

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013 AND 2012

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
DECEMBER 31, 2013 AND 2012

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BEMIDJI REGIONAL AIRPORT
OFFICIAL DIRECTORY
DECEMBER 31, 2013

Marshall Froyd

Commission Chairperson

Jack Frost

Commission Member

Roger Hellquist

Commission Member

Ron Johnson

Commission Member

Jim Lucachick

Commission Member

Harold M. Van Leeuwen Jr.

Executive Director
Resigned 12/18/13

Karen Weller

Interim Executive Director



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Bemidji Regional Airport
Bemidji, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of the Bemidji Regional Airport, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Bemidji Regional Airport as of December 31, 2013 and 2012, and the 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 on pages 5 through 8 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'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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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 May 15, 2014, on our consideration of Bemidji Regional Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bemidji Regional Airport's internal control over financial reporting and compliance.

Miller McDonald, Inc.

May 15, 2014
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport's financial activities during the year 2013 using the best current data and information, decisions and existing conditions. It should be read in conjunction with the financial statements provided as a part of this audit.

Financial Highlights

The airport receives the majority of its funding from three sources: 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 2013 was \$425,000, state and federal grants amounted to \$895,281 and rents were \$325,717. Investment earnings and other income totaled \$49,582. Total expenses for FY 2013 of \$2,420,280 exceeded total revenues of \$1,695,580 resulting in a decrease in net position of \$724,700. The prior year increase in net position was \$863,576.

	2013		2012		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Operating Revenues:						
Rents	\$ 325,717	19.21%	\$ 307,820	10.31%	\$ 17,897	5.81%
Property Taxes	425,000	25.07%	375,000	12.56%	50,000	13.33%
Other	49,018	2.89%	27,916	0.93%	21,102	75.59%
Total Operating Revenues	<u>799,735</u>	<u>47.17%</u>	<u>710,736</u>	<u>23.80%</u>	<u>88,999</u>	<u>12.52%</u>
Non-Operating Revenues:						
State and Federal Grants	895,281	52.80%	2,274,757	76.16%	(1,379,476)	-60.64%
Interest Income	564	0.03%	1,180	0.04%	(616)	-52.20%
Total Non-Operating Revenues	<u>895,845</u>	<u>52.83%</u>	<u>2,275,937</u>	<u>76.20%</u>	<u>(1,380,092)</u>	<u>-60.64%</u>
Total Revenues	<u>1,695,580</u>	<u>100.00%</u>	<u>2,986,673</u>	<u>100.00%</u>	<u>(1,291,093)</u>	<u>-43.23%</u>
Operating Expenses:						
Salaries and Wages	258,985	10.87%	214,570	10.25%	44,415	20.70%
Payroll Taxes and Employee Benefits	65,500	2.75%	58,276	2.78%	7,224	12.40%
Utilities	115,671	4.86%	97,252	4.64%	18,419	18.94%
Maintenance and Repairs	93,859	3.94%	86,680	4.14%	7,179	8.28%
Supplies	68,197	2.86%	57,638	2.75%	10,559	18.32%
Other Services and Charges	276,461	11.61%	231,532	11.06%	44,929	19.41%
Depreciation and Amortization	1,502,912	63.11%	1,347,875	64.37%	155,037	11.50%
Total Operating Expenses	<u>2,381,585</u>	<u>100.00%</u>	<u>2,093,823</u>	<u>100.00%</u>	<u>287,762</u>	<u>13.74%</u>
Non-Operating Expense:						
Interest Expense	38,297	1.58%	29,274	1.38%	9,023	30.82%
Loss on Disposal	398	0.02%	-	0.00%	398	n/a
Total Non-Operating Expense	<u>38,695</u>	<u>1.60%</u>	<u>29,274</u>	<u>1.38%</u>	<u>9,421</u>	<u>32.18%</u>
Total Expenses	<u>2,420,280</u>	<u>100.00%</u>	<u>2,123,097</u>	<u>100.00%</u>	<u>297,183</u>	<u>14.00%</u>
Changes in Net Position	<u>\$ (724,700)</u>		<u>\$ 863,576</u>		<u>\$ (1,588,276)</u>	<u>-183.92%</u>

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013

The Airport's total net position was \$26,896,836 at December 31, 2013 (see the following table). At December 31, 2012 the net position was \$27,645,474 with a decrease of \$748,638 from operating activities for the year ended December 31, 2013.

	2013	2012	Net Change	
			Amount	Percent
Current and Other Assets	\$ 970,432	\$ 1,280,901	\$ (310,469)	-24.24%
Capital assets, net of depreciation	27,499,444	28,250,124	(750,680)	-2.66%
Total assets	28,469,876	29,531,025	(1,061,149)	-3.59%
Current liabilities	275,249	550,837	(275,588)	-50.03%
Long-term liabilities:				
Due within one year	55,000	50,000	5,000	10.00%
Due after one year	1,242,791	1,284,714	(41,923)	-3.26%
Total Liabilities	1,573,040	1,885,551	(312,511)	-16.57%
Net Position:				
Net Investment in Capital Assets	26,269,444	26,970,124	(700,680)	-2.60%
Restricted	41,639	41,639	-	0.00%
Undesignated	585,753	633,711	(47,958)	-7.57%
Total Net Position	\$ 26,896,836	\$ 27,645,474	\$ (748,638)	-2.71%

As pointed out in previous years, the airport continues to be adequately funded for daily operations and maintenance. Funding in 2014 for daily operations will remain at the same level as it was in 2013. For the first time in 2014, the Capital Improvements levy included a \$50,000 line item for the local match to the annual Federal Entitlement Grant of \$1,000,000. An additional \$50,000 will be added to the Capital Improvement levy to take advantage of state grants. In early 2014, the State Legislature returned \$15 million to the State Aviation Fund. With these funds returned, MN DOT Aeronautics has proposed a plan (subject to legislative approval) to offer additional state funds to airports through increases in the Maintenance & Operations grant as well as increasing funding rates on grants for land purchases, building construction, equipment purchases and revenue-generated projects. The transition to an Airport Authority in 2009 provided the airport the ability to levy taxes beginning with the 2010 calendar year. The intent of the Authority was to establish, within the first levy, adequate funding for airport operations, maintenance, and capital investment for acquisition, replacement and major maintenance of capital assets and projects. However, because of the economic conditions at that time, the Authority opted to only establish the levy level to support operations and maintenance at the same level previously funded by the city and county. It did not include finding for capital investment or capital maintenance/replacement of equipment. It did however recognize the need to include

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013

funding in future levy levels and the Authority did begin the process of addressing the issue in 2012 and will continue with the development of the 2015 budget.

The Airport received federal grant revenue under the Airport Improvement Program to complete several projects. Grant funds were used to continue with the completion of final phases of the terminal upgrade, energy improvement and infrastructure project, specifically the parking lot; repair/replacement of concrete on the air carrier/general aviation ramps and acquire new snow removal equipment (SRE). Federal grant proceeds recognized in 2013 were \$663,943.

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 Debt

Long-term Debt: At the end of the current fiscal year, the Bemidji Regional Airport had \$1,230,000 in bond debt outstanding. The full faith and credit of the authority back this entire 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 airport.

	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>
G.O. Revenue Bonds	\$ 1,280,000	\$ -	\$ 50,000	\$ 1,230,000
Compensated Absences	<u>54,714</u>	<u>13,077</u>	<u>-</u>	<u>67,791</u>
Total	<u>\$ 1,334,714</u>	<u>\$ 13,077</u>	<u>\$ 50,000</u>	<u>\$ 1,297,791</u>

Short Term Debt: The airport currently has no short-term debt.

Capital Investments

Major equipment or structure additions or improvements: During the year, the airport finalized construction and renovation of the terminal/ARFF building upgrade, energy improvement and infrastructure project, specifically the parking lot. The airport also added some new snow removal (SRE) equipment as part of the enhancement and operation of the airport. Total capital additions for 2013 and 2012 totaled \$759,012 and \$2,259,771 respectively.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013

Bemidji Regional Airport as a whole

Financial Statement: The attached audit accurately reflects the financial position at the end of FY2013. When viewed in conjunction with the above provided comments; the audit provides a whole and complete picture of the financial health of the airport and its operating expenses, liabilities and improvements.

Passenger Facility Charge: During 2013 we collected and distributed the funds from the passenger facility charge as approved towards the runway reconstruction project. The current collections under the current PFC are being assigned for repayment to the airport for the local share of the completion of the ALP update, AIP's 16 & 17. The predicted collection rate matched the predicted expense rate for these projects. These collections are reimbursement of local share of the completion of Master Plan, update of the ALP along with payment of the local share of AIP-16. Repayment of the local share for AIP-16 was estimated to take 72 months at the current collection rate, which was expected to be October 2011. However, because of economic conditions, the collection rate has slowed and is now expected to be met in late 2013. The balance of the local share of AIP-17 along with the local share of AIP-18, 21,22,23,24,25,26,27 and 28 will be included in the next PFC application which will be completed in mid FY 2013. This AIP includes the requirement for collection to repay the local share of the AIP's associated with the Terminal and ARFF projects, including the Boarding Bridge. The application will be submitted prior to the completion of collections on the existing PFC application so as to have in place prior to the end of the current collections to prevent interruption of collections. Note that these collections are for repayment to the Authority for funds already expended and are being used to abate the levy assessment assigned for meeting the debt payments on the Airport Bond.

Next Year's Budget requirements: For 2014, the airport continues to be adequately funded for operations and maintenance. However, there are escalating costs associated with unusually severe winter operations, increasing Federal Aviation requirements to maintain the airport certification, and increased airline requirements due to the gradual change in aircraft (CRJ 200s) available to serve a market the size of Bemidji. The final phase of the terminal/ARFF upgrade and energy improvement project, the reconstruction of the entrance and parking lot, was completed in 2013.

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

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 471,773	\$ 391,302
Accounts Receivable	6,767	4,681
Property Taxes Receivable	25,054	23,559
Due from Other Governmental Units	413,272	781,512
Prepaid Insurance	21,965	24,448
Total Current Assets	<u>938,831</u>	<u>1,225,502</u>
<u>Capital Assets</u>		
Land	975,667	975,667
Buildings	13,838,863	4,304,024
Runways and Improvements	21,359,116	21,211,905
Equipment	2,788,673	2,654,633
Construction In Progress	2,399,556	11,466,372
	<u>41,361,875</u>	<u>40,612,601</u>
Less: Accumulated Depreciation	<u>(13,862,431)</u>	<u>(12,362,477)</u>
Total Capital Assets	<u>27,499,444</u>	<u>28,250,124</u>
<u>Non-Current Assets</u>		
Bond Issuance Costs (Net of Amortization)	14,566	39,475
Capital Credits Receivable	17,035	15,924
Total Non-Current Assets	<u>31,601</u>	<u>55,399</u>
<u>Total Assets</u>	<u>28,469,876</u>	<u>29,531,025</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	229,905	518,489
Accrued Interest Payable	15,972	16,299
Current Portion of Bonds Payable	55,000	50,000
Accrued Liabilities	20,399	16,049
Deferred Rental Income	8,973	-
Total Current Liabilities	<u>330,249</u>	<u>600,837</u>
<u>Long-Term Liabilities</u>		
Bonds Payable, net of current portion above	1,175,000	1,230,000
Accrued Compensated Absences	67,791	54,714
Total Long-Term Liabilities	<u>1,242,791</u>	<u>1,284,714</u>
<u>Total Liabilities</u>	<u>1,573,040</u>	<u>1,885,551</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	26,269,444	26,970,124
Restricted	41,639	41,639
Undesignated	585,753	633,711
Total Net Position	<u>\$ 26,896,836</u>	<u>\$ 27,645,474</u>

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>Revenues</u>		
Rents	\$ 325,717	\$ 307,820
Property Taxes	425,000	375,000
Other	<u>49,018</u>	<u>27,916</u>
Total Revenues	<u>799,735</u>	<u>710,736</u>
 <u>Expenses</u>		
Salaries and Wages	258,985	214,570
Payroll Taxes and Employee Benefits	65,500	58,276
Utilities	115,671	97,252
Maintenance and Repairs	93,859	86,680
Supplies	68,197	57,638
Other Services and Charges	276,461	231,532
Depreciation and Amortization	<u>1,502,912</u>	<u>1,347,875</u>
Total Expenses	<u>2,381,585</u>	<u>2,093,823</u>
 <u>Operating Loss</u>	<u>(1,581,850)</u>	<u>(1,383,087)</u>
 <u>Non-Operating Revenues (Expense)</u>		
State and Federal Grants	895,281	2,274,757
Gain (Loss) on Disposal	(398)	-
Interest Income	564	1,180
Interest Expense	<u>(38,297)</u>	<u>(29,274)</u>
Total Non-Operating Revenues (Expense)	<u>857,150</u>	<u>2,246,663</u>
 <u>Net Income (Loss)</u>	(724,700)	863,576
 <u>Net Position, Beginning of Year (as restated)</u>	<u>27,621,536</u>	<u>26,781,898</u>
 <u>Net Position, End of Year</u>	<u>\$ 26,896,836</u>	<u>\$ 27,645,474</u>

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
<u>Cash Flows from Operating Activities</u>		
Cash Received From Users	\$ 795,043	\$ 780,906
Cash Paid to Suppliers and Employees	<u>(1,138,701)</u>	<u>(1,180,808)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(343,658)</u>	<u>(399,902)</u>
 <u>Cash Flows from Non-Capital Financing Activities</u>		
Proceeds of Federal and State Grants	<u>134,348</u>	<u>118,435</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of Property and Equipment	(751,659)	(2,259,770)
Principal Paid on Long Term Debt	(50,000)	(50,000)
Proceeds of Federal and State Capital Grants	1,129,173	2,400,970
Interest Paid on Bonds and Notes	<u>(38,297)</u>	<u>(29,274)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>289,217</u>	<u>61,926</u>
 <u>Cash Flows from Investing Activities</u>		
Interest	<u>564</u>	<u>1,180</u>
 <u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>80,471</u>	<u>(218,361)</u>
 <u>Cash and Cash Equivalents, Beginning of Year</u>	<u>391,302</u>	<u>609,663</u>
 <u>Cash and Cash Equivalents, End of Year</u>	<u>\$ 471,773</u>	<u>\$ 391,302</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

<u>Operating Loss</u>	\$ (1,581,850)	\$ (1,383,087)
 Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	1,502,912	1,347,875
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(3,197)	32,140
(Increase) Decrease in Property Tax Receivable	(1,495)	38,030
(Increase) Decrease in Prepaid Insurance	2,483	(5,959)
Increase (Decrease) in Accounts Payable	(288,584)	(436,844)
Increase (Decrease) in Accrued Interest Payable	(327)	(539)
Increase (Decrease) in Accrued Liabilities	4,350	3,895
Increase (Decrease) in Accrued Compensated Absences	13,077	4,587
Increase (Decrease) in Deferred Rental Income	<u>8,973</u>	<u>-</u>
 <u>Net Cash Provided by (Used in) Operating Activities</u>	<u>\$ (343,658)</u>	<u>\$ (399,902)</u>

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 is empowered to exercise on behalf of the County and City all the powers of each of the municipalities as granted by Minnesota State Statutes. 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 Authority Board consists of five members. The City Council and County Board each appoint two members who are elected members of the Council/Board. A Community member who is mutually appointed by the City Council and County Board serves as Chairman of the Commission.

The agreement is to be in effect for the term of five years and thereafter for like periods of five years until terminated by a one-year written notice from either the County or City 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 revenues 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 at non-operating items.

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

Capital Assets – All capital assets acquired after December 31, 1980, are capitalized and recorded at cost. Capital assets contributed or assigned by the City to the joint airport were not capitalized or recorded since historical cost data was not available. Depreciation is calculated on property and equipment that has been capitalized. The straight-line method is used over the estimated useful lives of the assets. Expenditures for repairs and maintenance are charged to operating expense as incurred.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10-40
Runways and Improvements	3-20
Equipment	3-15

Capital assets not being depreciated include land and construction in progress, if any.

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

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

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

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

2. **Deposits**

Authority - In accordance with Minnesota Statutes, the Bemidji Regional Airport maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all Airport 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 Board Treasurer or in a financial institution other than that furnishing the collateral.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Custodial Credit Risk – The custodial credit risk for deposits is the risk that in the event of a bank failure, the Airport’s deposits may not be covered. The Airport’s policy for custodial credit risk is to maintain compliance with Minnesota Statutes that require all the Airport’s deposits to be protected by insurance, surety bond, or pledged collateral. The Airport’s custodial credit risk at December 31, 2013 was zero.

3. Revenues

Grants and Rents - The Airport has an agreement with the State of Minnesota that provides state operating funds annually to a maximum of \$120,307. The Airport 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 Board of Commissioners annually adopts a tax levy and certifies it to the County in December for collection in the following year. Such taxes become a lien on January 1 and are recorded as a receivable by the Airport at that date. The County is responsible for billing and collecting all property taxes for itself, the Airport, 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 Airport by approximately July 15 and December 15. Additionally, delinquent collections (November through December) are remitted to the Airport each January. The Airport 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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

4. Capital Assets

	<u>1/1/2013</u> <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2013</u> <u>Balance</u>
Non-Depreciable Capital Assets				
Land	\$ 975,667	\$ -	\$ -	\$ 975,667
Construction in Progress	11,466,373	635,909	9,702,725	2,399,557
Total Non-Depreciable Capital Assets	12,442,040	635,909	9,702,725	3,375,224
Depreciable Capital Assets				
Buildings	4,304,024	9,534,839	-	13,838,863
Runways and Improvements	21,211,905	147,211	-	21,359,116
Equipment	2,654,632	136,425	2,385	2,788,672
Total Depreciable Capital Assets	28,170,561	9,818,475	2,385	37,986,651
Less Accumulated Depreciation	(12,362,477)	(1,501,941)	(1,987)	(13,862,431)
Depreciable Capital Assets, Net	15,808,084	8,316,534	398	24,124,220
Total Capital Assets, Net	\$ 28,250,124	\$ 8,952,443	\$ 9,703,123	\$ 27,499,444

5. Defined Benefit Pension Plan – Statewide

Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Airport makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, the Airport is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

The Airport's contributions for the years ending December 31, 2013, 2012 and 2011, were \$17,066, \$14,767 and \$13,560 respectively. The Airport's contributions were equal to the contractually required contributions for each year as set by state statute.

6. Compensated Absences

The airport permits employees to accumulate unused paid time off. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating leave benefits that is vested as severance pay.

7. Long-Term Debt

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, were issued September 8, 2010 with interest ranging from 2.5% to 3.75%. Interest payments began on February 1, 2011, and are due each February 1 thereafter through year 2031. Principal payments commence on February 1, 2012, and are due each February 1 thereafter through year 2031 in amounts ranging from \$50,000 to \$90,000.

The following is a schedule of changes in long-term debt for the year ended December 31, 2013:

	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>
G.O. Revenue Bonds	\$ 1,280,000	\$ -	\$ 50,000	\$ 1,230,000
Compensated Absences	<u>54,714</u>	<u>13,077</u>	<u>-</u>	<u>67,791</u>
Total	<u><u>\$ 1,334,714</u></u>	<u><u>\$ 13,077</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 1,297,791</u></u>

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

The annual requirements to amortize long-term debt outstanding at December 31, 2013, including interest are as follows:

Year	Principal	Interest	Total
2014	\$ 55,000	\$ 37,311	\$ 92,311
2015	55,000	35,936	90,936
2016	55,000	34,561	89,561
2017	55,000	33,186	88,186
2018	60,000	31,749	91,749
2019-2023	315,000	134,537	449,537
2024-2028	375,000	82,079	457,079
2029-2031	260,000	14,813	274,813
Total	<u>\$ 1,230,000</u>	<u>\$ 404,171</u>	<u>\$ 1,634,171</u>

General Obligation bond issues sold by the Bemidji Regional Airport 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 Airport has provided alternative sources of financing. The Airport Commission 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, 2013 total \$1,638,181.

8. Risk Management

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

9. Commitments and Contingencies

The airport participates in numerous Federal 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 airport 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

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

receivable at December 31, 2013 may be impaired. In the opinion of the airport, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

10. Subsequent Event

In February of 2014, the airport received \$500,000 in temporary funding from the City of Bemidji. This gap funding was necessary due to Federal Office of Management & Budget delays in federal government grant reimbursements. Although there were no defined terms or interest, the agreement with the City of Bemidji included an annualized administrative fee of 3.125%.

11. Restatement

The beginning net position has been restated for the implementation of GASB 65, which has caused net position to decrease \$23,938 for issuance costs amortized from bond discount.

A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

Beginning Net Position	\$27,645,474
Implementation of GASB 65	<u>(23,938)</u>
Beginning Net Position (as restated)	<u><u>\$27,621,536</u></u>

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE
DECEMBER 31, 2013

<u>Approved Applications</u>	<u>Current Year Imposed</u>	<u>Current Year Used/Spent</u>	<u>Cumulative Balance</u>
Application # 4			
60-03-C-00-BJI	\$ 84,330.20	\$ 84,330.20	\$ 610,819.46
Total Authority	<u>\$ 84,330.20</u>	<u>\$ 84,330.20</u>	<u>\$ 610,819.46</u>
	<u>Current Year</u>		<u>Cumulative</u>
PFC Revenue Received*	\$ 84,326.34		\$ 1,369,768.33
Interest Earned	<u>3.86</u>		<u>4,486.33</u>
Total PFC Revenue Received	<u>\$ 84,330.20</u>		<u>\$ 1,374,254.66</u>
Expenditures on Approved PFC Projects			<u>\$ 1,374,254.66</u>

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

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013

<u>Funding Source</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Administering Agency</u>			
<u>Federal Aviation Administration</u>			
Pass-Through Minnesota Department of Transportation-Aeronautics	Airport Improvement Program	20.106	\$ <u>663,943</u>
	Total Federal Assistance Expended		\$ <u><u>663,943</u></u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 –Basis of Presentation

The above Schedule of Expenditures of Federal Awards includes the federal grant activity of the Bemidji Regional Airport. 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profits Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2 - Pass-through Entities

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



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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Commissioners
 of Bemidji Regional Airport
 Bemidji, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the business-type activities of the Bemidji Regional Airport, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2014.

The *Minnesota Legal Compliance Audit Guide for 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, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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

This report is intended solely for the information and use of those charged with governance and management of Bemidji Regional Airport and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Miller McDonald, Inc.

May 15, 2014
 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 Board of Commissioners
 of Bemidji Regional Airport
 Bemidji, Minnesota**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity of Bemidji Regional Airport, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Bemidji Regional Airport's basic financial statements and have issued our report thereon dated May 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bemidji Regional Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bemidji Regional Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of Bemidji Regional Airport's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, reported as Finding 07-1, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Bemidji Regional Airport's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Airport'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.

May 15, 2014
Bemidji, Minnesota



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
 MAJOR FEDERAL PROGRAM AND FOR THE PASSENGER FACILITY CHARGE
 PROGRAM AND REPORT ON INTERNAL CONTROL OVER
 COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**To the Board of Commissioners
 of Bemidji Regional Airport
 Bemidji, Minnesota**

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

We have audited the compliance of Bemidji Regional Airport with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on Bemidji Regional Airport's major federal program for the year ended December 31, 2013. The Bemidji Regional Airport's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

We have also audited Bemidji Regional Airport's compliance with requirements applicable to its passenger facility charge (PFC) funds collected and expended for the year ended December 31, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs and to its PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Bemidji Regional Airport'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. Those standards and OMB Circular A-133 require that we plan and perform the

audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or PFC program occurred. An audit includes examining, on a test basis, evidence about the Bemidji Regional Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and its PFC program. However, our audit does not provide a legal determination of Bemidji Regional Airport's compliance with those requirements.

Opinion on Major Federal Program and the Passenger Facility Charge Program

In our opinion, Bemidji Regional Airport, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program or its PFC program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Bemidji Regional Airport 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'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 our 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 OMB Circular A-133, and the *Passenger Facility Charge Audit Guide for Public Agencies*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bemidji Regional Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or the PFC program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or the PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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 OMB Circular A-133 and Passenger Facility Charge requirements. Accordingly, this report is not suitable for any other purpose.

Miller McDonald, Inc.

**May 15, 2014
Bemidji, Minnesota**

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

A. Summary of Auditor's Results

1. An unmodified report was issued.
2. One significant deficiency in internal control was reported on the audit of the financial statements and it was not identified as a material weakness.
3. The audit did not disclose any noncompliance that was material to the financial statements.
4. No significant deficiencies relating to the audit of federal programs are reported in the *Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB A-133*.
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 Section 510 (a) of OMB A-133.
7. Major program:

Airport Improvement Program CFDA No. 20.106
8. A \$300,000 threshold was used to distinguish between Type A and Type B programs.
9. The Bemidji Regional Airport qualified as a low-risk auditee.

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

Previously Reported Item Not Resolved During the Year

Finding: 07-1 – Auditor Prepares the Financial Statements

Condition

The Airport's Auditor prepares the financial statements. This is not unusual in entities the size the Bemidji Regional Airport; however, the Airport'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.

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

Criteria

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

Effect

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

Cause

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

Recommendation

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

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

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

There is no disagreement with the audit finding.

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

The Airport has noted the finding and will take this recommendation under advisement. Because of the level and depth of knowledge that this finding will require to resolve, the Airport does not feel it is either capable of or has a pressing need to resolve anytime soon. Management will continue to have the audit firm 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, Interim Executive Director

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

4. Planned Completion of CAP

Ongoing

5. Plan to Monitor Completion of CAP

The Airport Commission will continue to review the audited financial statements.

C. Findings and Questioned Costs for Federal Award Programs

Internal Control Findings

1. None

Questioned Costs

1. None

D. Findings and Questioned Costs for Passenger Facility Charge Program

1. None

E. Findings and Questioned Costs for Minnesota Legal Compliance Manual

1. None