

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2012 AND 2011

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
DECEMBER 31, 2012 AND 2011

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BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA

OFFICIAL DIRECTORY

Marshall Froyd

Jack Frost

Roger Hellquist

Ron Johnson

Jim Lucachick

Harold M. Van Leeuwen Jr.

Commission Chairperson

Commission Member

Commission Member

Commission Member

Commission Member

Airport Manager



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INDEPENDENT AUDITORS' 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, 2012 and 2011, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the business-type activity of the Bemidji Regional Airport as of December 31, 2012 and 2011, and the respective changes in net 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 financial statements. The accompanying schedule of passenger facility charge revenue is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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 June 24, 2013, 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.

June 24, 2013
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport's financial activities during the year 2012 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 2012 was \$375,000, state and federal grants amounted to \$2,274,757 and rents were \$307,820. Investment earnings and other income totaled \$29,096. Total revenues for FY 2012 of \$2,986,673 exceeded total expenses of \$2,123,097 resulting in an increase in net assets of \$863,576. The prior year increase in net position was \$3,827,532.

	2012		2011		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Operating Revenues:						
Rents	\$ 307,820	10.31%	\$ 312,903	5.27%	\$ (5,083)	-1.62%
Property Taxes	375,000	12.56%	469,722	7.91%	(94,722)	-20.17%
Other	27,916	0.93%	23,593	0.40%	4,323	18.32%
Total Operating Revenues	710,736	23.80%	806,218	13.58%	(95,482)	-11.84%
Non-Operating Revenues:						
State and Federal Grants	2,274,757	76.16%	5,127,880	86.38%	(2,853,123)	-55.64%
Interest Income	1,180	0.04%	2,536	0.04%	(1,356)	-53.47%
Total Non-Operating Revenues	2,275,937	76.20%	5,130,416	86.42%	(2,854,479)	-55.64%
Total Revenues	2,986,673	100.00%	5,936,634	100.00%	(2,949,961)	-49.69%
Operating Expenses:						
Salaries and Wages	284,958	13.61%	281,097	13.33%	3,861	1.37%
Payroll Taxes and Employee Benefits	58,276	2.78%	54,680	2.59%	3,596	6.58%
Utilities	97,252	4.64%	99,232	4.70%	(1,980)	-2.00%
Maintenance and Repairs	86,680	4.14%	94,860	4.50%	(8,180)	-8.62%
Supplies	57,638	2.75%	55,653	2.64%	1,985	3.57%
Other Services and Charges	161,144	7.70%	209,688	9.94%	(48,544)	-23.15%
Depreciation and Amortization	1,347,875	64.37%	1,313,892	62.30%	33,983	2.59%
Total Operating Expenses	2,093,823	100.00%	2,109,102	100.00%	(15,279)	-0.72%
Non-Operating Expense:						
Interest Expense	29,274	1.38%	-	17.92%	29,274	n/a
Total Expenses	2,123,097	100.00%	2,109,102	100.00%	13,995	0.66%
Changes in Net Position	\$ 863,576		\$ 3,827,532		\$ (2,963,956)	-77.44%

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

The Airport's total net position was \$27,645,474 at December 31, 2012 (see the following table). At December 31, 2011 the net position was \$26,781,898 with an increase of \$863,576 from operating activities for the year ended December 31, 2012.

	2012	2011	Net Change	
			Amount	Percent
Current and Other Assets	\$ 1,280,901	\$ 1,810,315	\$ (529,414)	-29.24%
Capital assets, net of depreciation	28,250,124	27,336,035	914,089	3.34%
Total assets	29,531,025	29,146,350	384,675	1.32%
Current liabilities	550,837	984,325	(433,488)	-44.04%
Long-term liabilities:				
Due within one year	50,000	50,000	-	0.00%
Due after one year	1,284,714	1,330,127	(45,413)	-3.41%
Total Liabilities	1,885,551	2,364,452	(478,901)	-20.25%
Net Position:				
Net Investment in Capital Assets	26,970,124	26,006,035	964,089	3.71%
Restricted	41,638	41,633	5	0.01%
Undesignated	633,712	734,230	(100,518)	-13.69%
Total Net Position	\$27,645,474	\$26,781,898	\$ 863,576	3.22%

As pointed out in previous years, the airport continues to be adequately funded for daily operations and maintenance. Funding in 2013 for daily operations will remain at the same level as it was in 2012. A change that will occur for 2013 that will affect participation in federal grants in Federal fiscal year 2014 is that for the first time the airport levy includes \$50,000 for the local match to the federal \$1,000,000 dollar entitlement grants. This allows us to plan for the use of those entitlement dollars with the knowledge that the local match is available. Currently this is a 5% match requirement that will go to 10% in 2015 requiring an increase in the levy to \$100,000 per year. There continues to be no dedicated funding to take advantage of available state funds for maintenance, preservation and/or development of the airport. 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, 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 funding for capital investment or capital maintenance/replacement of equipment. It did however recognize the need to include 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 2013 budget.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

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 various phases of the terminal expansion/remodel, passenger boarding bridge, beacon replacement, and expansion of the aircraft rescue and firefighting equipment building. Federal grant proceeds recognized in 2012 were \$1,922,500.

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 \$1,280,000 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</u> <u>12/31/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/12</u>
G.O. Revenue Bonds	\$ 1,330,000	\$ -	\$ 50,000	\$ 1,280,000
Compensated Absences	<u>50,127</u>	<u>4,587</u>	<u>-</u>	<u>54,714</u>
Total	<u>\$ 1,380,127</u>	<u>\$ 4,587</u>	<u>\$ 50,000</u>	<u>\$ 1,334,714</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 continued construction and renovation of the terminal and Aircraft Rescue Fire Fighting Facility with the work on the parking lot and infrastructure. The airport also added one new piece of equipment as part of the enhancement and operation of the terminal and Aircraft Rescue Fire Fighting Facility. Total capital additions for 2012 and 2011 totaled \$2,259,771 and \$5,655,029 respectively.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

Bemidji Regional Airport as a whole

Financial Statement: The attached audit accurately reflects the financial position at the end of FY2012. 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 2012 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 2013, 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 available to serve Bemidji. Specifically, the change from Saab 340 turbo prop to CRJ 200/700/900 jets. The final phase of the terminal project, currently underway and scheduled to be completed in 2013 is the replacement of the infrastructure serving the airport (water, sanitary, and storm water) along with the reconstruction of the entrance and parking lot. This began in the Spring of 2012 with completion of the final phase, entrance and parking lot, in 2013. The cost of this final phase is projected to be \$2.1M Federal with a local match of 5% (\$105K). These federal funds are from the 2012 and 2013 Airport Improvement Entitlement Grants allocated by the Federal Aviation Administration.

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, 2012 AND 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 391,302	\$ 609,663
Accounts Receivable	4,681	38,273
Property Taxes Receivable	23,559	61,589
Due from Other Governmental Units	781,512	1,026,160
Prepaid Insurance	24,448	18,489
Total Current Assets	1,225,502	1,754,174
<u>Capital Assets</u>		
Land	975,667	975,667
Buildings	4,304,024	4,304,024
Runways and Improvements	21,211,905	20,397,652
Equipment	2,654,633	2,592,979
Construction In Progress	11,466,372	10,082,509
	40,612,601	38,352,831
Less: Accumulated Depreciation	(12,362,477)	(11,016,796)
Total Capital Assets	28,250,124	27,336,035
<u>Non-Current Assets</u>		
Bond Issuance Costs (Net of Amortization)	39,475	41,669
Capital Credits Receivable	15,924	14,472
Total Non-Current Assets	55,399	56,141
Total Assets	29,531,025	29,146,350
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	518,489	955,333
Accrued Interest Payable	16,299	16,838
Current Portion of Bonds Payable	50,000	50,000
Accrued Liabilities	16,049	12,154
Total Current Liabilities	600,837	1,034,325
<u>Long-Term Liabilities</u>		
Bonds Payable, net of current portion above	1,230,000	1,280,000
Accrued Compensated Absences	54,714	50,127
Total Long-Term Liabilities	1,284,714	1,330,127
Total Liabilities	1,885,551	2,364,452
<u>NET POSITION</u>		
Net Investment in Capital Assets	26,970,124	26,006,035
Restricted	41,638	41,633
Undesignated	633,712	734,230
Total Net Position	\$ 27,645,474	\$ 26,781,898

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>Revenues</u>		
Rents	\$ 307,820	\$ 312,903
Property Taxes	375,000	469,722
Other	<u>27,916</u>	<u>23,593</u>
Total Revenues	<u>710,736</u>	<u>806,218</u>
<u>Expenses</u>		
Salaries and Wages	284,958	281,097
Payroll Taxes and Employee Benefits	58,276	54,680
Utilities	97,252	99,232
Maintenance and Repairs	86,680	94,860
Supplies	57,638	55,653
Other Services and Charges	161,144	209,688
Depreciation and Amortization	<u>1,347,875</u>	<u>1,313,892</u>
Total Expenses	<u>2,093,823</u>	<u>2,109,102</u>
<u>Operating Loss</u>	<u>(1,383,087)</u>	<u>(1,302,884)</u>
<u>Non-Operating Revenues (Expense)</u>		
State and Federal Grants	2,274,757	5,127,880
Interest Income	1,180	2,536
Interest Expense	<u>(29,274)</u>	<u>-</u>
Total Non-Operating Revenues (Expense)	<u>2,246,663</u>	<u>5,130,416</u>
<u>Net Income</u>	863,576	3,827,532
<u>Net Position, Beginning of Year</u>	<u>26,781,898</u>	<u>22,954,366</u>
<u>Net Position, End of Year</u>	<u>\$ 27,645,474</u>	<u>\$ 26,781,898</u>

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2012</u>	<u>2011</u>
<u>Cash Flows from Operating Activities</u>		
Cash Received From Users	\$ 780,906	\$ 763,912
Cash Paid to Suppliers and Employees	(1,180,808)	(293,479)
Net Cash Provided by (Used in) Operating Activities	<u>(399,902)</u>	<u>470,433</u>
 <u>Cash Flows from Non-Capital Financing Activities</u>		
Proceeds of Federal and State Grants	<u>118,435</u>	<u>137,918</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of Property and Equipment	(2,259,770)	(5,655,029)
Principal Paid on Long Term Debt	(50,000)	-
Proceeds of Federal and State Capital Grants	2,400,970	4,496,994
Interest Paid on Bonds and Notes	(29,274)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>61,926</u>	<u>(1,158,035)</u>
 <u>Cash Flows from Investing Activities</u>		
Interest	<u>1,180</u>	<u>2,536</u>
 <u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>(218,361)</u>	<u>(547,148)</u>
 <u>Cash and Cash Equivalents, Beginning of Year</u>	<u>609,663</u>	<u>1,156,811</u>
 <u>Cash and Cash Equivalents, End of Year</u>	<u>\$ 391,302</u>	<u>\$ 609,663</u>

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

<u>Operating Loss</u>	\$ (1,383,087)	\$ (1,302,884)
 <u>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities</u>		
Depreciation and Amortization	1,347,875	1,313,892
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	32,140	(30,110)
(Increase) Decrease in Property Tax Receivable	38,030	(11,629)
(Increase) Decrease in Prepaid Insurance	(5,959)	5,022
Increase (Decrease) in Accounts Payable	(436,844)	479,809
Increase (Decrease) in Accrued Interest Payable	(539)	4,172
Increase (Decrease) in Accrued Liabilities	3,895	7,465
Increase (Decrease) in Accrued Compensated Absences	4,587	5,263
Increase (Decrease) in Rent Payable	<u>-</u>	<u>(567)</u>
 <u>Net Cash Provided by (Used in) Operating Activities</u>	<u>\$ (399,902)</u>	<u>\$ 470,433</u>

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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, 2012 AND 2011

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.

Investments - Investments in governmental funds are stated at fair value, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

collateral be held in safekeeping by the Board Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk – The custodial credit risk for deposits is the risk that in the event of a bank failure, the 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, 2012 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 the two 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, 2012 AND 2011

4. Capital Assets

	1/1/2012 Balance	Additions	Disposals	12/31/2012 Balance
Non-Depreciable Capital Assets				
Land	\$ 975,667	\$ -	\$ -	\$ 975,667
Construction in Progress	<u>10,082,510</u>	<u>1,383,862</u>	<u>-</u>	<u>11,466,372</u>
Total Non-Depreciable Capital Assets	<u>11,058,177</u>	<u>1,383,862</u>	<u>-</u>	<u>12,442,039</u>
Depreciable Capital Assets				
Buildings	4,304,024	-	-	4,304,024
Runways and Improvements	20,397,651	814,254	-	21,211,905
Equipment	<u>2,592,978</u>	<u>61,655</u>	<u>-</u>	<u>2,654,633</u>
Total Depreciable Capital Assets	<u>27,294,653</u>	<u>875,909</u>	<u>-</u>	<u>28,170,562</u>
Less Accumulated Depreciation	<u>(11,016,796)</u>	<u>(1,345,681)</u>	<u>-</u>	<u>(12,362,477)</u>
Depreciable Capital Assets, Net	<u>16,277,857</u>	<u>(469,772)</u>	<u>-</u>	<u>15,808,085</u>
Total Capital Assets, Net	<u>\$ 27,336,034</u>	<u>\$ 914,090</u>	<u>\$ -</u>	<u>\$ 28,250,124</u>

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. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

(Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and 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 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. 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 were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. In 2012, 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, 2012 AND 2011

The Airport's contributions for the years ending December 31, 2012, 2011 and 2010, were \$14,767, \$13,560 and \$12,890 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, 2012:

	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/12</u>
G.O. Revenue Bonds	\$ 1,330,000	\$ -	\$ 50,000	\$ 1,280,000
Compensated Absences	<u>50,127</u>	<u>4,587</u>	<u>-</u>	<u>54,714</u>
Total	<u>\$ 1,380,127</u>	<u>\$ 4,587</u>	<u>\$ 50,000</u>	<u>\$ 1,334,714</u>

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

The annual requirements to amortize long-term debt outstanding at December 31, 2012, including interest are as follows:

Year	Principal	Interest	Total
2013	\$ 50,000	\$ 38,624	\$ 88,624
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
2018-2022	310,000	142,978	452,978
2023-2027	360,000	94,236	454,236
2028-2031	340,000	25,963	365,963
Total	<u>\$ 1,280,000</u>	<u>\$ 442,795</u>	<u>\$ 1,722,795</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, 2012 total \$1,735,830.

8. Capitalization of Interest

In accordance with FASC 835.20, the Airport adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of capital assets. For the year ended December 31, 2012, no interest was capitalized in connection with construction in progress of capital assets.

9. 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 from the prior year. The amount of settlements did not exceed insurance coverage for the past three years.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

10. 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 receivable at December 31, 2012 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.

11. Subsequent Event

In February of 2013, the airport received \$380,000 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%.

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE
DECEMBER 31, 2012

<u>Approved Applications</u>	<u>Current Year Imposed</u>	<u>Current Year Used/Spent</u>	<u>Cummulative Balance</u>
Application # 4			
60-03-C-00-BJI	\$ 83,837.17	\$ 83,837.17	\$ 526,489.26
Total Authority	\$ 83,837.17	\$ 83,837.17	\$ 526,489.26
	<u>Current Year</u>		<u>Cumulative</u>
PFC Revenue Received	\$ 83,837.17		\$ 1,285,441.99
Interest Earned	9.74		4,482.47
Total PFC Revenue Received	\$ 83,846.91		\$ 1,289,924.46
Expenditures on Approved PFC Projects			\$ 1,289,924.46

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

<u>Funding Source</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Administering Agency</u>			
<u>U.S. Department of Transportation</u>			
Pass-Through Minnesota Department of Transportation	Airport Improvement Program	20.106	\$ <u>1,922,500</u>
	Total Federal Assistance Expended		\$ <u>1,922,500</u>

Note 1 –Basis of Presentation

The accompanying 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.



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

**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, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2013.

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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Miller McDonald, Inc.

June 24, 2013
 Bemidji, Minnesota



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
 APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON
 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
 OTHER MATTERS BASED ON AN AUDIT OF THE 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 and compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, (the Guide) issued by the Federal Aviation Administration, the financial statements of the business-type activity of Bemidji Regional Airport, as of and for the years ended December 31, 2012 and 2011, 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 June 24, 2013.

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 attention by 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 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, accordingly, we express no opinion on it. In our opinion, Bemidji Regional Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the years ended December 31, 2012 and 2011.

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.

June 24, 2013
Bemidji, Minnesota



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
 MAJOR PROGRAM AND 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

We have audited Bemidji Regional Airport's compliance with the types of compliance requirements described in the *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, 2012. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Bemidji Regional Airport's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bemidji Regional Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Major Federal 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 for the year ended December 31, 2012.

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 a major federal 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, 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 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 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.

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. Accordingly, this report is not suitable for any other purpose.

Miller McDonald, Inc.

June 24, 2013
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

A. Summary of Auditor's Results

1. An unqualified 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 unqualified 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 did not qualify 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, 2012

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**

Harold Van Leeuwen, Airport Manager

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

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