

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2008 AND 2007

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
DECEMBER 31, 2008 AND 2007

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BEMIDJI REGIONAL AIRPORT COMMISSION
BEMIDJI, MINNESOTA

OFFICIAL DIRECTORY

Marshall Froyd

Chairperson

Ron Otterstad

Vice Chairperson

Ron Johnson

Treasurer

Nancy Erickson

City Council Member

Jack Frost

County Commissioner

Harold M. Van Leeuwen Jr.

Airport Manager



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INDEPENDENT AUDITORS' REPORT

**Bemidji Regional Airport Commission
 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, 2008 and 2007, 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, 2008 and 2007, 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 a report dated June 22, 2009, on our consideration of the Bemidji Regional Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 6 is not a required part of the basic financial statement but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 also not a required part of the basic financial statements of Bemidji Regional Airport. 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all materials respects, in relation to the financial statements taken as a whole.

Miller McDonald, Inc.

June 22, 2009
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport's financial activities during the year 2008 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; contributions from the City of Bemidji and Beltrami County, state and federal grants and charges for services. Other revenue sources include investment earnings and miscellaneous income. The contributions for the year ended 2008 were \$360,000, state and federal grants amounted to \$2,299,851 and charges for services were \$276,182. Investment earnings and other income totaled \$66,587. Total revenues for FY 2008 of \$3,002,620 exceeded total expenses of \$1,809,950 resulting in an increase in net assets of \$1,192,670. The prior year increase in net assets was \$8,864,288.

As pointed out in previous years the airport has been adequately funded for daily operations and maintenance; however, it has not been funded for long term capital equipment or facility replacement nor is it funded for matching federal or state grants. Local share for these items has been accomplished through individual requirement identification to the sponsors and funds are provided as available and only for specific projects. This has made planning and execution of projects difficult because of the long lead time required to obtain federal or state approval and funding. However, beginning with calendar year 2009 the Bemidji Regional Airport will transition from being owned and managed jointly by the City of Bemidji and Beltrami County to being the Bemidji Regional Airport Authority with tax and levy authority beginning with the 2010 calendar year. The intent of the Authority is 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.

The Airport received federal grants (AIP 17, AIP 18 and 19) under the Airport Improvement Program to complete several projects. Grant AIP 17 was \$8,561,636 including a matching local portion of \$428,082. The Project included runway 13-31 & taxiway construction and runway closure markers. Grant proceeds recognized in 2008 and 2007 were \$162,203 and \$7,969,390 respectively. Grant AIP 18 consisted of two projects, the construction of an electrical building and taxi lane and the design of the terminal, electrical building and beacon. The first grant was \$1,286,291 including a local match of \$64,314. Grant proceeds recognized in 2008 were \$1,008,340. The second grant was \$330,162 including a state portion of \$289,096 and a local match of \$21,367. Grant proceeds recognized in 2008 were \$19,531.

Grant AIP 19 was \$270,658 including a local match of \$13,533. The project included ALP, compass pad and taxi way design. Grant proceeds recognized in 2008 were \$199,221.

The Airport also received a grant from the Department of Housing and Urban Development for \$328,300 for the installation of a lift station and approximately 2500 feet of underground water and sewer mains. The entire grant was expended in 2008.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008

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

Bemidji Regional Airport Debt

Long-term Debt: The Bemidji Regional Airport has no long-term debt.

Short Term Debt: The airport currently has no short-term debt due to an increase in revenues in the current year.

Capital Investments

Major equipment or structure additions or improvements: During the year the airport began construction of an electrical building and started design for the new terminal. Construction also began on a new beacon and compass pad as well as a lift station and additional water and sewer lines. In addition, several pieces of equipment were purchased including a new pickup, office furniture, information technology equipment and a friction meter. Total capital additions for 2008 and 2007 totaled \$2,249,384 and \$9,550,625 respectively.

Bemidji Regional Airport as a whole

Financial Statement: The attached audit accurately reflects the financial position at the end of FY2008. 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 2008 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. Because the limit on the previously approved PFC was reached on August 31st, 2005 collections of PFC were suspended until implementation of the new PFC, collections started again in October 2006. These new collections are being used to complete payment for the Master Plan, ALP along with payment of the local share of AIP-16. Repayment of the local share for AIP-16 is estimated to take 42 months at the current collection rate, which is expected to be April 2010. 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 late 2009 or early 2010 to have in place prior to the end of the current collections as to prevent interruption of collections.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008

Next Year's Budget requirements: For 2010 the airport continues to be adequately funded for operations and maintenance, however there are escalating costs associated with winter operations, which has 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 applied for and is expecting significant federal funding to continue its terminal rehabilitation project, the procurement of a replacement snow-blower/broom combination and ARRA (stimulus) funding for ramp rehabilitation. Some of these funds, the snow-blower/broom and the ARRA may actually be received in 2009. The ARRA funds are expected to be \$500K with no local match required. The terminal design and snow blower funds will be "Part B" of the 2009 entitlement funds and should be approximately \$1,043,000 with a local match of 5% of that. The local government units will have to develop a plan to provide the 5% cost share. The first phase of the terminal project is expected to be 2010 funding and will be approximately \$3.5 million federal and 5% (\$175K) local match. The second phase would be 2011 and would be an additional \$3.5 million federal and a possible \$500k in state funding with a local share of approximately \$325K.

The final phase of the terminal project will be the entrance and parking lot and is planned to proceed following completion of the terminal itself, estimated to be spring of 2012. The cost of this final phase is projected to be \$1.5M federal with a local match of 5% (\$45K).

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, 2008 AND 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
<u>Current Assets</u>		
Accounts Receivable	\$ -	\$ 8,163
Due from Other Governmental Units	759,397	1,232,729
Prepaid Insurance	22,109	13,343
Total Current Assets	781,506	1,254,235
<u>Capital Assets</u>		
Land	861,567	861,567
Buildings	4,055,472	2,858,585
Runways and Improvements	19,587,626	18,627,235
Equipment	1,814,593	1,722,487
	26,319,258	24,069,874
Less: Accumulated Depreciation	(7,358,667)	(6,222,068)
Total Capital Assets	18,960,591	17,847,806
<u>Non-Current Assets</u>		
Capital Credits Receivable	9,709	7,398
<u>Total Assets</u>	19,751,806	19,109,439
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	409,414	931,224
Prepaid Rent	2,576	-
Accrued Liabilities	4,237	5,481
Due to Other Governmental Units	-	20,715
Total Current Liabilities	416,227	957,420
<u>Long-Term Liabilities</u>		
Accrued Compensated Absences	25,915	35,025
<u>Total Liabilities</u>	442,142	992,445
<u>NET ASSETS</u>		
Invested in Capital, Net of Related Debt	18,960,591	17,847,806
Designated	38,121	37,494
Unrestricted	310,952	231,694
<u>Total Net Assets</u>	\$ 19,309,664	\$ 18,116,994

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<u>Revenues</u>		
Rents	\$ 276,182	\$ 251,739
Other	23,544	18,768
Total Revenues	299,726	270,507
<u>Expenses</u>		
Salaries and Wages	243,596	240,163
Payroll Taxes and Employee Benefits	44,969	41,061
Utilities	87,348	78,747
Maintenance and Repairs	68,448	57,821
Supplies	50,584	44,865
Other Services and Charges	178,204	138,274
Depreciation and Amortization	1,136,600	891,667
Total Expenses	1,809,749	1,492,598
<u>Operating Loss</u>	(1,510,023)	(1,222,091)
<u>Non-Operating Revenues (Expense)</u>		
State and Federal Grants	2,299,851	9,086,057
Beltrami County/City of Bemidji Contributions	360,000	960,000
Interest Income	7,564	5,259
Interest Expense	(201)	(6,097)
Other Contributions	35,479	41,160
Total Non-Operating Revenues (Expense)	2,702,693	10,086,379
<u>Net Income</u>	1,192,670	8,864,288
<u>Net Assets, Beginning of Year</u>	18,116,994	9,252,706
<u>Net Assets, End of Year</u>	\$ 19,309,664	\$ 18,116,994

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2008</u>	<u>2007</u>
<u>Cash Flows from Operating Activities</u>		
Cash Received From Users	\$ 308,154	\$ 274,548
Cash Paid to Suppliers and Employees	(1,214,079)	52,551
Net Cash Provided by (Used in) Operating Activities	<u>(905,925)</u>	<u>327,099</u>
<u>Cash Flows from Non-Capital Financing Activities</u>		
Proceeds of City and County Contributions	339,285	559,083
Proceeds of Federal and State Operating Grants	120,307	114,593
Net Cash Provided by Non-Capital Financing Activities	<u>459,592</u>	<u>673,676</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of Property and Equipment	(2,249,384)	(9,550,625)
Proceeds of Federal and State Capital Grants	2,688,354	8,459,944
Interest Paid on Bonds and Notes	(201)	(6,097)
Net Cash Used in Capital and Related Financing Activities	<u>438,769</u>	<u>(1,096,778)</u>
<u>Cash Flows from Investing Activities</u>		
Interest on Investments	7,564	5,259
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	-	(90,744)
<u>Cash and Cash Equivalents, Beginning of Year</u>	-	90,744
<u>Cash and Cash Equivalents (Deficit), End of Year</u>	<u>\$ -</u>	<u>\$ -</u>

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

<u>Operating Loss</u>	\$ (1,510,023)	\$ (1,222,091)
<u>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities</u>		
Depreciation and Amortization	1,136,600	891,667
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	5,852	4,042
(Increase) Decrease in Prepaid Insurance	(8,766)	(5,747)
Increase (Decrease) in Accounts Payable	(521,810)	654,430
Increase (Decrease) in Accrued Liabilities	(1,244)	(3,040)
Increase (Decrease) in Accrued Compensated Absences	(9,110)	8,170
Increase (Decrease) in Prepaid Rent	2,576	(332)
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>\$ (905,925)</u>	<u>\$ 327,099</u>

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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 has been 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.

The Commission 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.

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. Useful lives of the joint airport assets are estimated at three to thirty years.

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.

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

Equity in Pooled Cash and Investments - Cash is invested only in investments authorized by State Statutes.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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.

Inventories and Prepays – Inventories are recorded at cost, which approximates market. Prepays record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

Revenues – The Airport Commission has an agreement with the State of Minnesota that provides state operating funds annually to a maximum of \$120,307. The Commission has entered into other agreements with the two air carriers serving Bemidji which provide landing fee and rental revenues based on levels of usage.

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 effect 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 Commission. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all Commission 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 Commission 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 Commission’s deposits may not be covered. The Commission’s policy for custodial credit risk is to maintain compliance with Minnesota Statutes that require all the Commission’s deposits to be protected by insurance, surety bond, or pledged collateral. The Commission’s custodial credit risk at December 31, 2008 was zero.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

3. **Capital Assets**

	1/1/2008			12/31/2008
	Balance	Additions	Disposals	Balance
Non-Depreciable Capital Assets				
Land	\$ 861,567	\$ -	\$ -	\$ 861,567
Depreciable Capital Assets				
Buildings, and Improvements	21,485,820	2,157,278	-	23,643,098
Furniture, Fixtures, and Equipment	1,722,487	92,106	-	1,814,593
Total Depreciable Capital Assets	23,208,307	2,249,384	-	25,457,691
Less Accumulated Depreciation	(6,222,068)	(1,136,599)	-	(7,358,667)
Depreciable Capital Assets, Net	16,986,239	1,112,785	-	18,099,024
Total Capital Assets, Net	\$ 17,847,806	\$ 1,112,785	\$ -	\$ 18,960,591

4. **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 Public Employees Retirement Fund (PERF) 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.

PERF 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 PERF'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

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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 PERFF and PERF 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 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 PERF 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. The Airport is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan, will increase to 6.75% effective January 1, 2009. The Airport's contributions for the years ending December 31, 2008, 2007 and 2006, were \$10,201, \$9,007 and \$8,212 respectively. The Airport's contributions were equal to the contractually required contributions for each year as set by state statute.

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE
DECEMBER 31, 2008

<u>Approved Applications</u>	<u>Current Year Imposed</u>	<u>Current Year Used/Spent</u>	<u>Cummulative Balance</u>
Application # 2 01-02-C-00-BJI	\$ -	\$ -	\$ -
Application # 3 01-02-C-01-BJI	-	-	15,115.89
Application # 4 60-03-C-00-BJI	<u>78,953.46</u>	<u>78,953.46</u>	<u>135,634.27</u>
Total Authority	<u>\$ 78,953.46</u>	<u>\$ 78,953.46</u>	<u>\$ 150,750.16</u>
	<u>Current Year</u>		<u>Cumulative</u>
PFC Revenue Received	\$ 78,953.46		\$ 598,909.06
Interest Earned	<u>68.78</u>		<u>4,503.78</u>
Total PFC Revenue Received	<u>\$ 79,022.24</u>		<u>\$ 603,412.84</u>
Expenditures on Approved PFC Projects			<u>\$ 603,412.84</u>

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008

<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>1,738,310</u>
Total Federal Assistance Expended			\$ <u><u>1,738,310</u></u>



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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 LOCAL GOVERNMENT**

**Bemidji Regional Airport Commission
 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, 2008 and 2007, and have issued our report thereon dated June 22, 2009.

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 Local Government*, 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 Local Government* 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. 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 except as noted in 07-2 in the schedule of findings and questioned costs.

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, 2009
 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

Bemidji Regional Airport Commission
 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, 2008 and 2007, and have issued our report thereon dated June 22, 2009. 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Bemidji Regional Airport's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Bemidji Regional Airport's financial statements that is more than inconsequential will not be prevented or detected by Bemidji Regional Airport's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs, item 07-1, to be a significant deficiency in internal control over financial reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by Bemidji Regional Airport's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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 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, 2009.

Bemidji Regional Airport's response to the findings 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, 2008 and 2007.

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, 2009

Bemidji, Minnesota



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**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
 APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
 COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Bemidji Regional Airport Commission
 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 are applicable to each of its major federal programs for the year ended December 31, 2008. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

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, 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 control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Bemidji Regional Airport's internal control that might be 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.

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, 2009
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

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 *Report on Compliance with Requirements Applicable to each Major Program and 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 programs:

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

The Airport's Auditor prepares the financial statements. This is not unusual in entities the size of 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.

Corrective Action Plan (CAP):

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

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

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 Commission does not feel it is either capable of or has a pressing need to resolve anytime soon. Management and the Commission are both completely satisfied with continuing 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

4. **Planned Completion of CAP**

Ongoing

5. **Plan to Monitor Completion of CAP**

The 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

BEMIDJI REGIONAL AIRPORT
PRIOR YEAR FINDINGS & QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

Previously Reported Items Resolved During the Year

Finding 07-02 – Insufficient Pledged Collateral

At times during the year the Bemidji Regional Airport did not have sufficient pledged collateral in place to cover deposits at the First National Bank in Bemidji.

This is no longer a finding for the current year.