general aviation T hangars are in the works for 2016.

The Authority received federal grant revenue under the Airport Improvement Program to complete the multiple projects listed above. Federal grant proceeds recognized in 2015 were \$822,555.

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 current fiscal year, the Bemidji Regional Airport Authority had \$1,120,000 in bond debt outstanding and a note payable of \$36,468. 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>12/31/14</u> Balance	<u>Additions</u>	<u>Payments</u>	<u>12/31/15</u> Balance
<b>Long-Term Debt:</b>				
G.O. Revenue Bonds	\$ 1,175,000	\$ -	\$ 55,000	\$ 1,120,000
Unamortized Bond Discount	(10,163)	-	(633)	(9,530)
<b>Total General Obligation Bonds</b>	<u>1,164,837</u>	<u>-</u>	<u>54,367</u>	<u>1,110,470</u>
 Note Payable	 -	 36,468	 -	 36,468
 <b>Total Long-Term Debt</b>	 <u>1,164,837</u>	 <u>36,468</u>	 <u>54,367</u>	 <u>1,146,938</u>

### Capital Investments

*Major equipment or structure additions or improvements:* During the year, the Authority finalized several projects including parking lot design, corporate hangar development, west taxi lane, GA ramp, and crack sealing and sealcoating. The Authority also purchased several pieces of equipment, continued work on the master plan/ALP update, and started work on a snow removal equipment building. Total capital additions for 2015 and 2014 totaled \$898,040 and \$847,345 respectively.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2015**

## **Bemidji Regional Airport Authority as a whole**

***Financial Statement:*** The attached audit accurately reflects the financial position at the end of FY2015. 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 2015 the Authority collected and distributed passenger facility charge funds, as approved on application 06-03-C-00-BJI, and continued to pay for the local share on the runway construction project. Funds were fully collected on this PFC application and it was closed late in the year. As stated above, the collections under this PFC application were assigned for repayment of the local share of the completion of the ALP update, AIPs 16 and 17. The local share of AIP 21, 22, 23, 24, 25, 26, 27, 28 and 29 were included in the PFC application submitted in mid-2015. The Authority received approval of PFC 15-04-00-BJI on October 15, 2015. This PFC application is to collect \$605,197 at the \$4.50 level and is estimated to expire in October 2021. These PFCs will repay the local share of the AIPs associated with acquiring snow removal equipment (snow blower, snow plow and sander, loader); Terminal and ARFF rehabilitation/expansion project including the Passenger Boarding Bridge; apron rehabilitation; and wildlife hazard assessment. Note that these collections 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.

**Next Year's Budget requirements:** For 2016, the Authority continues to be adequately funded for operations and maintenance. With an increase in the Maintenance and Operations Grant for State fiscal years 2016 (July 2015 to June 2016) and 2017 (July 2016 to June 2017), the Authority is able to reduce the operating levy by 3.5%. The financial impact of the Authority taking over the Transportation Security Administration's (TSA) Law Enforcement Officer (LEO) reimbursement grant from the City of Bemidji will be determined in 2017, and adjusted as needed with the 2018 budget.

***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, 2015 AND 2014**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 601,159	\$ 268,157
Accounts Receivable	5,910	9,103
Property Taxes Receivable	31,126	24,897
Due from Other Governmental Units	484,848	337,776
Prepaid Insurance	27,028	25,921
Total Current Assets	<u>1,150,071</u>	<u>665,854</u>
<u>Capital Assets</u>		
Land	975,667	975,667
Buildings	13,822,993	13,823,768
Runways and Improvements	23,213,384	21,149,443
Equipment	3,074,451	3,070,693
Construction In Progress	651,047	2,561,345
	<u>41,737,542</u>	<u>41,580,916</u>
Less: Accumulated Depreciation	(15,996,003)	(14,939,453)
Total Capital Assets	<u>25,741,539</u>	<u>26,641,463</u>
<u>Non-Current Assets</u>		
Capital Credits Receivable	<u>21,570</u>	<u>16,679</u>
<u>Total Assets</u>	<u>26,913,180</u>	<u>27,323,996</u>
<u>Deferred Outflows of Resources</u>		
Deferred Outflows Related to Pensions	<u>19,381</u>	<u>4,718</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	263,218	29,274
Accrued Interest Payable	14,654	15,624
Current Portion of Bonds Payable	55,000	55,000
Current Portion of Note Payable	11,568	-
Accrued Liabilities	4,804	4,603
Unearned Rental Income	9,640	13,610
Total Current Liabilities	<u>358,884</u>	<u>118,111</u>
<u>Long-Term Liabilities</u>		
Bonds Payable, net of current portion above	1,055,470	1,109,837
Note Payable, net of current portion above	24,900	-
Accrued Compensated Absences	47,221	36,446
Net Pension Liability	134,745	183,202
Total Long-Term Liabilities	<u>1,262,336</u>	<u>1,329,485</u>
<u>Total Liabilities</u>	<u>1,621,220</u>	<u>1,447,596</u>
<u>Deferred Inflows of Resources</u>		
Deferred Inflows Related to Pensions	<u>52,594</u>	<u>-</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	24,621,539	25,466,463
Restricted	41,639	41,639
Unrestricted	595,569	373,016
<u>Total Net Position</u>	<u>\$ 25,258,747</u>	<u>\$ 25,881,118</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b><u>Revenues</u></b>		
Rents	\$ 358,513	\$ 351,951
Property Taxes	500,049	437,750
Other	35,099	28,517
Total Revenues	<u>893,661</u>	<u>818,218</u>
<b><u>Expenses</u></b>		
Salaries and Wages	233,537	241,285
Payroll Taxes and Employee Benefits	78,166	25,116
Utilities	125,210	126,065
Maintenance and Repairs	85,192	104,355
Supplies	41,451	59,560
Other Services and Charges	233,539	235,870
Depreciation and Amortization	1,798,191	1,698,323
Total Expenses	<u>2,595,286</u>	<u>2,490,574</u>
<b><u>Operating Loss</u></b>	<u>(1,701,625)</u>	<u>(1,672,356)</u>
<b><u>Non-Operating Revenues (Expense)</u></b>		
State and Federal Grants	1,113,763	854,500
Gain (Loss) on Disposal	(406)	16,992
Interest Income	864	593
Interest Expense	(34,967)	(36,963)
Total Non-Operating Revenues (Expense)	<u>1,079,254</u>	<u>835,122</u>
<b><u>Net Income (Loss)</u></b>	(622,371)	(837,234)
<b><u>Net Position, Beginning of Year, As Restated</u></b>	<u>25,881,118</u>	<u>26,718,352</u>
<b><u>Net Position, End of Year</u></b>	<u>\$ 25,258,747</u>	<u>\$ 25,881,118</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<u>2015</u>	<u>2014</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received From Users	\$ 885,734	\$ 816,395
Cash Paid to Suppliers and Employees	(568,748)	(1,039,690)
Net Cash Provided by (Used in) Operating Activities	<u>316,986</u>	<u>(223,295)</u>
<b><u>Cash Flows from Non-Capital Financing Activities</u></b>		
Proceeds of Federal and State Grants	<u>193,829</u>	<u>132,338</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Acquisition of Property and Equipment	(898,040)	(847,345)
Proceeds from Sales of Equipment	-	28,398
Proceeds from Note Payable	36,468	-
Proceeds from Short Term Debt	-	500,000
Principal Paid on Short Term Debt	-	(500,000)
Principal Paid on Long Term Debt	(55,000)	(55,000)
Proceeds of Federal and State Capital Grants	772,862	797,658
Interest Paid on Bonds and Notes	(34,967)	(36,963)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(178,677)</u>	<u>(113,252)</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Interest	<u>864</u>	<u>593</u>
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	<u>333,002</u>	<u>(203,616)</u>
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<u>268,157</u>	<u>471,773</u>
<b><u>Cash and Cash Equivalents, End of Year</u></b>	<u>\$ 601,159</u>	<u>\$ 268,157</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u></b>		
<b><u>Operating Loss</u></b>	\$ (1,701,625)	\$ (1,672,356)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Depreciation and Amortization	1,798,191	1,698,323
<b>Changes in Assets, Liabilities, and Deferrals</b>		
(Increase) Decrease in Accounts Receivable	(1,698)	(1,980)
(Increase) Decrease in Property Tax Receivable	(6,229)	157
(Increase) Decrease in Prepaid Insurance	(1,107)	(3,956)
(Increase) Decrease in Deferred Outflows of Resources	(14,663)	-
Increase (Decrease) in Accounts Payable	233,944	(200,631)
Increase (Decrease) in Accrued Interest Payable	(970)	(348)
Increase (Decrease) in Accrued Liabilities	201	(15,796)
Increase (Decrease) in Accrued Compensated Absences	10,775	(31,345)
Increase (Decrease) in Deferred Rental Income	(3,970)	4,637
Increase (Decrease) in Net Pension Liability	(48,457)	-
Increase (Decrease) in Deferred Inflows of Resources	52,594	-
<b><u>Net Cash Provided by (Used in) Operating Activities</u></b>	<u>\$ 316,986</u>	<u>\$ (223,295)</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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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 Chairman 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.

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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 been concluded that bad debt losses on balances outstanding at year-end will be immaterial.

**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.

**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.

**Deferred Outflows and Inflows Related to 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.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
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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 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.

**Change in Accounting Principle** – During the year ended December 31, 2015, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 recognizes the Authority's portion of net pension liability and related deferrals associated with their defined benefit pension plan. GASB Statement No. 71 recognizes a beginning deferred outflow of resources in the year GASB No. 68 is implemented.

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, 2015 was zero.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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 need arises. 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 1<sup>st</sup> 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, 2015 is as follows:

	1/1/2015 Balance	Additions	Disposals	12/31/2015 Balance
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 975,667	\$ -	\$ -	\$ 975,667
Construction in Progress	2,561,346	433,176	2,343,474	651,048
<b>Total Non-Depreciable Capital Assets</b>	<b>3,537,013</b>	<b>433,176</b>	<b>2,343,474</b>	<b>1,626,715</b>
<b>Depreciable Capital Assets</b>				
Buildings	13,823,768	-	775	13,822,993
Runways and Improvements	21,149,443	2,756,056	692,115	23,213,384
Equipment	3,070,692	52,282	48,524	3,074,450
<b>Total Depreciable Capital Assets</b>	<b>38,043,903</b>	<b>2,808,338</b>	<b>741,414</b>	<b>40,110,827</b>
Less Accumulated Depreciation	(14,939,453)	(1,797,558)	(741,008)	(15,996,003)
<b>Depreciable Capital Assets, Net</b>	<b>23,104,450</b>	<b>1,010,780</b>	<b>406</b>	<b>24,114,824</b>
<b>Total Capital Assets, Net</b>	<b>\$ 26,641,463</b>	<b>\$ 1,443,956</b>	<b>\$ 2,343,880</b>	<b>\$ 25,741,539</b>

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
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**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 Fund (GERF)**

All full-time and certain part-time employees of the Bemidji Regional Airport Authority are covered by the General Employees Retirement Fund (GERF). GERF 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.

**GERF Benefits**

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 2.7% of average

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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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

**Contributions**

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

**GERF 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 2015. 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 2015. The Bemidji Regional Airport Authority contributions to the GERF for the year ended December 31, 2015, were \$13,183. The Bemidji Regional Airport Authority contributions were equal to the required contributions as set by state statute.

**Pension Costs**

**GERF Pension Costs**

At December 31, 2015, the Bemidji Regional Airport Authority reported a liability of \$134,745 for its proportionate share of the GERF'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 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Bemidji Regional Airport Authority's proportion was .0026%

For the year ended December 31, 2015, the Bemidji Regional Airport Authority recognized pension expense of \$3,000 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the Bemidji Regional Airport Authority reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,793
Net difference between projected and actual earnings on plan investments	12,756	-
Changes in proportion	-	45,801
Contributions paid to PERA subsequent to the measurement date	<u>6,625</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 19,381</u></b>	<b><u>\$ 52,594</u></b>

\$6,625 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$	(14,342)
2017		(14,342)
2018		(14,343)
2019		3,189

**Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

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. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015:

- **GERF:** There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. 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.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Authority's proportionate share of the GEF net pension	\$ 211,868	\$ 134,745	\$ 71,054

**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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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 commence on February 1, 2012, and are due each February 1 thereafter through year 2031 in amounts ranging from \$50,000 to \$90,000.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
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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 1<sup>st</sup> 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, 2015:

	<u>12/31/14</u> Balance	<u>Additions</u>	<u>Payments</u>	<u>12/31/15</u> Balance
<b>Long-Term Liabilities:</b>				
G.O. Revenue Bonds	\$ 1,175,000	\$ -	\$ 55,000	\$ 1,120,000
Unamortized Bond Discount	(10,163)	-	(633)	(9,530)
<b>Total General Obligation Bonds</b>	<b>1,164,837</b>	<b>-</b>	<b>54,367</b>	<b>1,110,470</b>
Note Payable	-	36,468	-	36,468
Compensated Absences	36,446	10,775	-	47,221
Net Pension Liability	183,202	-	48,457	134,745
<b>Total Long-Term Liabilities</b>	<b>\$ 1,384,485</b>	<b>\$ 47,243</b>	<b>\$ 102,824</b>	<b>\$ 1,328,904</b>

The annual requirements to amortize long-term debt outstanding at December 31, 2015, including interest are as follows:

Year	G.O. Revenue Bonds		Notes Payable		Total
	Principal	Interest	Principal	Interest	
2016	\$ 55,000	\$ 34,561	\$ 11,568	\$ 1,823	\$ 102,952
2017	55,000	33,186	12,146	1,245	101,577
2018	60,000	31,749	12,754	638	105,141
2019	60,000	30,249	-	-	90,249
2020	60,000	28,719	-	-	88,719
2021-2025	335,000	115,886	-	-	450,886
2026-2030	405,000	54,888	-	-	459,888
2031	90,000	1,687	-	-	91,687
<b>Total</b>	<b>\$1,120,000</b>	<b>\$ 330,925</b>	<b>\$ 36,468</b>	<b>\$ 3,706</b>	<b>\$1,491,099</b>

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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, 2015 total \$1,447,215.

**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.

**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, 2015 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.

**10. Restatement of Net Position**

Effective January 1, 2015, the Bemidji Regional Airport Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of this implementation, the Authority has restated previously reported net position in the business-type activities; decreasing it \$178,484 from \$26,059,602 to \$25,881,118 for 2014 and \$178,484 from \$26,896,836 to \$26,718,352 for 2013.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE AIRPORT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**DECEMBER 31, 2015**

For Fiscal Year Ended June 30:	Last 10 Fiscal Years*				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
	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 Covered- Employee Payroll		
<b>GERF</b>						
2015	0.0026%	\$ 134,745	\$ 200,294	67.27%	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 AIRPORT'S CONTRIBUTIONS**  
**DECEMBER 31, 2015**

Last 10 Fiscal Years\*

<b>For the Year Ended December 31:</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contributions</b>	<b>Contribution Deficiency (Excess)</b>	<b>Authority's Covered- Employee Payroll</b>	<b>Contributions as a Percentage of Covered- Employee Payroll</b>
<b>GERF</b>					
<b>2015</b>	\$ 13,183	\$ 13,183	\$ -	\$ 231,758	5.69%

\* - 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, 2015**

**Note 1 – Pensions**

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in the notes. Details if necessary can be obtained from the PERA CAFR for the pension plan.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE**  
**DECEMBER 31, 2015**

<u>Approved Applications</u>	<u>Current Year Imposed</u>	<u>Current Year Used/Spent</u>	<u>Cumulative Balance</u>
Application # 4			
60-03-C-00-BJI	\$ 87,310.06	\$ 87,310.06	\$ 790,323.37
Application # 5			
15-04-C-00-BJI	<u>10,083.62</u>	<u>10,083.62</u>	<u>10,083.62</u>
Total Authority	<u>\$ 97,393.68</u>	<u>\$ 97,393.68</u>	<u>\$ 800,406.99</u>
	<u>Current Year</u>		<u>Cumulative</u>
PFC Revenue Received*	\$ 97,303.89		\$ 1,559,176.71
Interest Earned	<u>89.79</u>		<u>4,665.91</u>
Total PFC Revenue Received	<u>\$ 97,393.68</u>		<u>\$ 1,563,842.62</u>

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2015**

<u>Funding Source</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b><u>Administering Agency</u></b>			
<b><u>Federal Aviation Administration</u></b>			
Pass-Through Minnesota Department of Transportation-Aeronautics	Airport Improvement Program	20.106	\$ <u>822,555</u>
	Total Federal Assistance Expended		\$ <u><u>822,555</u></u>

**Notes to the Schedule of Expenditures of Federal Awards**

**Note 1 –Basis of Presentation**

The above Schedule of Expenditures of Federal Awards includes the federal grant activity of the Bemidji Regional Airport Authority. Expenditures reported on the schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*. Therefore, some amounts in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

**Note 2 – Indirect Cost Rate**

The Authority has not elected to use to the 10 percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Pass-through Entities**

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.



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**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, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2016.

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 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.*

June 23, 2016  
 Bemidji, Minnesota



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**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 business-type activity of Bemidji Regional Airport Authority, as of and for the years ended December 31, 2015 and 2014, 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 June 23, 2016.

**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.

*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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies; they are listed as 2007-001 and 2015-002.

### 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 response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Bemidji Regional Airport 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 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.*

June 23, 2016  
Bemidji, Minnesota



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
 MAJOR FEDERAL PROGRAM AND FOR THE PASSENGER FACILITY CHARGE  
 PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
 COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Bemidji Regional Airport Authority  
 Bemidji, Minnesota

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

We have audited the Bemidji Regional Airport Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Bemidji Regional Airport Authority's major federal program for the year ended December 31, 2015. The Bemidji Regional 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 Bemidji Regional Airport Authority's compliance with requirements applicable to its passenger facility charge (PFC) funds collected and expended for the year ended December 31, 2015.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for Bemidji Regional 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Passenger Facility Charge Audit Guide for Public Agencies*,

issued by the Federal Aviation Administration. Those standards and the Uniform Guidance 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 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 each major federal program and its PFC program. However, our audit does not provide a legal determination of Bemidji Regional Airport Authority's compliance.

#### *Opinion on Major Federal Program and the Passenger Facility Charge Program*

In our opinion, 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 major federal program and its PFC program for the year ended December 31, 2015.

#### *Report on Internal Control Over Compliance*

Management of 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 major federal program or on its PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, and the *Passenger Facility Charge Audit Guide for Public Agencies*, 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 a federal 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 a 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 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 and

therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, which we consider to be a significant deficiency.

Bemidji Regional Airport Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Bemidji Regional Airport Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance and Passenger Facility Charge requirements. Accordingly, this report is not suitable for any other purpose.

*Miller McDonald, Inc.*

June 23, 2016  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

**A. Summary of Auditor's Results**

1. An unmodified report was issued.
2. Two significant deficiencies in internal control were reported on the audit of the financial statements and they were not identified as a material weakness.
3. The audit did not disclose any noncompliance that was material to the financial statements.
4. A significant deficiency in internal control over compliance relating to the audit of federal award programs was reported in the *Independent Auditor's Report on Compliance for Each Major Program and for the Passenger Facility Charge Program and Report on Internal Control Over Compliance Required by the Uniform Guidance*.
5. An unmodified report on compliance for major federal award programs was issued.
6. No findings were disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. Major program:

Airport Improvement Program CFDA No. 20.106
8. A \$750,000 threshold was used to distinguish between Type A and Type B programs.
9. The Bemidji Regional Airport Authority qualified as a low-risk auditee.

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

**Items Arising During the Year**

**Finding: 2015-002 – Grant Reconciliations**

**Condition**

There were no grant reconciliations performed that compared what the Authority received in grant revenues to what they earned based on the grant agreement and what was recorded on the trial balance.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Criteria**

The grant award percentage for federal, state and local share did not equal what the Authority received in respective grant revenues and what was recorded on the trial balance.

**Effect**

The federal, state and local shares reflected in the grant revenue did not match the respective percentages in the grant agreement. The trial balance did not reflect the respective revenues in accordance with the grant agreement.

**Cause**

The Authority did not reconcile between the amounts received by the respective entities to the amounts stated in the grant agreement and the trial balance.

**Recommendation**

The Authority should reconcile what was received from the federal and state to the percentages to the grant agreement and what is recorded on the trial balance for each grant reimbursement request.

**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 reconcile each grant reimbursement request from the amount received by the respective agencies to the grant agreement.

3. **Official Responsible for Ensuring CAP Implementation**

Karen Weller, Executive Director

4. **Planned Completion of CAP**

December 31, 2016

5. **Plan to Monitor Completion of CAP**

The Executive Director will monitor all of these aspects for each grant reimbursement request for all grants.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Previously Reported Item Not Resolved During the Year**

**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.

**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 audit firm

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

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.

**C. Findings and Questioned Costs for Federal Award Programs**

**Internal Control Findings**

**Items Arising During the Year**

Airport Improvement Program - CFDA No. 20.106

**Finding 2015-001 – Written Internal Control Policy**

**Condition**

The Authority did not have written internal control policies over federal programs.

**Criteria**

In accordance with Uniform Guidance, non-Federal entities are required to have written internal control procedures over Federal awards.

**Effect**

The potential exists for control procedures to not be consistently implemented.

**Cause**

The Authority's general accounting procedures do not provide specific controls related to Federal awards.

**Recommendations**

The Authority should continue to stay current with newly implemented Federal Guidelines.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

**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**

Management will pursue training for Uniform Guidance implementation and develop policies and procedures over federal programs to satisfy Uniform Guidance.

**3. Official Responsible for Ensuring CAP Implementation**

Karen Weller, Executive Director

**4. Planned Completion of CAP**

December 31, 2016

**5. Plan to Monitor Completion of CAP**

The corrective action plan will be monitored by the Executive Director.

**Compliance Findings**

None

**Questioned Costs**

None

**D. Findings and Questioned Costs for Passenger Facility Charge Program**

None

**E. Findings and Questioned Costs for Minnesota Legal Compliance Manual**

None