

**BEMIDJI REGIONAL AIRPORT**  
**BEMIDJI, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**DECEMBER 31, 2011 AND 2010**

**BEMIDJI REGIONAL AIRPORT**  
**BEMIDJI, MINNESOTA**  
**DECEMBER 31, 2011 AND 2010**

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**BEMIDJI REGIONAL AIRPORT**  
**BEMIDJI, MINNESOTA**

**OFFICIAL DIRECTORY**

**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.**

**Airport Manager**

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Please see attached adjusting journal entries.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 22, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Bemidji Regional Airport's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

As required by Governmental Auditing Standards we issued our "*Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and Internal Control based on an Audit of the Financial Statements Performed in Accordance with Governmental Auditing Standards*" on June 22, 2012 and in that report we identified the following item we consider to be a significant deficiency:

Preparation of Financial Statements

The Airport's Auditor prepares the financial statements. This is not unusual in entities of your size; however, the Airport's management and governance personnel should be aware

that even though they assume responsibility for the financial statements they do not have effective controls to prevent, detect and correct misstatements in the financial statements, indicating a significant control deficiency.

We generally discuss a variety of matters including the application of accounting principles and auditing standards, with management each year prior to retention as the Bemidji Regional Airport's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### New Items Reported

#### Federal Programs-Davis Bacon Compliance

One of the federal programs we selected for testing this year included Davis-Bacon wage compliance. Although as auditors, we are not expected to test the individual payroll reports for compliance, our role is to determine that the payroll reports were filed and reviewed; we became aware of at least one discrepancy in the certified hourly payroll rates submitted by the contractors.

We recommend the Airport Board review the internal control procedures relating to federal program compliance.

#### *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Bemidji Regional Airport's Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

Very Truly Yours,

*Miller McDonald, Inc.*

Miller McDonald, Inc.



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## INDEPENDENT AUDITORS' REPORT

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

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, 2011 and 2010, which collectively comprise the Airport's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bemidji Regional Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Bemidji Regional Airport as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bemidji Regional Airport's financial statements as a whole. 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 financial statements. The accompanying schedule of expenditures of passenger facility charges 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Miller McDonald, Inc.*

June 22, 2012  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2011**

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport's financial activities during the year 2011 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 charges for services. Other revenue sources include investment earnings and miscellaneous income. The property tax revenue for the year ended 2011 was \$469,722, state and federal grants amounted to \$5,127,880 and charges for services were \$312,903. Investment earnings and other income totaled \$26,129. Total revenues for FY 2011 of \$5,936,634 exceeded total expenses of \$2,109,102 resulting in an increase in net assets of \$3,827,532. The prior year increase in net assets was \$2,862,287.

As pointed out in previous years, the airport continues to be adequately funded for daily operations and maintenance. Funding in 2012 for daily operations will remain at the same level as it was in 2011. Additionally, there has been no dedicated level of funding for long term capital equipment or facility replacement, nor has there been dedicated funding for matching federal or state grants. The Authority will have to address this issue as a part of the overall funding and budget development for 2013 and beyond. The current projects' local funding match was the result of a dedicated bond issue for the specific purpose. This has made planning and execution of projects difficult because of the long lead time required to obtain federal or state approval and funding. 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 will address these in the 2012 development of the 2013 budget.

The Airport received federal grants (AIP 26, 27 and 28) under the Airport Improvement Program to complete several projects. Grant AIP 26 was \$224,795, including a local match of \$11,239, used for phase two of expansion of the aircraft rescue and firefighting equipment building. Grant proceeds recognized in 2011 were \$196,623. Grant AIP 27 was \$563,253 including a local match of \$28,163. The project included airport passenger boarding bridge and beacon replacement. Grant proceeds recognized in 2011 were \$494,560. Grant AIP 28 was \$1,760,000 including a local match of \$88,000. The grant will be used for phase two of the airport parking lot project. Grant proceeds recognized in 2011 were \$25,426.

Charges for services includes revenue from the Passenger Facility Charges (PFC's) as well as revenue from leases, landing fees and hangar rent.



**BEMIDJI REGIONAL AIRPORT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2011**

### Bemidji Regional Airport Debt

*Long-term Debt:* At the end of the current fiscal year, the Bemidji Regional Airport had \$1,330,000 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 12/31/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/11</u>
G.O. Revenue Bonds	1,330,000	\$ -	\$ -	\$ 1,330,000
Compensated Absences	<u>44,864</u>	<u>5,263</u>	<u>-</u>	<u>50,127</u>
Total	<u>\$ 1,374,864</u>	<u>\$ 5,263</u>	<u>\$ -</u>	<u>\$ 1,380,127</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 began construction of the aircraft passenger boarding bridge and continued the construction and renovation of the terminal and Aircraft Rescue Fire Fighting Facility. The airport also added various equipment as part of the enhancement and operation of the terminal and Aircraft Rescue Fire Fighting Facility. Total capital additions for 2011 and 2010 totaled \$5,655,029 and \$4,498,439 respectively.

### Bemidji Regional Airport as a whole

*Financial Statement:* The attached audit accurately reflects the financial position at the end of FY2011. 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 2011 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 being used to complete payment

**BEMIDJI REGIONAL AIRPORT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2011**

for the Master Plan, 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 now is expected to be met in mid 2013. The balance of the local share of AIP-17 along with the local share of AIP-18 will be included in the next PFC application which will be completed in early FY 2013. This application will also include 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 2012, the airport continues to be adequately funded for operations and maintenance. However, there are escalating costs associated with winter operations which have been associated with increased Federal Aviation requirements to maintain the airport certification and increased airline requirements because the gradual change in aircraft available to serve Bemidji, specifically the change from Saab 340 turbo prop to CRJ 200/700/900 jets. The airport has been awarded significant federal funding to continue its terminal rehabilitation project. The final phase of the terminal project is the replacement of the infrastructure serving the airport (water, sanitary, and storm water) along with the reconstruction of the entrance and parking lot beginning 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 ASSETS**  
**DECEMBER 31, 2011 AND 2010**

<b><u>ASSETS</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
<b><u>Current Assets</u></b>		
Cash and Cash Equivalents	\$ 609,663	\$ 1,156,811
Accounts Receivable	38,273	9,577
Property Taxes Receivable	61,589	49,960
Due from Other Governmental Units	1,026,160	533,192
Prepaid Insurance	18,489	23,511
<b>Total Current Assets</b>	<b>1,754,174</b>	<b>1,773,051</b>
<b><u>Capital Assets</u></b>		
Land	975,667	861,567
Buildings	4,304,025	4,304,025
Runways and Improvements	20,397,651	20,397,651
Equipment	2,592,979	2,539,828
Construction In Progress	10,082,509	4,594,731
	<b>38,352,831</b>	<b>32,697,802</b>
Less: Accumulated Depreciation	<b>(11,016,796)</b>	<b>(9,705,785)</b>
<b>Total Capital Assets</b>	<b>27,336,035</b>	<b>22,992,017</b>
<b><u>Non-Current Assets</u></b>		
Bond Issuance Costs (Net of Amortization)	41,669	44,550
Capital Credits Receivable	14,472	13,058
<b>Total Non-Current Assets</b>	<b>56,141</b>	<b>57,608</b>
<b><u>Total Assets</u></b>	<b>29,146,350</b>	<b>24,822,676</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts Payable	955,333	475,524
Accrued Interest Payable	16,838	12,666
Current Portion of Bonds Payable	50,000	-
Rent Payable	-	567
Accrued Liabilities	12,154	4,689
<b>Total Current Liabilities</b>	<b>1,034,325</b>	<b>493,446</b>
<b><u>Long-Term Liabilities</u></b>		
Bonds Payable, net of current portion above	1,280,000	1,330,000
Accrued Compensated Absences	50,127	44,864
<b>Total Long-Term Liabilities</b>	<b>1,330,127</b>	<b>1,374,864</b>
<b><u>Total Liabilities</u></b>	<b>2,364,452</b>	<b>1,868,310</b>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets, Net of Related Debt	26,006,035	21,662,017
Restricted	41,633	38,245
Undesignated	734,230	1,254,104
<b><u>Total Net Assets</u></b>	<b>\$ 26,781,898</b>	<b>\$ 22,954,366</b>

See Accompanying Notes to Financial Statements

**BEMIDJI REGIONAL AIRPORT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b><u>Revenues</u></b>		
Rents	\$ 312,903	\$ 274,247
Property Taxes	469,722	367,143
Other	23,593	18,902
Total Revenues	806,218	660,292
<b><u>Expenses</u></b>		
Salaries and Wages	281,097	286,218
Payroll Taxes and Employee Benefits	54,680	53,026
Utilities	99,232	72,660
Maintenance and Repairs	94,860	75,928
Supplies	55,653	38,463
Other Services and Charges	209,688	146,437
Depreciation and Amortization	1,313,892	1,293,818
Total Expenses	2,109,102	1,966,550
<b><u>Operating Loss</u></b>	(1,302,884)	(1,306,258)
<b><u>Non-Operating Revenues (Expense)</u></b>		
State and Federal Grants	5,127,880	4,148,142
Interest Income	2,536	2,109
Interest Expense	-	(65)
Other Contributions	-	18,359
Total Non-Operating Revenues (Expense)	5,130,416	4,168,545
<b><u>Net Income</u></b>	3,827,532	2,862,287
<b><u>Net Assets, Beginning of Year</u></b>	22,954,366	20,092,079
<b><u>Net Assets, End of Year</u></b>	\$ 26,781,898	\$ 22,954,366

See Accompanying Notes to Financial Statements

**BEMIDJI REGIONAL AIRPORT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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

	<u>2011</u>	<u>2010</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received From Users	\$ 763,912	\$ 561,451
Cash Paid to Suppliers and Employees	<u>(293,479)</u>	<u>(494,485)</u>
Net Cash Provided by (Used in) Operating Activities	<u>470,433</u>	<u>66,966</u>
<b><u>Cash Flows from Non-Capital Financing Activities</u></b>		
Proceeds of Federal and State Grants	<u>137,918</u>	<u>111,457</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Acquisition of Property and Equipment	(5,655,029)	(4,498,438)
Proceeds from Bonds	-	1,330,000
Proceeds of Federal and State Capital Grants	4,496,994	3,839,920
Interest Paid on Bonds and Notes	-	(65)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(1,158,035)</u>	<u>671,417</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Interest	<u>2,536</u>	<u>2,109</u>
<b><u>Net Increase in Cash and Cash Equivalents</u></b>	(547,148)	851,949
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<u>1,156,811</u>	<u>304,862</u>
<b><u>Cash and Cash Equivalents (Deficit), End of Year</u></b>	<u>\$ 609,663</u>	<u>\$ 1,156,811</u>

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

<b><u>Operating Loss</u></b>	\$ (1,302,884)	\$ (1,306,258)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Depreciation and Amortization	1,313,892	1,293,818
<b>Changes in Assets and Liabilities</b>		
(Increase) Decrease in Accounts Receivable	(30,110)	(4,091)
(Increase) Decrease in Property Tax Receivable	(11,629)	(49,960)
(Increase) Decrease in Prepaid Insurance	5,022	(5,997)
(Increase) Decrease in Bond Issuance Costs	-	(44,550)
Increase (Decrease) in Accounts Payable	479,809	162,937
Increase (Decrease) in Accrued Interest Payable	4,172	12,666
Increase (Decrease) in Accrued Liabilities	7,465	511
Increase (Decrease) in Accrued Compensated Absences	5,263	8,130
Increase (Decrease) in Rent Payable	<u>(567)</u>	<u>(240)</u>
<b><u>Net Cash Provided by (Used in) Operating Activities</u></b>	<u>\$ 470,433</u>	<u>\$ 66,966</u>

See Accompanying Notes to Financial Statements

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

1. **Summary of Significant Accounting Policies**

The financial statements of Bemidji Regional Airport have been prepared on the accrual basis. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

**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.

**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.

The City owns certain buildings and other fixed assets on the airport site which have been assigned to the Bemidji Regional Airport for the duration of the agreement. These assets are not reflected in the capital assets of the airport.

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.

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**Cash and Cash Equivalents** – The Bemidji Regional Airport considers cash and cash equivalents to be cash in banks and short-term certificates of deposit.

**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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**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.

**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, 2011 was zero.

**BEMIDJI REGIONAL AIRPORT**  
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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.

4. **Capital Assets**

	<u>1/1/2011</u> <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2011</u> <u>Balance</u>
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 861,567	\$ 114,100	\$ -	\$ 975,667
Construction in Progress	4,594,732	5,487,777	-	10,082,509
<b>Total Non-Depreciable Capital Assets</b>	<u>5,456,299</u>	<u>5,601,877</u>	<u>-</u>	<u>11,058,176</u>
<b>Depreciable Capital Assets</b>				
Buildings	4,304,025	-	-	4,304,025
Runways and Improvements	20,397,651	-	-	20,397,651
Equipment	2,539,827	53,152	-	2,592,979
<b>Total Depreciable Capital Assets</b>	27,241,503	53,152	-	27,294,655
Less Accumulated Depreciation	<u>(9,705,785)</u>	<u>(1,311,011)</u>	<u>-</u>	<u>(11,016,796)</u>
<b>Depreciable Capital Assets, Net</b>	<u>17,535,718</u>	<u>(1,257,859)</u>	<u>-</u>	<u>16,277,859</u>
<b>Total Capital Assets, Net</b>	<u>\$22,992,017</u>	<u>\$ 4,344,018</u>	<u>\$ -</u>	<u>\$27,336,035</u>



**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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 (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 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

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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 GERP and PEPFF. That report may be obtained on the web at 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. The Airport is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members, and 7.25% for Coordinated Plan members. The Airport's contributions for the years ending December 31, 2011, 2010 and 2009, were \$13,560, \$12,890 and \$11,747 respectively. The Airport's contributions were equal to the contractually required contributions for each year as set by state statute.

**6. Risk Management**

The airport is exposed to various risks of loss from 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.

**7. 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, 2011 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.

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**8. Compensated Absences**

The airport permits employees to accumulate earned but 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.

**9. 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 jetbridge. The \$1,330,000 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, 2011:

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/11</u>
G.O. Revenue Bonds	1,330,000	\$ -	\$ -	\$ 1,330,000
Compensated Absences	<u>44,864</u>	<u>5,263</u>	<u>-</u>	<u>50,127</u>
<b>Total</b>	<u>\$ 1,374,864</u>	<u>\$ 5,263</u>	<u>\$ -</u>	<u>\$ 1,380,127</u>

The annual requirements to amortize long-term debt outstanding at December 31, 2011, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	50,000	39,874	89,874
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
2017-2021	300,000	150,948	450,948
2022-2026	345,000	105,503	450,503
2027-2031	<u>420,000</u>	<u>39,913</u>	<u>459,913</u>
<b>Total</b>	<u>\$ 1,330,000</u>	<u>\$ 482,670</u>	<u>\$ 1,812,670</u>

**BEMIDJI REGIONAL AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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, 2011 total \$1,829,541.

**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE**  
**DECEMBER 31, 2011**

<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	\$ 89,419.60	\$ 89,419.60	\$ 442,640.56
<b>Total Authority</b>	<b>\$ 89,419.60</b>	<b>\$ 89,419.60</b>	<b>\$ 442,640.56</b>
	<u>Current Year</u>		<u>Cumulative</u>
PFC Revenue Received	\$ 89,419.60		\$ 1,201,604.82
Interest Earned	9.01		4,472.73
<b>Total PFC Revenue Received</b>	<b>\$ 89,428.61</b>		<b>\$ 1,206,077.55</b>
Expenditures on Approved PFC Projects			<b>\$ 1,206,077.55</b>

**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

<u>Funding Source</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b><u>Administering Agency</u></b>			
<b><u>U.S. Department of Transportation</u></b>			
Pass-Through Minnesota Department of Transportation	Airport Improvement Program	20.106	\$ 4,416,877
<b>Total Federal Assistance Expended</b>			<b>\$ 4,416,877</b>

**Note 1 –Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Bemidji Regional Airport. The Schedule is presented on the modified 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 the financial statements of the business-type activities, of the Bemidji Regional Airport, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 22, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

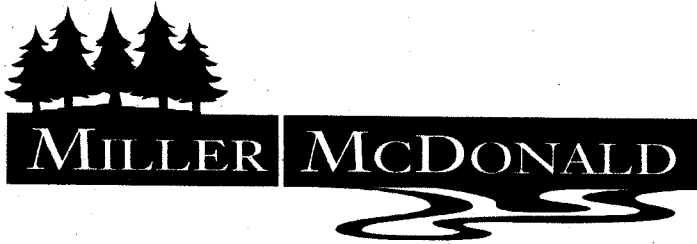
The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Bemidji Regional Airport, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the use of the Bemidji Regional Airport, the Commission and other appropriate federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Miller McDonald, Inc.*

June 22, 2012  
 Bemidji, Minnesota



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**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE  
 PASSENGER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL 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 the financial statements of the business-type activity Bemidji Regional Airport as of and for the year ended December 31, 2011 and 2010, and have issued our report thereon dated June 22, 2012. We conducted our audit 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 compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, (the Guide) issued by the Federal Aviation Administration.

**Internal Control Over Financial Reporting**

Management of Bemidji Regional Airport is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bemidji Regional Airport's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bemidji Regional Airport's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or



material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. We consider Finding 07-1 to be a significant deficiency. A significant deficiency is a deficiency, or 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.

### 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.

We noted certain matters that we reported to management of Bemidji Regional Airport, in a separate letter dated June 22, 2012.

Bemidji Regional Airport's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bemidji Regional Airport's response 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, 2011 and 2010.

This report is intended solely for the information and use of the Bemidji Regional Airport, the Commission and other appropriate federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Miller McDonald, Inc.*

June 22, 2012  
Bemidji, Minnesota



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**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the 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 each of Bemidji Regional Airport's major federal programs for the year ended December 31, 2011. The Bemidji Regional Airport's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Bemidji Regional Airport's, management. Our responsibility is to express an opinion on the Bemidji Regional Airport's compliance based on our audit.

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. Our audit does not provide a legal determination on the Bemidji Regional Airport's compliance with those requirements.

In our opinion, the Bemidji Regional Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

The management of the Bemidji Regional Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Bemidji Regional Airport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Bemidji Regional Airport's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bemidji Regional Airport's response and, accordingly, we express no opinion on the response.

This report is intended solely for the use of and information of management, the Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Miller McDonald, Inc.*

June 22, 2012  
Bemidji, Minnesota

**BEMIDJI REGIONAL AIRPORT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2011**

**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 *Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with 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, 2011**

**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, 2011**

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