

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

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Net Position – Cash Basis	3
Statement of Revenues, Expenses and Changes in Net Position – Cash Basis	4
Notes to the Financial Statements	5
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>	10
Schedule of Findings and Responses	12



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tioga Municipal Airport Authority
Tioga, North Dakota

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of Tioga Municipal Airport Authority, a component unit of the City of Tioga, North Dakota, as of and for the year ended December 31, 2015, 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 cash basis of accounting described in Note 1; this includes determining that the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Tioga Municipal Airport Authority as of December 31, 2015, and the respective changes in the cash basis financial position thereof for the year then ended in accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the 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 that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 29, 2017 on our consideration of Tioga Municipal Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 Tioga Municipal Airport Authority's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P. C.
BISMARCK, NORTH DAKOTA

August 29, 2017

**TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
STATEMENT OF NET POSITION – CASH BASIS
DECEMBER 31, 2015**

ASSETS

Current assets

Cash and cash equivalents	<u>\$ 551,629</u>
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NET POSITION

Unrestricted	<u><u>\$ 551,629</u></u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating revenue	
Fuel sales	\$ 140,187
Hanger & lot rents	9,162
Other rental income	12,319
Total operating revenue	<u>161,668</u>
Operating expenses	
Fuel purchases	166,952
Contract labor & wages	9,206
Construction	10,404
Repairs	287
Utilities	10,124
Supplies	4,504
Professional fees	79,579
Insurance	3,354
Other	1,135
Total operating expenses	<u>285,545</u>
Operating loss	<u>(123,877)</u>
NON-OPERATING REVENUE (EXPENSES)	
Tax revenue	197,098
Other miscellaneous income	14,592
Grant income	80,493
Total nonoperating revenues (expenses)	<u>292,183</u>
CHANGE IN NET POSITION	<u>168,306</u>
NET POSITION - JANUARY 1	<u>383,323</u>
NET POSITION - DECEMBER 31	<u>\$ 551,629</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Tioga Municipal Airport Authority is presented to assist in understanding the Authority's basic financial statements.

The Authority reports as a business-type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Nature of Operations and History

Tioga Municipal Airport Authority manages the operations of the Tioga airport facility, and is included in the reporting entity of the City of Tioga. The Authority is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed or operated in a manner similar to the private sector, where the intent is that the cost of providing services to the general public on a continuous basis be financed or recovered primarily through user charges.

Reporting Entity

Component units are legally separate organizations for which the entity is financially accountable. As required by generally accepted accounting principles, the Authority is included as a component unit in a separate report of the City of Tioga (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. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Tioga 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 City of Tioga. Component units may also include organizations that are fiscally dependent on the City of Tioga.

The members of the governing board of the Authority are appointed by the City Council. Although the City does not have the authority to approve or modify the Authority's operational and capital budgets, the tax rates established by the 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 Tioga auditor.

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

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015

Basis of accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The accompanying financial statements have been presented using the cash basis of accounting. This basis recognizes assets, net position, revenues, and expenses when they result from cash transactions. 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 cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for good or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Authority utilized the basis of accounting recognized as generally accepted, the statements would be prepared on the accrual basis of accounting.

The Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus with the limitations of the cash basis of accounting. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets, net position, revenues and expenses are accounted for through a single business-type activity. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Equity is classified as net position.

Business-type activities distinguish operating from non-operating revenues and expenses. Operating revenues and expenses are those that generally result from providing service and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Revenue from fuel sales and hanger rent are included in operating revenue. Tax revenue is reported as non-operating revenue. All expenses related to operating the Authority are reported as operating expenses.

Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, except for certificates of deposits which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal, and reserve funds which are considered noncash equivalents regardless of the maturity terms.

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015

Investment policy

The Authority does not have a formal investment policy. State statutes authorize local governments to invest in:

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

Capital Assets

The Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, all capital assets are expensed when incurred.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on the Authority. External restrictions may be imposed through state or local laws, and grant or contract provision. Unrestricted net position is all other assets that do not meet the definition of restricted net position. When both restricted and unrestricted resources are available for use, it is the Airport Authority's policy to first use restricted resources, and then use unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the Authority requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015

NOTE 2 CUSTODIAL CREDIT RISK

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure the Authority would not be able to recover its deposits or collateralized securities that are in the possession of outside parties. The Authority does not have a formal policy regarding deposits. The fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds.

The Authority maintains cash on deposit at a financial institution. The amount on deposit is insured by the FDIC up to \$250,000. At December 31, 2015, the Authority's deposits were properly insured and collateralized by FDIC insurance or covered by pledged securities in the Authority's name.

NOTE 3 LEASES

The Airport Authority entered into a 3-year lease agreement in 2014 for agricultural land. The Authority received revenue of \$12,319 during the year ended December 31, 2015 and expects to receive the same amount in 2016.

NOTE 4 RISK MANAGEMENT

The Tioga Municipal Airport Authority is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, 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 Authority pays an annual premium to NDIRF for its general liability, and automobile coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

The Authority also participates in the North Dakota Fire and Tornado Fund. The Authority pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimated replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per 12 month period.

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

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015

NOTE 5 NEW ACCOUNTING PRONOUNCEMENTS

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 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. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible

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

NOTE 6 RELATED PARTY TRANSACTIONS

The Authority pays board members for additional services performed including mowing, snowplowing, and fueling of aircraft. Payments to board members for services provided to Tioga Municipal Airport Authority for the year ended December 31, 2015 are as follows:

	Amounts Paid During 2015 Fiscal Year for Contract Labor
Chris Norgaard	\$ 1,805
Steve Jensen	43

NOTE 7 COMMITMENTS

The Authority has entered into several contracts relating to construction and expansion of Airport facilities. The total cost of these contracts is \$5,884,240. As of December 31, 2015, the Authority had paid \$461,784 towards these contracts, with a balance of \$5,422,456 remaining.

NOTE 8 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Authority's year end. Subsequent events have been evaluated through August 29, 2017, which is the date these financial statements were available to be issued.



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 Board of Directors
Tioga Municipal Airport Authority
Tioga, North Dakota

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 of the United States, the financial statements of Tioga Municipal Airport Authority as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Tioga Municipal Airport Authority's basic financial statements, and have issued our report thereon dated August 29, 2017. Our report disclosed that, as described in Note 1 to the financial statements, the Tioga Municipal Airport Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2015-002 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 deficiency described in the accompanying schedule of findings and responses to be a significant deficiency as item 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tioga Municipal 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*.

Entity's Responses to Findings

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



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

August 29, 2017

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015

I. Findings Relating to Financial Statements

2015-001 *Financial Statement Preparation – Significant Deficiency*

Criteria:	An appropriate system of internal controls requires that the Authority must make a determination that financial statements are properly stated in compliance with the cash basis of accounting. This requires the Authority's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.
Condition/Context:	The Authority's auditors prepared the financial statements as of December 31, 2015. An appropriate system of internal controls requires that the entity make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the cash basis of accounting. The Authority does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by the cash basis of accounting. The lack of appropriate disclosures may affect the user's judgment related to financial condition, and results of operations of the Authority.
Cause:	It is currently not cost effective for the Authority to 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 cash basis of accounting.
Recommendation:	Compensating controls over financial statement disclosure requirements could be provided by the use of current disclosure checklists or the outsourcing of the financial statement preparation or review function.
View of responsible officials and corrective actions:	Due to the small size of the Authority, it is not cost effective for the Authority to properly address this significant control deficiency.

TIOGA MUNICIPAL AIRPORT AUTHORITY
A COMPONENT UNIT OF THE CITY OF TIOGA, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2015

2015-002 *Adjusting Journal Entries – Material Weakness*

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

Condition/Context: During our audit, material adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with the cash basis of accounting.

Cause: The Authority's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on the 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 cash basis of accounting prior to the audit.

Recommendation: Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the Authority reviews its current training system to determine if it is cost effective for the Authority to obtain this knowledge internally.

View of responsible officials and corrective actions: Due to the small size of the Authority, it is not cost effective for the Authority to properly address this material weakness control deficiency.