

**BEMIDJI REGIONAL AIRPORT**  
**BEMIDJI, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**DECEMBER 31, 2006 AND 2005**

**BEMIDJI REGIONAL AIRPORT**  
**BEMIDJI, MINNESOTA**  
**DECEMBER 31, 2006 AND 2005**

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**BEMIDJI-BELTRAMI COUNTY AIRPORT COMMISSION**  
**BEMIDJI, MINNESOTA**

**OFFICIAL DIRECTORY**

<b>Marshall Froyd</b>	<b>Chairperson</b>
<b>Nancy Erickson</b>	<b>Vice Chairperson</b>
<b>Ron Otterstad</b>	<b>County Commissioner</b>
<b>Jack Frost</b>	<b>Treasurer</b>
<b>Ron Johnson</b>	<b>City Coucil Member</b>
<b>Harold M. Van Leeuwen Jr.</b>	<b>Secretary</b>



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## INDEPENDENT AUDITORS' REPORT

**Bemidji Regional Airport Commission  
Bemidji, Minnesota**

We have audited the accompanying financial statements of the business-type activity of the Bemidji Regional Airport, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Airport's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bemidji Regional Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Bemidji Regional Airport as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 1, 2007, on our consideration of the Bemidji Regional Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 6 is not a required part of the basic financial statement but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Bemidji Regional Airport. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all materials respects, in relation to the financial statements taken as a whole.

*Miller McDonald, Inc.*

May 1, 2007  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2006**

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport's financial activities during the year 2006 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 airport receives the majority of its funding from three sources; contributions from the City of Bemidji and Beltrami County, state and federal grants and charges for services. Other revenue sources include investment earnings and miscellaneous income. The contributions for the year ended 2006 were \$341,000, state and federal grants amounted to \$4,974,779 and charges for services were \$211,504. Investment earnings and other income totaled \$107,040. Total revenues for FY 2006 of \$5,634,323 exceeded total expenses of \$1,154,330 resulting in an increase in net assets of \$4,479,993. The prior year increase in net assets was \$497,050.

Currently, the Airport continues to be under-funded. The airport received adequate funding from sponsors in 2006 for operations and essential maintenance. The City of Bemidji and Beltrami County each contributed \$170,500. However, funding for long-term capital item replacement remains insufficient.

The Airport received federal grants (AIP 15 and AIP 16) under the Airport Improvement Program to complete several projects, including seal coating the parking lot, an overlay of the main access and terminal road, crack sealing the runways and taxiways and runway 7/25 improvements. Grant AIP 15 was \$989,165 including a matching contribution of local funds of \$51,958. Grant proceeds recognized in 2006 from this project amounted to \$180,400. Grant AIP 16 was \$5,268,502 including a matching local portion of \$268,502. Grant proceeds recognized in 2006 were \$4,611,530. Proceeds from State Operations, Maintenance, and Equipment funding totaled \$164,017.

Charges for services includes revenue from the PFC's as well as revenue from leases, landing fees, hangar rent, and timber sales.

**BEMIDJI REGIONAL AIRPORT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2006**

### **Bemidji – Beltrami County Airport Debt**

*Long-term Debt:* The Bemidji-Beltrami County Airport had one (1) outstanding General Obligation Airport Improvement Refunding Bond. This bond was paid off during 2006.

*Short Term Debt:* The airport currently has no short-term debt due to significant reductions in operational costs and an increase in revenues in the current year.

### **Capital Investments**

*Major equipment or structure additions or improvements:* During the year the airport initiated a complete reconstruction of the crosswind runway (7/25) and parallel taxiway funded through federal grant monies under AIP-16 with the federal share being 95% of the cost. This project will continue into 2007 before completion.

### **Bemidji-Beltrami County Airport as a whole**

*Financial Statement:* The attached audit accurately reflects the financial position at the end of FY2006. When viewed in conjunction with the above provided comments; the audit provides a whole and complete picture of the financial health of the airport and its operating expenses, liabilities and improvements. The airport was provided gap funding against future operating funds by the county to make payment of the local share and contractor progress payments until the arrival of the 2007 entitlement dollars. The gap funding was \$400,000 to be repaid in 2007 with an administrative fee calculated on the length of time the funds were in possession of the airport.

*Passenger Facility Charge:* During 2006 we collected and distributed the funds from the passenger facility charge as approved towards the completion of the Master Plan and Airport Layout plan. The predicted collection rate matched the predicted expense rate for these projects. Because the limit on the PFC was reached on August 31<sup>st</sup>, 2005 collections of PFC were suspended until implementation of the new PFC, collections started again in October 2006. These new collections are being used to complete payment for the Master Plan, ALP along with payment of the local share of AIP-16. Repayment of the local share for AIP-16 is estimated to take 42 months at the current collection rate, which is expected to be April 2010.

**BEMIDJI REGIONAL AIRPORT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2006**

*Next Years Budget requirements:* For 2007 the airport continues to be adequately funded for operations and maintenance, however there are escalating costs associated with winter operations, fuel and utilities double digit cost increases, and some aging equipment that will result in increased funding levels by the sponsor units (City and County). The airport has applied for and is expecting significant federal funding to continue reconstruction of the primary runway and companion taxiways. This is expected to be in the range of \$7-8M, with once again a 95/5 cost share. The local government units will have to develop a plan to provide the 5% cost share.

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



**BEMIDJI REGIONAL AIRPORT**  
**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2006 AND 2005**

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<b><u>Current Assets</u></b>		
Cash and Cash Equivalents	\$ 90,744	\$ 399,832
Accounts Receivable	13,969	395
Due from Other Governmental Units	680,049	138,947
Prepaid Insurance	7,596	13,883
Total Current Assets	792,358	553,057
<b><u>Capital Assets</u></b>		
Land	861,567	858,250
Buildings	2,826,719	2,799,316
Runways and Improvements	9,120,168	4,300,923
Equipment	1,710,795	1,635,647
Construction in Progress	-	35,325
	14,519,249	9,629,461
Less: Accumulated Depreciation	(5,330,401)	(4,750,594)
Total Capital Assets	9,188,848	4,878,867
<b><u>Non-Current Assets</u></b>		
Capital Credits Receivable	5,633	3,966
Total Assets	\$ 9,986,839	\$ 5,435,890
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities</u></b>		
Current Portion of Long-Term Debt	\$ -	\$ 45,000
Accounts Payable	276,793	194,974
Prepaid Rent	332	263
Accrued Liabilities	8,521	20,432
Accrued Interest Payable	-	788
Due to Other Governmental Units	421,632	350,395
Deferred Revenue	-	30,000
Total Current Liabilities	707,278	641,852
<b><u>Long-Term Liabilities</u></b>		
Accrued Compensated Absences	26,855	21,325
Bonds Payable	-	45,000
Less: Current Portion	-	(45,000)
Total Long-Term Liabilities	26,855	21,325
Total Liabilities	734,133	663,177
<b><u>NET ASSETS</u></b>		
Invested in Capital, Net of Related Debt	9,188,848	4,833,867
Designated	36,078	-
Unrestricted	27,780	(61,154)
Total Net Assets	\$ 9,252,706	\$ 4,772,713

**BEMIDJI REGIONAL AIRPORT**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>Revenues</u></b>		
Rents	\$ 211,504	\$ 226,888
Other	56,601	21,048
<b>Total Revenues</b>	<u>268,105</u>	<u>247,936</u>
<b><u>Expenses</u></b>		
Salaries and Wages	238,023	240,467
Payroll Taxes and Employee Benefits	37,631	39,398
Utilities	75,932	76,357
Maintenance and Repairs	80,959	291,296
Supplies	35,544	36,766
Other Services and Charges	94,909	52,442
Depreciation and Amortization	579,806	426,812
<b>Total Expenses</b>	<u>1,142,804</u>	<u>1,163,538</u>
<b><u>Operating Loss</u></b>	<u>(874,699)</u>	<u>(915,602)</u>
<b><u>Non-Operating Revenues (Expense)</u></b>		
State and Federal Grants	4,974,779	1,103,704
Beltrami County/City of Bemidji Contributions	341,000	306,000
Interest Income	10,439	5,426
Interest on Bonds and Loans	(11,526)	(2,478)
Other Contributions	40,000	-
<b>Total Non-Operating Revenues (Expense)</b>	<u>5,354,692</u>	<u>1,412,652</u>
<b><u>Net Income</u></b>	4,479,993	497,050
<b><u>Net Assets, Beginning of Year</u></b>	<u>4,772,713</u>	<u>4,275,663</u>
<b><u>Net Assets, End of Year</u></b>	<u>\$ 9,252,706</u>	<u>\$ 4,772,713</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

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

	<u>2006</u>	<u>2005</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received From Users	\$ 252,864	\$ 149,420
Cash Paid to Suppliers and Employees	<u>(404,676)</u>	<u>(268,340)</u>
Net Cash Used in Operating Activities	<u>(151,812)</u>	<u>(118,920)</u>
<b><u>Cash Flows from Non-Capital Financing Activities</u></b>		
Proceeds of City and County Contributions	341,000	306,000
Proceeds of Federal and State Operating Grants	<u>120,307</u>	<u>151,222</u>
Net Cash Provided by Non-Capital Financing Activities	<u>461,307</u>	<u>457,222</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Acquisition of Property and Equipment	(4,889,788)	(1,204,630)
Proceeds of Federal and State Capital Grants	4,317,292	982,482
Principal Paid on Bond Maturities	(45,000)	(40,000)
Interest Paid on Bonds and Notes	<u>(11,526)</u>	<u>(2,478)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(629,022)</u>	<u>(264,626)</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Interest on Investments	<u>10,439</u>	<u>5,426</u>
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	<u>(309,088)</u>	<u>79,102</u>
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<u>399,832</u>	<u>320,730</u>
<b><u>Cash and Cash Equivalents, End of Year</u></b>	<u>\$ 90,744</u>	<u>\$ 399,832</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES**

<b><u>Operating Loss</u></b>	\$ (874,699)	\$ (915,602)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities</b>		
Depreciation and Amortization	579,807	426,812
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(15,241)	(97,170)
(Increase) Decrease in Prepaid Insurance	6,287	(277)
Increase (Decrease) in Accounts Payable	81,819	101,680
Increase (Decrease) in Accrued Liabilities	28,538	361,955
Increase (Decrease) in Accrued Compensated Absences	41,608	5,999
Increase (Decrease) in Prepaid Rent	<u>69</u>	<u>(2,317)</u>
<b><u>Net Cash Used in Operating Activities</u></b>	<u>\$ (151,812)</u>	<u>\$ (118,920)</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

1. **Summary of Significant Accounting Policies**

The financial statements of Bemidji Regional Airport have been prepared on the accrual basis. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

**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 has been created to operate, maintain, enlarge and improve the existing airport. The Commission is empowered to exercise on behalf of the County and City all the powers of each of the municipalities as granted by Minnesota State Statutes.

The Commission consists of five members. The City Council and County Board each appoint two members who are elected members of the Council/Board. A Community member who is mutually appointed by the City Council and County Board serves as Chairman of the Commission.

The agreement is to be in effect for the 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.

**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. Useful lives of the joint airport assets are estimated at three to thirty years.

The City owns certain buildings and other fixed assets on the airport site which have been assigned to the Bemidji Regional Airport for the duration of the agreement. These assets are not reflected in the capital assets of the airport.

**Cash and Cash Equivalents** – The Bemidji Regional Airport considers cash and cash equivalents to be cash in banks and short-term certificates of deposit.

**Equity in Pooled Cash and Investments** – Cash is invested only in investments authorized by State Statutes.

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**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.

**Inventories and Prepaids** – Inventories are recorded at cost, which approximates market. Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

**Revenues** – The Airport Commission has an agreement with the State of Minnesota that provides state operating funds annually to a maximum of \$120,307. The Commission has entered into other agreements with the two air carriers serving Bemidji which provide landing fee and rental revenues based on levels of usage.

**Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures 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 these estimates.

2. **Deposits**

**Authority** - In accordance with Minnesota Statutes, the Bemidji Regional Airport maintains deposits at those depository banks authorized by the Commission. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all Commission 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 Commission 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 Commission’s deposits may not be covered. The Commission’s policy for custodial credit risk is to maintain compliance with Minnesota Statutes that require all the Commission’s deposits to be protected by insurance, surety bond, or pledged collateral. The Commission was exposed to custodial credit risk at times during the year. The Commission’s custodial credit risk at December 31, 2006 was zero.

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**3. Capital Assets**

	1/1/2006 Balance	Additions	Disposals	12/31/2006 Balance
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 858,250	\$ 3,317	\$ -	\$ 861,568
<b>Depreciable Capital Assets</b>				
Buildings, and Improvements	7,100,239	4,846,648	-	11,946,886
Furniture, Fixtures, and Equipment	1,635,647	75,148	-	1,710,795
Construction in Progress	35,325	-	35,325	-
<b>Total Depreciable Capital Assets</b>	<b>8,771,211</b>	<b>4,921,796</b>	<b>35,325</b>	<b>13,657,681</b>
Less Accumulated Depreciation	(4,750,594)	(579,807)	-	(5,330,401)
<b>Depreciable Capital Assets, Net</b>	<b>4,020,617</b>	<b>4,341,989</b>	<b>35,325</b>	<b>8,327,280</b>
<b>Total Capital Assets, Net</b>	<b>\$ 4,878,867</b>	<b>\$ 4,345,306</b>	<b>\$ 35,325</b>	<b>\$ 9,188,848</b>

**4. Long-Term Debt**

Long-term debt at December 31, 2006 and 2005 consisted of the following:

	2006	2005
<b>\$245,000 General Obligation Airport Improvement Refunding Bonds, Series 1998E, payable in annual installments of \$30,000 from 2000 through 2002, \$35,000 from 2003 through 2004, \$40,000 in 2005, and \$45,000 in 2006, including interest starting at 3.65% increasing annually to a rate of 4.20%.</b>	\$ -	\$ 45,000
<b>Less: Current Portion of Long-Term Debt</b>	-	(45,000)
	\$ -	\$ -

**5. Defined Benefit Pension Plan – Statewide**

**Plan Description**

All full-time and certain part-time employees of Bemidji Regional Airport are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF'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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at [mnpera.org](http://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.

**BEMIDJI REGIONAL AIRPORT**  
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**Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Airport makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%.

PEPFF members are required to contribute 7.0% of their annual covered salary in 2006. That rate will increase to 7.8% in 2007. The Airport is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members and 10.5% for PEPFF members. The Airport's contributions for the years ending December 31, 2006, 2005, and 2004 were \$8,212, \$6,966 and \$5,602 respectively. The Airport's contributions were equal to the contractually required contributions for each year as set by state statute.



**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE**  
**DECEMBER 31, 2006**

<u>Approved Applications</u>	<u>Current Year Imposed</u>	<u>Current Year Used/Spent</u>	<u>Cummulative Balance</u>
Application # 2 01-02-C-00-BJI	\$ -	\$ -	\$ 4,283.47
Application # 3 01-02-C-01-BJI	-	31,401.88	(11,897.33)
Application # 4 60-03-C-00-BJI	<u>47,968.86</u>	<u>329,760.50</u>	<u>(281,791.64)</u>
Total Authority	<u>\$ 47,968.86</u>	<u>\$ 361,162.38</u>	<u>\$ (289,405.50)</u>
			<u>Cumulative</u>
PFC Revenue Received	\$ 21,794.24		\$ 799,439.65
Interest Earned	<u>79.31</u>		<u>2,175.35</u>
Total PFC Revenue Received	<u>\$ 21,873.55</u>		<u>\$ 801,615.00</u>
Expenditures on Approved PFC Projects			<u>\$ 1,091,020.22</u>

**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2006**

<u>Funding Source</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b><u>Administering Agency</u></b>			
<b><u>U.S. Department of Transportation</u></b>			
Pass-Through Minnesota Department of Transportation	Airport Improvement Program	20.106	\$ 4,791,930
<b><u>U.S. Department of Homeland Security</u></b>	Port Security	97.056	<u>18,832</u>
	Total Federal Assistance Expended		<u><u>\$ 4,810,762</u></u>



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**AUDITORS' REPORT ON COMPLIANCE BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH THE MINNESOTA  
LEGAL COMPLIANCE AUDIT GUIDE FOR LOCAL GOVERNMENT**

**Bemidji Regional Airport Commission  
Bemidji, Minnesota**

We have audited the financial statements of the business-type activities, of the Bemidji Regional Airport, as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated May 1, 2007.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Bemidji Regional Airport, complied with the material terms and conditions of applicable legal provisions except as noted at 06-1 in the schedule of findings and questioned costs.

This report is intended solely for the use of the Bemidji Regional Airport, the Commission and other appropriate federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Miller McDonald, Inc.*

May 1, 2007  
Bemidji, Minnesota



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**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE  
PASSENGER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Bemidji Regional Airport Commission  
Bemidji, Minnesota

We have audited the financial statements of the business-type activity Bemidji-Regional Airport as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated May 1, 2007. We conducted our audit 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 compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, (the Guide) issued by the Federal Aviation Administration.

**Compliance**

We conducted our audit of compliance in accordance with 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 Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Bemidji Regional Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstance. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Bemidji Regional Airport's compliance with those requirements.

In our opinion, Bemidji Regional Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the years ended December 31, 2006 and 2005.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Bemidji Regional Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Bemidji Regional Airport, the Commission and appropriate federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Miller McDonald, Inc.*

May 1, 2007  
Bemidji, Minnesota



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**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Bemidji Regional Airport Commission  
Bemidji, Minnesota

**Compliance**

We have audited the compliance of the Bemidji Regional Airport with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Bemidji Regional Airport's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Bemidji Regional Airport's, management. Our responsibility is to express an opinion on the Bemidji Regional Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bemidji Regional Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Bemidji Regional Airport's compliance with those requirements.

In our opinion, the Bemidji Regional Airport complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

**Internal Control Over Compliance**

The management of the Bemidji Regional Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Bemidji Regional Airport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the use of and information of management, the Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Miller McDonald, Inc.*

May 1, 2007  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2006**

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

1. An unqualified report was issued.
2. There were no reportable conditions in internal control.
3. The audit did not disclose any noncompliance that was material to the financial statements.
4. There were no reportable conditions in internal control over major federal programs.
5. An unqualified report on compliance for major federal award programs was issued.
6. Major programs:
  - Airport Improvement Program CFDA No. 20.106
7. A \$300,000 threshold was used to distinguish between Type A and Type B programs.
8. The Bemidji Regional Airport did not qualify as a low-risk auditee.

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

None.

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

**Internal Control Findings**

1. None.

**Questioned Costs**

1. None.

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

1. None

**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2006**

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

**Finding 06-1**

**At times during the year the Bemidji Regional Airport did not have sufficient pledged collateral in place to cover deposits at the First National Bank in Bemidji.**

**Corrective Action Plan (CAP)**

**1. Explanation of Disagreement with the Audit Finding.**

**There is no disagreement with the audit finding.**

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

**The Bemidji Regional Airport will discuss with Bank officials the necessity to have sufficient pledged collateral at all times and will monitor the bank balances during the year to assure sufficient coverage.**

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

**Harold Van Leeuwen, Airport Manager**

**4. Planned Completion of CAP**

**December 31, 2007**

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

**The Board will monitor during the year, .**

**BEMIDJI REGIONAL AIRPORT**  
**PRIOR YEAR FINDINGS & QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2006**

None.