

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Airport Commission
Airport Authority
Beulah, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of the Airport Authority, a component unit of the City of Beulah, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the major fund of the Airport Authority, as of December 31, 2016, and the respective changes in modified cash basis financial position for the year ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal controls over financial reporting.



BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota

May 26, 2017

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 89,228
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Non-current assets:

Construction in progress	4,400
Capital assets, net of accumulated depreciation	<u>643,190</u>

Total assets	<u>736,818</u>
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NET POSITION

Net investment in capital assets	647,590
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Unrestricted	<u>89,228</u>
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Total net position	<u><u>\$ 736,818</u></u>
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See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

EXPENSES

Public services - airport:

Fuel	\$ 37,312
Repairs and maintenance	10,181
Insurance	2,139
Public relations	2,097
Depreciation	38,922
Lease	5,440
Utilities	2,258
Supplies and miscellaneous	2,623
Amortization	1,800
Interest on bonds payable	<u>4,696</u>

Total expenses	<u>107,468</u>
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REVENUES

Program revenues:

Charges for services	27,507
Operating grants and contributions	<u>31,354</u>

Total program revenue	<u>58,861</u>
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Net program (expense) revenue	<u>(48,607)</u>
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General revenues:

Property taxes	31,888
State aid distribution	17,924
Investment earnings	110
City appropriations	20,000
Miscellaneous	<u>276</u>

Total general revenues	<u>70,198</u>
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Change in net position	21,591
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Net position - beginning	<u>715,227</u>
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Net position - ending	<u><u>\$ 736,818</u></u>
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See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
BALANCE SHEET – MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	<u>\$ 89,228</u>
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FUND BALANCE

Unassigned	<u>\$ 89,228</u>
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See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016

Total governmental funds balance	\$	89,228
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets used in governmental activities are not
current financial resources and therefore are not reported
in this fund financial statement, but are reported in the
governmental activities in the Statement of Net Position.

Cost	\$	1,175,308	
Accumulated depreciation		(527,718)	
Capital assets, net		647,590	
Net position of governmental activities	\$	736,818	

See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

REVENUES

Taxes	\$	31,888
Intergovernmental		49,277
Charges for services		27,507
Interest		110
Miscellaneous		<u>277</u>
 Total revenues		 <u>109,059</u>

EXPENDITURES

Public services - airport:

Current:

Fuel		37,312
Repairs and maintenance		10,181
Insurance		2,139
Public relations		2,097
Lease		5,440
Utilities		2,258
Supplies and miscellaneous		<u>2,623</u>

Total current		<u>62,050</u>
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Capital outlay		<u>58,442</u>
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Debt service:

Principal retirement		135,000
Interest		<u>4,696</u>

Total debt service		<u>139,696</u>
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Total expenditures		<u>260,188</u>
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Excess (deficiency) of revenues over expenditures		<u>(151,129)</u>
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OTHER FINANCING SOURCES (USES)

City appropriations		<u>20,000</u>
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Net change in fund balance		(131,129)
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Fund balance - beginning		<u>220,357</u>
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Fund balance - ending	\$	<u><u>89,228</u></u>
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See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Net change in fund balance - total governmental funds \$ (131,129)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital Outlay	\$	58,442	
Depreciation expense		<u>(38,922)</u>	19,520

Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, where as these are deferred and amortized in the Statement of Activities. Net bond cost is capitalized and amortized over the bonds life as amortization expense for the period.

Amortization expense			(1,800)
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Governmental funds report bond/note proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond/note principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

Bonds payable principal payments			<u>135,000</u>
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Change in net position - governmental activities	\$	<u>21,591</u>	
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See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, DECEMBER 31, 2016

NOTE 1 DESCRIPTION OF THE AIRPORT AUTHORITY (COMPONENT UNIT)

The City of Beulah operates under a city council form of government. The Airport Commission is appointed by the City Council. The Airport Authority is accounted for as a special purpose government engaged in a governmental activity.

As discussed in Note 2, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (U.S. GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Airport Authority's significant accounting policies are as described below in Note 2.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Airport Authority's basic financial statements consist of government-wide statements, including Statements of Net Position and Statements of Activities, and fund financial statements, which provide a more detailed level of financial information.

Reporting Entity

Component units are legally separate organizations for which a government is financially accountable. The Airport Authority is included as a component unit in a separate report of the City of Beulah (the primary government) because of the significance of the operational and financial relationship with the City.

The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. The criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the government. Component units may also include organizations that are fiscally dependent on the government.

The members of the governing board of the Airport Authority are appointed by the City Council. Although the City does not have the authority to approve or modify the Airport Authority's operational and capital budgets, the tax rates established by the Airport Authority and bonded debt must be approved by the City Council. Complete financial statements of the primary government can be obtained from the City of Beulah auditor.

Based on the above criteria, the Airport Authority has no component units included in its report.

Government-Wide Financial Statements

The Statements of Net Position and the Statements of Activities display information about the Airport Authority as a whole. These statements include the financial activities of the reporting entity. The statements include governmental activities, which are normally financed through taxes and intergovernmental revenues.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

The Statements of Net Position present the financial condition of the governmental activities of the Airport Authority at year-end. The Statements of Activities present a comparison between direct expenses and program revenues for each program or function of the Airport Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Airport Authority. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Airport Authority.

Fund Financial Statements

Fund financial statements are designated to present financial information of the Airport Authority at this more detailed level.

Each major fund is presented in a separate column in the fund financial statements.

Fund Accounting

The Airport Authority uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. The fund of the financial entity is described below:

General fund

The general fund is the general operating fund of the Airport Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Government-wide financial statements

In the government-wide financial statements, the governmental activities are prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

Fund financial statements

In the fund financial statements, the current financial resources measurement focus as applied to the modified cash basis of accounting is used as appropriate.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balances report on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statements of Net Position and Statements of Activities and the fund financial statements, governmental activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) deferred outflows, certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities), and deferred inflows are not recorded in these financial statements.

If the Airport Authority utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Budgets and Budgetary Accounting

The Airport Authority Commission follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year.

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or about October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

The Airport Authority prepares its budget and reports its governmental funds on the same basis of accounting.

Cash and Cash Equivalents

The Airport Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except for certificates of deposit, which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal. Cash consists of amounts in demand deposits and savings accounts. These amounts must be deposited in a financial institution situated and doing business within this state. Cash equivalents consist of certificates of deposit and are stated in the financial statements at cost, which approximates fair value.

Capital Assets

The Airport Authority's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant and equipment (capital assets) depends on whether they are reported in the government-wide or fund financial statements.

Government-wide financial statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statements of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statements of Activities, with accumulated depreciation reflected in the Statements of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Asset	Estimated life
Buildings	30 years
Infrastructure	5 - 30 years
Equipment	5 years

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

Fund financial statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-term Debt

The accounting treatment of long-term debt depends on whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Equity Classifications

Government-wide financial statements

Equity is classified as net position and displayed in two components:

- 1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Unrestricted net position - All other net position that does not meet the definition of net investment in capital assets or restricted net position.

It is the Airport Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Financial Statements

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories and prepaid expenses; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board of directors - the Authority's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of directors removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The board of directors and management of the Authority have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the Authority's only fund.

When both restricted and unrestricted resources are available for use, the Authority's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Program Revenues

In the Statements of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Airport Authority's taxpayers are reported as program revenues. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Airport Authority requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Property Taxes

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1 of the year following the assessment date.

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15. Penalty and interest are added on March 1 if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

Taxes are collected by the county, remitted monthly to the City, and distributed to the Airport Authority.

NOTE 3 DEPOSITS

In accordance with North Dakota statutes, the Airport Authority maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits other than with the Bank of North Dakota must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Credit Risk

The Airport Authority may invest idle funds as authorized by North Dakota statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress
- (b) Securities sold under agreement to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type above
- (c) Certificates of deposits fully insured by the federal deposit insurance corporation
- (d) Obligations of the state

As of December 31, 2016, the Airport Authority had investments in certificates of deposits as authorized by statutes. These amounts are classified as cash and cash equivalents on the financial statements in accordance with the Airport Authority's policy.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The Airport Authority maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2016, none of the Airport Authority's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

NOTE 4 APPROPRIATIONS FROM CITY OF BEULAH (PRIMARY GOVERNMENT)

Operating subsidies received from the City of Beulah, primary government for the year ended December 31, 2016 was as follows:

	From primary government	To component unit
Airport Authority	\$ 20,000	\$ -
General fund, primary government	-	20,000

NOTE 5 CAPITAL ASSETS

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

	Balance 1/1/16	Additions	Deletions	Balance 12/31/16
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 4,400	\$ -	\$ 4,400
Capital assets being depreciated				
Buildings	6,555	-	-	6,555
Equipment	26,065	-	-	26,065
Infrastructure	1,084,246	54,042	-	1,138,288
Total capital assets being depreciated	1,116,866	54,042	-	1,170,908
Less accumulated depreciation:				
Buildings	4,843	218	-	5,061
Equipment	26,065	-	-	26,065
Infrastructure	457,888	38,704	-	496,592
Total accumulated depreciation	488,796	38,922	-	527,718
Total capital assets being depreciated, net	628,070	15,120	-	643,190
Total capital assets, net	\$ 628,070	\$ 19,520	\$ -	\$ 647,590

Depreciation expense of \$38,922 was charged to Public Services in the Statement of Activities.

NOTE 6 BOND DISCOUNTS

The Airport Authority paid off the remaining principal bond balance during the year ended December 31, 2016, and as such amortized the remaining \$1,800 of bond discount in the current year.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

NOTE 7 LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Airport Authority for the year ended December 31, 2016:

	Balance 1/1/16	Additions	Reductions	Balance 12/31/16	Due Within One Year
Bonds payable	\$ 135,000	\$ -	\$ (135,000)	\$ -	\$ -

During the year ended December 31, 2016, the Authority paid off the remaining \$135,000 bond principal balance.

NOTE 8 LEASE OBLIGATIONS

The Airport Authority has a lease on a tract of land that it uses. The Authority is committed to pay rentals on this property through fiscal year 2064.

The annual primary rental figures, upon which the Consumer Price Index upward adjustment will be computed, are as follows:

2017	\$ 1,360
2018	1,360
2019	1,360
2020	1,360
2021	1,360
2022-2026	6,800
2027-2031	6,800
2032-2036	6,800
2037-2041	6,800
2042-2046	6,800
2047-2051	6,800
2052-2056	6,800
2057-2061	6,800
2062-2064	4,080
	<u>\$ 65,280</u>

The Authority paid \$5,440 for rent during the year ended December 31, 2016, as the annual lease payment for the previous 3 years was not made.

NOTE 9 RELATED PARTY TRANSACTIONS

The Airport Authority purchases a portion of its services and supplies from various entities that are controlled by the City Council members. It was not reasonably possible to determine the dollar amount of these transactions for the year ended December 31, 2016.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

NOTE 10 CONCENTRATIONS OF CREDIT RISK

The Airport Authority collects taxes, rents, and money from fuel sales from constituents located within the city limits or the immediate area.

NOTE 11 RISK MANAGEMENT

The Airport Authority is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Airport Authority is covered under the City of Beulah NDIRF insurance policies. The City pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

The City also participates in the State Bonding Fund, which includes coverage of the Airport Authority. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$1,168,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Airport Authority purchases commercial insurance for products – completed operations liability, general liability, fire damage and premises medical payments coverage associated with the Airport.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the

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OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, DECEMBER 31, 2016

primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and

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OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined the effects these statements will have on the Authority's financial statements.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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 Airport Commission
Airport Authority
Beulah, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Airport Authority, a component unit of the City of Beulah, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2016-001 as described in the accompanying schedule of findings and responses to be a material weakness.

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 attention by those charged with governance. We consider the deficiencies 2016-002 and 2016-003 as described in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Airport Authority's Responses to Findings

Airport Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota

May 26, 2017

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

2016-001: Adjusting Journal Entries - Material Weakness

Criteria

The Authority is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

Condition

During our audit, current year adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause

The Authority's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the modified cash basis of accounting.

Recommendation

We recommend that the Authority review its current training system for its accounting personnel and determine if it is cost effective for the Authority to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Action

Due to the small size of the Authority, it is currently not cost effective for the Authority personnel to obtain the level of training necessary to completely eliminate this internal control finding. The City will review training options and determine what level of training can be obtained on a cost effective basis.

2016-002: Segregation of Duties

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

The Authority has one staff person performing most of the accounting functions including recording, reconciling and this person also is one of the check signors authorizing payments.

Cause

Size and budget constraints limiting the number of personnel within the Authority.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2016

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Action

The Authority will review duties of employees and determine if it is cost effective to obtain this expertise.

2016-003: Auditor Preparation of Financial Statements

Criteria

An appropriate system of internal controls requires the Authority to determine that the financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the Authority's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The Authority does not have the internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The Authority's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with the modified cash basis of accounting. However, the Authority is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to end users.

Recommendation

We recommend that the Authority review its current training system for its accounting personnel and determine if it is cost effective for the Authority to obtain this knowledge internally. The Authority also could begin to address this significant deficiency through the use of current disclosure checklists by accounting staff prior to the finalization of the Authority's year-end or consider outsourcing of the financial statement preparation and review functions.

Views of Responsible Officials and Planned Corrective Action

Due to the small size of the Authority, it is currently not cost effective for the Authority personnel to obtain the level of training necessary to completely eliminate this internal control finding. The Authority will review training options and determine what level of training can be obtained on a cost effective basis.