

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**BEMIDJI, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2017 AND 2016**

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**BEMIDJI, MINNESOTA**  
**DECEMBER 31, 2017 AND 2016**

**TABLE OF CONTENTS**

<b>OFFICIAL DIRECTORY</b>	<b>1</b>
<b>INDEPENDENT AUDITOR’S REPORT</b>	<b>2-4</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>Management’s Discussion and Analysis</b>	<b>5-9</b>
<b>FINANCIAL STATEMENTS</b>	
<b>Statements of Net Position</b>	<b>10</b>
<b>Statements of Revenues, Expenses, and Changes in Net Position</b>	<b>11</b>
<b>Statements of Cash Flows</b>	<b>12</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>13-25</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>Schedule of the Authority’s Proportionate Share of the Net Pension Liability</b>	<b>26</b>
<b>Schedule of Authority’s Contributions</b>	<b>27</b>
<b>Notes to the Required Supplementary Information</b>	<b>28-29</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>Schedule of Passenger Facility Charge Revenue</b>	<b>30</b>
<b>Schedule of Expenditures of Federal Awards</b>	<b>31</b>
<b>OTHER REPORTS</b>	
<b>Independent Auditor’s Report on Compliance Based on an Audit of the Financial Statements Performed in Accordance with <i>Minnesota Legal Compliance Audit Guide for Other Political Subdivisions</i></b>	<b>32</b>
<b>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 <i>Government Auditing Standards</i></b>	<b>33-34</b>
<b>Independent Auditor’s Report on Compliance for Each Major Federal Program and for the Passenger Facility Charge Program and on Internal Control Over Compliance Required By Uniform Guidance</b>	<b>35-37</b>
<b>Schedule of Findings and Questioned Costs</b>	<b>38-44</b>
<b>Summary Schedule of Prior Year Audit Findings</b>	<b>45</b>

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**OFFICIAL DIRECTORY**  
**DECEMBER 31, 2017**  
**(Unaudited)**

<b>John Knorr</b>	<b>Authority Chairperson</b>
<b>Reed Olson</b>	<b>Authority Member</b>
<b>Ron Johnson</b>	<b>Authority Member</b>
<b>Jim Lucachick</b>	<b>Authority Member</b>
<b>Roger Hellquist</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 enterprise fund activity of the Bemidji Regional Airport Authority, as of and for the years ended December 31, 2017 and 2016, 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 opinions 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 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.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund activity of the Bemidji Regional Airport Authority, as of December 31, 2017 and 2016, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of the Authority's Proportionate Share of the Net Pension Liability and the Schedule of Authority's Contributions on pages 5 through 9 and pages 26 through 29, 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 October 4, 2018, on our consideration of Bemidji Regional Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bemidji Regional Airport Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bemidji Regional Airport Authority's internal control over financial reporting and compliance.

*Miller McDonald, Inc.*

October 4, 2018  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2017**

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport Authority's financial activities during the year 2017 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 2017 was \$508,047, state and federal grants amounted to \$1,917,913 and rents were \$407,977. Investment earnings and other income totaled \$36,668. Total revenues for 2017 of \$2,870,605 exceeded total expenses of \$2,650,985 resulting in an increase in net position of \$219,620. The prior year decrease in net position was \$191,651.

	2017		2016		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<b>Operating Revenues:</b>						
Rents	\$ 407,977	14.21%	\$ 369,176	15.61%	\$ 38,801	10.51%
Other	35,345	1.23%	101,872	4.31%	(66,527)	-65.30%
Total Operating Revenues	443,322	15.44%	471,048	19.91%	(27,726)	-5.89%
<b>Non-Operating Revenues:</b>						
State and Federal Grants	173,902	6.06%	163,408	6.91%	10,494	6.42%
Property Taxes	508,047	17.70%	523,500	22.13%	(15,453)	-2.95%
Interest Income	1,323	0.05%	1,222	0.05%	101	8.27%
Total Non-Operating Revenues	683,272	23.80%	688,130	29.09%	(4,858)	-0.71%
Captial Grants	1,744,011	60.75%	1,206,535	51.00%	537,476	44.55%
<b>Total Revenues</b>	<b>2,870,605</b>	<b>100.00%</b>	<b>2,365,713</b>	<b>100.00%</b>	<b>504,892</b>	<b>21.34%</b>
<b>Operating Expenses:</b>						
Salaries and Wages	266,498	10.05%	241,908	9.46%	24,590	10.17%
Payroll Taxes and Employee Benefits	106,654	4.02%	90,994	3.56%	15,660	17.21%
Utilities	120,270	4.54%	129,183	5.05%	(8,913)	-6.90%
Maintenance and Repairs	85,780	3.24%	67,543	2.64%	18,237	27.00%
Supplies	51,606	1.95%	45,171	1.77%	6,435	14.25%
Other Services and Charges	269,596	10.17%	185,506	7.25%	84,090	45.33%
Depreciation and Amortization	1,716,771	64.76%	1,762,229	68.91%	(45,458)	-2.58%
Total Operating Expenses	2,617,175	98.72%	2,522,534	98.64%	94,641	3.75%
<b>Non-Operating Expense:</b>						
Interest Expense	33,810	1.28%	34,830	1.36%	(1,020)	-2.93%
<b>Total Expenses</b>	<b>2,650,985</b>	<b>100.00%</b>	<b>2,557,364</b>	<b>100.00%</b>	<b>93,621</b>	<b>3.66%</b>
<b>Changes in Net Position</b>	<b>\$ 219,620</b>		<b>\$ (191,651)</b>		<b>\$ 411,271</b>	

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2017**

The Authority's total net position was \$25,286,716 at December 31, 2017 (see the following table). At December 31, 2016 the net position was \$25,067,096 with an increase of \$219,620 from operating activities for the year ended December 31, 2017.

	2017	2016	Net Change	
			Amount	Percent
Current and Other Assets	\$ 1,720,469	\$ 1,943,605	\$ (223,136)	-11.48%
Capital assets, net of depreciation	25,276,997	24,991,305	285,692	1.14%
<b>Total assets</b>	<b>26,997,466</b>	<b>26,934,910</b>	<b>62,556</b>	<b>0.23%</b>
Deferred Outflows of Resources	58,292	96,979	(38,687)	-39.89%
Current liabilities	461,160	566,131	(104,971)	-18.54%
Long-term liabilities:				
Due within one year	71,720	67,196	4,524	6.73%
Due after one year	1,189,422	1,293,987	(104,565)	-8.08%
<b>Total Liabilities</b>	<b>1,722,302</b>	<b>1,927,314</b>	<b>(205,012)</b>	<b>-10.64%</b>
Deferred Inflows of Resources	46,740	37,479	9,261	24.71%
<b>Net Position:</b>				
Net Investment in Capital Assets	24,263,542	23,926,305	337,237	1.41%
Restricted	-	41,639	(41,639)	-100.00%
Unrestricted	1,023,174	1,099,152	(75,978)	-6.91%
<b>Total Net Position</b>	<b>\$ 25,286,716</b>	<b>\$ 25,067,096</b>	<b>\$ 219,620</b>	<b>0.88%</b>

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2017**

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 2019 levy for daily operations will remain at the 2018 amount. The 2019 levy for the Authority's capital improvement program will be increased by \$50,000 (\$20,000 is earmarked to begin environmental and appraisal work required for a potential land purchase and \$30,000 is earmarked for the local share on Federal Aviation Administration's (FAA) Supplemental Airport Improvement Program (AIP) Grants that the Airport Authority intends to request). The capital improvement levy funds remain extremely important, as they provide the local match to the FAA's AIP annual Entitlement Grant of \$1,000,000, as well as grants offered by Mn/DOT Aeronautics. The FAA has determined the Bemidji area to be an economically distressed community, thereby allowing its share of AIP funding to be increased to 95% of eligible expenses. As part of the Mn/DOT Aeronautics spending plan for the \$15 million that was returned to the State Airports Fund from the State Legislature, it currently matches AIP grants at half of the local share. In Bemidji Regional Airport Authority's case the match is 2.5%, leaving a 2.5% local share match for the Authority. This allows the capital improvement levy to go further and accomplish more capital improvement projects. With these funds returned, Mn/DOT Aeronautics continues to offer additional state funds to airports through maintain an increase in the Maintenance and Operations Grant, as well as increasing funding rates on grants for air service marketing, land purchases, building construction, equipment purchases, and revenue-generating projects. In 2018, the Airport Authority completed the airfield improvement project of constructing taxiway J and a portion of taxiway K. These two taxiways provide the vital link to an airside ramp that will be constructed by 2020. This airside ramp will allow private companies to build large hangars to expand their operations at the airport. Also in 2018, an access control system was installed in the terminal and snow removal equipment building. A FAA AIP entitlement grant has been approved for acquiring a new Aircraft Rescue and Firefighting (ARFF) truck and for sealcoating existing airfield pavements. In addition, the Airport Authority was approved to receive a discretionary AIP grant for concrete panel replacement on the general aviation ramp. Work continues on design of new hangars (nested T- Hangars and larger corporate hangars) and construction of the hangars is expected to begin in 2019. The FAA's AIP Supplemental Appropriation program has made \$1B in grants available to be targeted toward constructing infrastructure at primary small/non-hub and regional, local or basic non primary airports. The Bemidji Regional Airport is classified as a Primary/Nonhub airport. The Airport Authority intends to pursue a grant under this program for the airside ramp and infill of areas for general aviation.

The Authority received federal grant revenue under the Airport Improvement Program to complete the multiple projects listed above. Federal grant proceeds recognized in 2017 were \$1,608,828.

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**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2017**

## Bemidji Regional Airport Authority Debt

*Long-term Debt:* At the end of the fiscal year ending December 31, 2017, the Bemidji Regional Airport Authority had \$1,010,000 in bond debt outstanding and a note payable of \$11,720. 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>12/31/16</u> Balance	<u>Additions</u>	<u>Payments</u>	<u>12/31/17</u> Balance
<b>Long-Term Debt:</b>				
G.O. Revenue Bonds	\$ 1,065,000	\$ -	\$ 55,000	\$ 1,010,000
Unamortized Bond Discount	<u>(8,897)</u>	<u>-</u>	<u>(633)</u>	<u>(8,264)</u>
Total General Obligation Bond	1,056,103	-	54,367	1,001,736
Note Payable	<u>23,916</u>	<u>-</u>	<u>12,196</u>	<u>11,720</u>
Total Long-Term Debt	<u>1,080,019</u>	<u>-</u>	<u>66,563</u>	<u>1,013,456</u>

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## Capital Investments

*Major equipment or structure additions or improvements:* During the year, the Authority purchased various pieces of equipment and had multiple projects in progress. Total capital additions for 2017 and 2016 totaled \$1,952,463 and \$1,466,658 respectively.

## Bemidji Regional Airport Authority as a Whole

*Financial Statement:* The attached audit accurately reflects the financial position at the end of FY2017. 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 2017 the Airport Authority collected and distributed passenger facility charge funds, as approved on application 15-04-C-00-BJI, and continued to repay the Airport Authority for its already expended local share on its snow blower; snow plow and sander; Airport Rescue and Firefighting facility expansion design and construction; rehabilitation and improvement of the terminal – phases 2 and 3, utilities, airside ramp and parking lot; passenger boarding bridge and wildlife hazard assessment (AIPs 21, 22, 23, 24, 25, 26, 27, 28 and 29). This PFC application is to collect \$605,197 at the \$4.50 level and is estimated to expire in October 2021. In addition, these PFCs are being used to abate the levy assessment assigned for paying the principal and interest payments on the General Obligation Revenue Bonds issued in 2010.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2017**

***Fiscal Year 2019's Budget requirements:*** For 2019, the Authority continues to be adequately funded for operations and maintenance through revenue generated by user fees, lease payments, the operating levy and a continued increase in the Maintenance and Operations Grant for State fiscal years 2019 (July 2018 to June 2019). The Airport Authority had a very successful first year in providing personnel to meet the FAA's requirement for Aircraft Rescue and Firefighting coverage during air carrier operations. In addition, with the increased frequency of ice storms, the Authority will explore and plan for the use of deicing and anti-icing chemicals for runways and taxiways.

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 341,162	\$ 807,395
Accounts Receivable	20,712	22,074
Property Taxes Receivable	29,170	26,227
Due from Other Governmental Units	870,633	582,888
Prepaid Insurance	23,900	26,839
Total Current Assets	<u>1,285,577</u>	<u>1,465,423</u>
<u>Non-Current Assets</u>		
<u>Capital Assets</u>		
Land	1,521,769	1,521,769
Buildings	13,822,993	13,822,993
Runways and Improvements	23,213,384	23,213,384
Equipment	3,115,366	3,093,191
Construction In Progress	2,993,158	1,097,567
	<u>44,666,670</u>	<u>42,748,904</u>
Less: Accumulated Depreciation	<u>(19,389,673)</u>	<u>(17,757,599)</u>
Total Capital Assets, net	<u>25,276,997</u>	<u>24,991,305</u>
Capital Credits Receivable	23,504	22,886
Airport planning costs - net of accumulated amortization of \$49,367 and \$0, respectively	<u>411,388</u>	<u>455,296</u>
Total Non-Current Assets	<u>434,892</u>	<u>478,182</u>
<u>Total Assets</u>	<u>26,997,466</u>	<u>26,934,910</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	<u>58,292</u>	<u>96,979</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	438,073	541,500
Accrued Interest Payable	13,511	14,084
Current Portion of Bonds Payable	60,000	55,628
Current Portion of Note Payable	11,720	11,568
Accrued Liabilities	674	436
Unearned Rental Income	8,902	10,111
Total Current Liabilities	<u>532,880</u>	<u>633,327</u>
<u>Long-Term Liabilities</u>		
Bonds Payable, net	941,736	1,000,475
Note Payable, net	-	12,348
Accrued Compensated Absences	56,168	45,698
Net Pension Liability	191,518	235,466
Total Long-Term Liabilities	<u>1,189,422</u>	<u>1,293,987</u>
<u>Total Liabilities</u>	<u>1,722,302</u>	<u>1,927,314</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	<u>46,740</u>	<u>37,479</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	24,263,542	23,926,305
Restricted	-	41,639
Unrestricted	<u>1,023,174</u>	<u>1,099,152</u>
<u>Total Net Position</u>	<u>\$ 25,286,716</u>	<u>\$ 25,067,096</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Operating Revenues</u></b>		
Rents	\$ 407,977	\$ 369,176
Other	35,345	101,872
<b>Total Revenues</b>	<u>443,322</u>	<u>471,048</u>
<b><u>Operating Expenses</u></b>		
Salaries and Wages	266,498	241,908
Payroll Taxes and Employee Benefits	106,654	90,994
Utilities	120,270	129,183
Maintenance and Repairs	85,780	67,543
Supplies	51,606	45,171
Other Services and Charges	269,596	185,506
Depreciation and Amortization	1,716,771	1,762,229
<b>Total Expenses</b>	<u>2,617,175</u>	<u>2,522,534</u>
<b><u>Operating Loss</u></b>	<u>(2,173,853)</u>	<u>(2,051,486)</u>
<b><u>Non-Operating Revenues (Expense)</u></b>		
State and Federal Grants	173,902	163,408
Property Taxes	508,047	523,500
Interest Income	1,323	1,222
Interest Expense	(33,810)	(34,830)
<b>Total Non-Operating Revenues (Expense)</b>	<u>649,462</u>	<u>653,300</u>
<b><u>Net Loss Before Capital Grants</u></b>	(1,524,391)	(1,398,186)
Capital Grants	<u>1,744,011</u>	<u>1,206,535</u>
<b><u>Change in Net Position</u></b>	219,620	(191,651)
<b><u>Net Position, Beginning of Year</u></b>	<u>25,067,096</u>	<u>25,258,747</u>
<b><u>Net Position, End of Year</u></b>	<u>\$ 25,286,716</u>	<u>\$ 25,067,096</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

	<u>2017</u>	<u>2016</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received From Users	\$ 444,066	\$ 453,568
Cash Paid to Suppliers and Employees	<u>(867,227)</u>	<u>(712,548)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(423,161)</u>	<u>(258,980)</u>
<b><u>Cash Flows from Non-Capital Financing Activities</u></b>		
Cash Received from Property Taxes and Related Credits	505,104	528,399
Proceeds of Federal and State Grants	<u>173,902</u>	<u>163,408</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>679,006</u>	<u>691,807</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Acquisition of Property and Equipment	(2,072,629)	(1,233,356)
Acquisition of Airport Planning Costs	(5,459)	-
Principal Paid on Notes Payable	(12,196)	(12,552)
Principal Paid on Bonds	(55,000)	(55,000)
Proceeds of Federal and State Capital Grants	1,456,266	1,108,495
Interest Paid on Bonds and Notes	<u>(34,383)</u>	<u>(35,400)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(723,401)</u>	<u>(227,813)</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Interest	<u>1,323</u>	<u>1,222</u>
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	(466,233)	206,236
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<u>807,395</u>	<u>601,159</u>
<b><u>Cash and Cash Equivalents, End of Year</u></b>	<u>\$ 341,162</u>	<u>\$ 807,395</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u></b>		
<b><u>Operating Loss</u></b>	\$ (2,173,853)	\$ (2,051,486)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Depreciation and Amortization	1,716,771	1,762,229
Changes in Assets, Liabilities, and Deferrals		
(Increase) Decrease in Accounts Receivable	744	(17,480)
(Increase) Decrease in Prepaid Insurance	2,939	189
(Increase) Decrease in Deferred Outflows of Resources	38,687	(77,598)
Increase (Decrease) in Accounts Payable	16,739	44,980
Increase (Decrease) in Accrued Liabilities	238	(4,368)
Increase (Decrease) in Accrued Compensated Absences	10,470	(1,523)
Increase (Decrease) in Deferred Rental Income	(1,209)	471
Increase (Decrease) in Net Pension Liability	(43,948)	100,721
Increase (Decrease) in Deferred Inflows of Resources	<u>9,261</u>	<u>(15,115)</u>
<b><u>Net Cash Provided by (Used in) Operating Activities</u></b>	<u>\$ (423,161)</u>	<u>\$ (258,980)</u>

See Accompanying Notes to Financial Statements.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

1. **Summary of Significant Accounting Policies**

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

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

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

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

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

Enterprise funds distinguish operating items from non-operating items. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenues of the Authority are charges for rent and property taxes collected. All revenues not meeting this definition are reported as non-operating items.

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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.

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.

**Other Assets** – Airport planning costs are being amortized by the straight-line method over 5 to 20 years.

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

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

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

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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.

**Pensions** – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA.

For PERA's purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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, 2017 was zero.

3. **Revenues**

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

**Property Tax Revenue** - The Authority annually adopts a tax levy and certifies it to the County by July 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.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

4. **Capital Assets**

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>1/1/2017</u> <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2017</u> <u>Balance</u>
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 1,521,769	\$ -	\$ -	\$ 1,521,769
Construction in Progress	<u>1,097,567</u>	<u>1,911,040</u>	<u>15,449</u>	<u>2,993,158</u>
<b>Total Non-Depreciable Capital Assets</b>	<u>2,619,336</u>	<u>1,911,040</u>	<u>15,449</u>	<u>4,514,927</u>
<b>Depreciable Capital Assets</b>				
Buildings	13,822,993	-	-	13,822,993
Runways and Improvements	23,213,384	-	-	23,213,384
Equipment	<u>3,093,191</u>	<u>56,872</u>	<u>34,697</u>	<u>3,115,366</u>
<b>Total Depreciable Capital Assets</b>	40,129,568	56,872	34,697	40,151,743
Less Accumulated Depreciation	<u>(17,757,599)</u>	<u>(1,666,771)</u>	<u>(34,697)</u>	<u>(19,389,673)</u>
<b>Depreciable Capital Assets, Net</b>	<u>22,371,969</u>	<u>(1,609,899)</u>	<u>-</u>	<u>20,762,070</u>
<b>Total Capital Assets, Net</b>	<u>\$ 24,991,305</u>	<u>\$ 301,141</u>	<u>\$ 15,449</u>	<u>\$ 25,276,997</u>

Reclassification to beginning balance occurred because there was construction in progress of \$455,296 transferred to “Other Assets – Airport Planning Costs” which is not included on this summary.

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

**Public Employees Retirement Association**

**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.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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

All full-time and certain part-time employees of the Bemidji Regional Airport Authority are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**Benefits Provided**

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

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

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

**General Employees Plan Benefits**

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% 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 salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**Contributions**

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**General Employees Fund Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. 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 2017. The Bemidji Regional Airport Authority contributions to the General Employees Fund for the year ended December 31, 2017, were \$14,784. The Bemidji Regional Airport Authority contributions were equal to the required contributions as set by State Statute.

**Pension Costs**

**General Employees Fund Pension Costs**

At December 31, 2017, the Bemidji Regional Airport Authority reported a liability of \$191,518 for its proportionate share of the General Employees Fund's net pension liability. The Bemidji Regional Airport Authority's net pension liability reflected a reduction due to the State of Minnesota's contribution to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Bemidji Regional Airport Authority totaled \$2,419. The net pension liability was measured as of June 30, 2017 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Bemidji Regional Airport Authority's proportion was .0030% which was an increase of .0001% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Bemidji Regional Airport Authority recognized pension expense of \$18,784 for its proportionate share of the General Employees Plan's pension expense. In addition, the Authority recognized an additional \$70 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

At December 31, 2017, the Bemidji Regional Airport Authority reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,312	\$ 11,649
Changes in actuarial assumptions	30,736	19,200
Difference between projected and actual investment earnings	-	624
Changes in proportion	13,864	15,267
Contributions paid to PERA subsequent to the measurement date	<u>7,380</u>	<u>-</u>
Total	<u>\$ 58,292</u>	<u>\$ 46,740</u>

\$7,380 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (1,669)
2019	15,861
2020	(1,892)
2021	(8,128)

**Actuarial Assumptions**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments it fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rate set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

The following presents the Bemidji Regional Airport Authority's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Bemidji Regional Airport Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
Authority's proportionate share of the General Employees Fund net pension liability:	\$ 297,059	\$ 191,518	\$ 105,114

**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).

**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.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**7. Long-Term Liabilities**

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

A Note Payable was obtained for the purpose of financing the purchase of land for a runway. The \$36,468 note payable was issued on December 7, 2015 with an administrative fee of 5.0%. Payments are due December 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 liabilities for the year ended December 31, 2017:

	<u>12/31/16</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>12/31/17</u> <u>Balance</u>
<b>General Obligation Bonds</b>				
G.O. Revenue Bonds	\$ 1,065,000	\$ -	\$ 55,000	\$ 1,010,000
Unamortized Bond Discount	<u>(8,897)</u>	<u>-</u>	<u>(633)</u>	<u>(8,264)</u>
<b>Total General Obligation Bonds</b>	<b>1,056,103</b>	<b>-</b>	<b>54,367</b>	<b>1,001,736</b>
Note Payable	23,916	-	12,196	11,720
Compensated Absences	<u>45,698</u>	<u>10,470</u>	<u>-</u>	<u>56,168</u>
<b>Total Long-Term Liabilities</b>	<b><u>\$ 1,125,717</u></b>	<b><u>\$ 10,470</u></b>	<b><u>\$ 66,563</u></b>	<b><u>\$ 1,069,624</u></b>

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

The annual requirements to amortize long-term debt outstanding at December 31, 2017, including interest are as follows:

Year	<u>G.O. Revenue Bonds</u>		<u>Notes Payable</u>		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 60,000	\$ 31,749	\$ 11,720	\$ 586	\$ 104,055
2019	60,000	30,249	-	-	90,249
2020	60,000	28,718	-	-	88,718
2021	65,000	27,045	-	-	92,045
2022	65,000	25,217	-	-	90,217
2023-2027	360,000	94,236	-	-	454,236
2028-2031	340,000	25,963	-	-	365,963
<b>Total</b>	<b><u>\$1,010,000</u></b>	<b><u>\$263,177</u></b>	<b><u>\$ 11,720</u></b>	<b><u>\$ 586</u></b>	<b><u>\$1,285,483</u></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 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, 2017 total \$1,256,774.

**8. Risk Management**

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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, 2017 may be impaired. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Authority has entered into various construction contracts and as of December 31, 2017, the Authority had an outstanding construction contract totaling \$557,754. This will be funded by grants and future revenues.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**DECEMBER 31, 2017**

Last 10 Fiscal Years\*

For Measurement Date June 30:	Authority's Proportion of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Authority	Total	Authority's Covered Payroll	Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b><u>General Employees Plan:</u></b>							
2017	0.0030%	\$ 191,518	\$ 2,419	\$ 193,937	\$ 195,869	97.78%	75.9%
2016	0.0029%	235,466	3,036	238,502	172,712	136.33%	68.9%
2015	0.0026%	134,745	-	134,745	153,944	87.53%	78.2%

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

See Accompanying Notes to the Required Supplementary Information.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF AUTHORITY'S CONTRIBUTIONS**  
**DECEMBER 31, 2017**

Last 10 Fiscal Years\*

<u>For the Year Ended December 31:</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required</u>	<u>Contribution Deficiency (Excess)</u>	<u>Authority's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
<b><u>General Employees Plan:</u></b>					
2017	\$ 14,784	\$ 14,784	\$ -	\$ 197,118	7.50%
2016	13,614	13,614	-	181,519	7.50%
2015	13,183	13,183	-	182,988	7.20%

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

See Accompanying Notes to the Required Supplementary Information.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**

**Note 1 – Pensions**

**General Employees Fund**

**2017 Changes**

**Changes in Actuarial Assumptions:**

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**2016 Changes**

**Changes in Actuarial Assumptions:**

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

**2015 Changes**

**Changes in Plan Provisions:**

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**

**Changes in Actuarial Assumptions:**

- The assumed post-retirement benefit increase rate was changed from 1% per year through 2030 and 2.5% per year thereafter to 1% per year through 2035 and 2.5% per year thereafter.

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE**  
**DECEMBER 31, 2017**

	<b>Application Five <u>15-04-C-00-BJI</u></b>
<b>Passenger Facility Charge Collections*</b>	
<b>Prior to January 1, 2017</b>	<b>\$ <u>108,106</u></b>
<b>Collections in 2017:</b>	
<b>First Quarter</b>	<b>26,853</b>
<b>Second Quarter</b>	<b>29,888</b>
<b>Third Quarter</b>	<b>30,346</b>
<b>Fourth Quarter</b>	<b><u>29,714</u></b>
<b>Total Collections in 2017</b>	<b><u>116,801</u></b>
<b>Total Collected Through December 31, 2017</b>	<b>224,907</b>
<b>Approved Expenses Through December 31, 2017</b>	<b><u>224,907</u></b>
<b>Unexpended Balance - December 31, 2017</b>	<b><u><u>\$ -</u></u></b>

\* 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, 2017**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Pass-Through Grant Numbers</u>	<u>Expenditures</u>
<b><u>U.S Department of Transportation</u></b>			
Pass-Through Minnesota Department of Transportation-Aeronautics			
Airport Improvement Program (AIP 30)	20.106	06794	\$ 3,561
Airport Improvement Program (AIP 32)	20.106	1026470	1,074,324
Airport Improvement Program (AIP 33)	20.106	1029525	412,492
Airport Improvement Program	20.106	Unassigned	<u>80,750</u>
Total Airport Improvement Program			1,571,127
<b><u>U.S. Department of Commerce</u></b>			
Pass-Through Minnesota Department of Transportation-Aeronautics			
Investments for Public Works and Economic			
Development Facilities	11.300	1027340	<u>20,161</u>
<b><u>Total Federal Assistance Expended</u></b>			<b><u>\$ 1,591,288</u></b>

**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 the 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 the 10 percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 – Pass-through Entities**

All pass-through entities 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 enterprise fund activity of the Bemidji Regional Airport Authority as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprises the Bemidji Regional Airport Authority's basic financial statements, and have issued our report thereon dated October 4, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because the Bemidji Regional Airport Authority did not have any tax increment financing during the period audited.

In connection with our audit, nothing came to our attention that caused us to believe that Bemidji Regional Airport Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the 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.*

October 4, 2018  
 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 enterprise fund activity of the Bemidji Regional Airport Authority, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Bemidji Regional Airport Authority's basic financial statements and have issued our report thereon dated October 4, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Bemidji Regional Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been 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 2017-001, 2016-001, and 2007-001.

### Compliance and Other Matters

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

### Bemidji Regional Airport Authority's Response to Findings

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.*

October 4, 2018  
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 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 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 programs for the year ended December 31, 2017. The Bemidji Regional Airport Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

We have also audited Bemidji Regional Airport Authority's compliance with requirements applicable to its Passenger Facility Charge (PFC) revenue, as well as whether the quarterly reports filed by the Authority fairly represent the net transactions of the PFC account in accordance with the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), for the year ended December 31, 2017.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal 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* (Guide), issued by the Federal Aviation Administration. Those standards, the Uniform Guidance and the Guide, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or PFC program occurred. An audit includes examining, on a test basis, evidence about the 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 the Bemidji Regional Airport Authority's compliance.

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

In our opinion, the Bemidji Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program and its PFC program for the year ended December 31, 2017.

**Report on Internal Control Over Compliance**

Management of the Bemidji Regional Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bemidji Regional Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its 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 the Uniform Guidance, and the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 or the PFC program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or the PFC program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be significant deficiencies.

Bemidji Regional Airport Authority's response to the internal control over compliance 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 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 the Uniform Guidance and Passenger Facility Charge Audit Guide for Public Agencies. Accordingly, this report is not suitable for any other purpose.

*Miller McDonald, Inc.*

October 4, 2018  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

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

1. An unmodified report was issued
2. Three 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. Two significant deficiencies 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 Federal 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 did not qualify as a low-risk auditee.

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

**Finding: 2017-001 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 agreements and what was recorded on the trial balance.

**Criteria**

Reconciliations between the grant draws and the total project costs is a control procedure necessary to ensure the project is reported properly and the Authority is reimbursed the proper amount.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

**Effect**

The federal, state and local shares reflected in the grant revenue did not match the allowable costs for each 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 amount of expenditures incurred, the expected revenues and what was reimbursed.

**Recommendation**

The Authority should reconcile what was received from the federal and state to what was expected to be reimbursed by the respective entities 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, 2018

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, 2017**

**Finding: 2016-001 – Segregation of Duties**

**Condition**

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

1. Cash receipting, depositing and recording

**Criteria**

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

**Effect**

The impact to the financial statements has not been determined.

**Cause**

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

**Recommendation**

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

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

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

There is no disagreement with the audit finding.

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

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

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

Karen Weller, Executive Director

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

4. **Planned Completion of CAP**

December 31, 2018

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

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

**Finding: 2007-001 – Auditor Prepares the Financial Statements**

**Condition**

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

**Criteria**

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

**Effect**

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

**Cause**

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

**Recommendation**

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

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

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

Karen Weller, Executive Director

**4. 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 Questions Costs for Federal Award Programs**

**Internal Control**

**Finding: 2017-001 Airport Improvement Program, CFDA No. 20.106 – Grant Reconciliations**

See Finding 2017-001 in Section B above

**Finding: 2017-002 Airport Improvement Program, CFDA No. 20.106 – Cash Management/Reporting**

**Condition**

Expenditures were requested and reimbursed under the incorrect project grant agreement. These expenditures do not have a grant agreement yet, but are eligible for future entitlement.

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

**Condition**

Two disbursements were requested and reimbursed under the incorrect project grant agreement. The disbursements related to a project grant that was not available for draws until after year end.

**Criteria**

Reimbursement requests must include allowable expenditures for each specific project's grant agreement.

**Effect**

Reimbursement funds received were in excess of eligible cost for one of the project's grant agreement.

**Cause**

The total project costs were not reconciled to the total project draws.

**Recommendation**

Reconciliations should be performed for each project, summarizing the costs that have incurred, what should be reimbursed and what has been received for reimbursement.

**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, 2018

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, 2017**

**Compliance**

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

**BEMIDJI REGIONAL AIRPORT AUTHORITY**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2017**

**Finding: 2016-001 – Segregation of Duties**

**Condition**

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

1. Cash receipting, depositing and recording

**Current Status**

Not resolved.

**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.

**Current Status**

Not Resolved.



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Suite 101  
Bemidji, Minnesota  
56601

**Corrective Action Plan  
December 31, 2017**

Federal Aviation Administration

Bemidji Regional Airport respectfully submits the following corrective action plans for the year ended December 31, 2017.

Name and address of public accounting firm:  
Miller McDonald, Inc.  
513 Beltrami Avenue  
Bemidji, MN 56601

Audit Period: December 31, 2017

The findings from the December 31, 2017, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedules.

**Finding 2017-001 – Airport Improvement Program, CFDA No. 20.106 - Grant Reconciliations**

**Corrective Action Plan**

**Explanation of Disagreement with Audit Finding**

There is no disagreement with the audit finding.

**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.

**Official Responsible for Ensuring CAP Implementation**

Karen Weller, Executive Director

**Planned Completion of CAP**

December 31, 2018

**Plan to Monitor Completion of CAP**

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

Karen E. Weller  
Executive Director  
3685

Bemidji Regional Airport Authority  
3824 Moberg Drive NW Suite 101 Fax  
Bemidji, MN 56601

Office (218) 444-2438  
(218) 333-

**Finding 2017-002 – Airport Improvement Program, CFDA No. 20.106 – Cash Management/Reporting**

**Corrective Action Plan**

**Explanation of Disagreement with Audit Finding**

There is no disagreement with the audit finding.

**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.

**Official Responsible for Ensuring CAP Implementation**

Karen Weller, Executive Director

**Planned Completion of CAP**

December 31, 2018

**Plan to Monitor Completion of CAP**

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

**Finding 2016-001 – Segregation of Duties**

**Corrective Action Plan**

**Explanation of Disagreement with Audit Finding**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding**

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

**Official Responsible for Ensuring CAP Implementation**

Karen Weller, Executive Director

**Planned Completion of CAP**

December 31, 2018

**Plan to Monitor Completion of CAP**

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

**Finding 2007-001 – Auditor Prepares the Financial Statements**

**Corrective Action Plan**

**Explanation of Disagreement with Audit Finding**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding**

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

**Official Responsible for Ensuring CAP Implementation**

Karen Weller, Executive Director

**Planned Completion of CAP**

Ongoing

**Plan to Monitor Completion of CAP**

The Authority will continue to review the audited financial statements.

Sincerely,

*Karen Weller*

Karen E. Weller  
Executive Director  
Bemidji Regional Airport Authority