

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2010 AND 2009

BEMIDJI REGIONAL AIRPORT
BEMIDJI, MINNESOTA
DECEMBER 31, 2010 AND 2009

TABLE OF CONTENTS

OFFICIAL DIRECTORY	1
INDEPENDENT AUDITORS' REPORT	2-3
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	4-6
FINANCIAL STATEMENTS	
Statements of Net Assets	7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
NOTES TO FINANCIAL STATEMENTS	10-15
SUPPLEMENTARY INFORMATION	
Schedule of Passenger Facility Charge Revenue	16
Schedule of Expenditures of Federal Awards	17
OTHER REPORTS	
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	18
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	19-20
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	21-22
Schedule of Findings and Questioned Costs	23-25

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



MILLER MCDONALD, INC.
Certified Public Accountants
513 Beltrami Avenue
P.O. Box 486
Bemidji, MN 56619
(218) 751 - 6300
Fax (218) 751 - 0782
www.millermcdonald.com

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, 2010 and 2009, 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, 2010 and 2009, 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 April 29, 2011, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 inquiries 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bemidji Regional Airport's basic financial statements. The 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Miller McDonald, Inc.

April 29, 2011
Bemidji, Minnesota

4

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010

This discussion and analysis is to be a readable overview of the Bemidji Regional Airport's financial activities during the year 2010 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 2010 was \$367,143, state and federal grants amounted to \$4,148,142 and charges for services were \$274,247. Investment earnings and other income totaled \$39,370. Total revenues for FY 2010 of \$4,828,902 exceeded total expenses of \$1,966,615 resulting in an increase in net assets of \$2,862,287. The prior year increase in net assets was \$782,415.

As pointed out in previous years the airport continues to be adequately funded for daily operations and maintenance; however, to continue adequate funding the level will have to increase in FY2012 in that the main source of funding has been held level for 2009, 2010 and increased by less than 2% for 2011. Funding in 2012 will have to increase more than 2% since the major expense items are utilities and motor fuels, both of which are seeing significant increases and are in direct relationship to weather. 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 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. Both areas will have to be addressed in fiscal year 2011.

The Airport received federal grants (AIP 23, 24 and 25) under the Airport Improvement Program to complete several projects. Grant AIP 23 was \$526,316, including a local match of \$26,316, used for the expansion of the aircraft rescue and firefighting equipment building. Grant proceeds recognized in 2010 were \$398,966. Grant AIP 24 was \$462,269 including a local match of \$28,822. The project included airport terminal improvement (phase 4) and airport terminal drop-off/pick-up road improvements. Grant proceeds recognized in 2010 were \$168,593. Grant AIP 25 was \$267,351 including a local match of \$13,368. The project included airport terminal improvement (phase 5, sanitary and storm sewer upgrades) and rehabilitation of apron to accommodate terminal expansion. Grant proceeds recognized in 2010 were \$142,688.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010

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: At the end of the current fiscal year, the Bemidji Regional Airport had \$1,330,000 in debt outstanding. The full faith and credit of the authority back this entire debt. Primary sources of repayment include property tax revenue which will be offset by the collection of Passenger Facility Charges which are intended to abate the local property tax repayment of this bond along with other revenues generated by the airport.

	<u>Balance</u> <u>12/31/2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/2010</u>
G.O. Revenue Bonds	\$ -	\$ 1,330,000	\$ -	\$ 1,330,000
Compensated Absences	<u>36,734</u>	<u>8,130</u>	<u>-</u>	<u>44,864</u>
Total	<u>\$ 36,734</u>	<u>\$ 1,338,130</u>	<u>\$ -</u>	<u>\$ 1,374,864</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 completed construction of an electrical building and continued the design work and began construction of the renovated terminal and Aircraft Rescue Fire Fighting Facility. The airport also completed work on the ramp repair project that was funded as a part of the American Recovery and Reinvestment Act (stimulus). Total capital additions for 2010 and 2009 totaled \$4,498,439 and \$2,026,498 respectively.

Bemidji Regional Airport as a whole

Financial Statement: The attached audit accurately reflects the financial position at the end of FY2010. 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.

BEMIDJI REGIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010

Passenger Facility Charge: During 2010 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 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 72 months at the current collection rate, which is expected to be October 2011. 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 CY 2011. 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.

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 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 been awarded significant federal funding to continue its terminal rehabilitation project. The next phase of the terminal project is the addition of the Board Bridge. It is estimated this will be approximately \$550,000 which will be funded through federal and local funds at expected percentages of 95% federal and 5% local. The local match is a part of the proceeds of the airport bond. This is a FY2012 project. 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 with completion of the final phase, entrance and parking lot, in 2013. The cost of this final phase is projected to be \$1.5M federal with a local match of 5% (\$79K).

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, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 1,156,811	\$ 304,862
Accounts Receivable	9,577	6,856
Property Taxes Receivable	49,960	-
Due from Other Governmental Units	533,192	318,069
Prepaid Insurance	23,511	17,514
Total Current Assets	1,773,051	647,301
<u>Capital Assets</u>		
Land	861,567	861,567
Buildings	4,304,025	4,055,472
Runways and Improvements	20,397,651	20,057,515
Equipment	2,539,828	2,537,581
Construction In Progress	4,594,731	687,228
	32,697,802	28,199,363
Less: Accumulated Depreciation	(9,705,785)	(8,411,967)
Total Capital Assets	22,992,017	19,787,396
<u>Non-Current Assets</u>		
Bond Issuance Costs (Net of Amortization)	44,550	-
Capital Credits Receivable	13,058	11,688
Total Non-Current Assets	57,608	11,688
<u>Total Assets</u>	24,822,676	20,446,385
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	475,524	312,587
Accrued Interest Payable	12,666	-
Rent Payable	567	807
Accrued Liabilities	4,689	4,178
Total Current Liabilities	493,446	317,572
<u>Long-Term Liabilities</u>		
Bonds Payable	1,330,000	-
Accrued Compensated Absences	44,864	36,734
Total Long-Term Liabilities	1,374,864	36,734
<u>Total Liabilities</u>	1,868,310	354,306
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	21,662,017	19,787,396
Restricted	38,245	38,749
Undesignated	1,254,104	265,934
<u>Total Net Assets</u>	\$ 22,954,366	\$ 20,092,079

See Accompanying Notes to Financial Statements.

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
<u>Revenues</u>		
Rents	\$ 274,247	\$ 289,912
Property Taxes	367,143	-
Other	18,902	62,127
Total Revenues	660,292	352,039
<u>Expenses</u>		
Salaries and Wages	286,218	276,250
Payroll Taxes and Employee Benefits	53,026	49,069
Utilities	72,660	70,573
Maintenance and Repairs	75,928	70,108
Supplies	38,463	49,467
Other Services and Charges	146,437	145,960
Depreciation and Amortization	1,293,818	1,199,693
Total Expenses	1,966,550	1,861,120
<u>Operating Loss</u>	(1,306,258)	(1,509,081)
<u>Non-Operating Revenues (Expense)</u>		
State and Federal Grants	4,148,142	1,910,738
Beltrami County/City of Bemidji Contributions	-	367,000
Interest Income	2,109	4,413
Interest Expense	(65)	(119)
Other Contributions	18,359	9,464
Total Non-Operating Revenues (Expense)	4,168,545	2,291,496
<u>Net Income</u>	2,862,287	782,415
<u>Net Assets, Beginning of Year</u>	20,092,079	19,309,664
<u>Net Assets, End of Year</u>	\$ 22,954,366	\$ 20,092,079

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2010	2009
<u>Cash Flows from Operating Activities</u>		
Cash Received From Users	\$ 561,451	\$ 298,487
Cash Paid to Suppliers and Employees	(494,485)	(742,899)
Net Cash Provided by (Used in) Operating Activities	66,966	(444,412)
<u>Cash Flows from Non-Capital Financing Activities</u>		
Proceeds of City and County Contributions	-	367,000
Proceeds of Federal and State Grants	111,457	99,376
Net Cash Provided by (Used in) Non-Capital Financing Activities	111,457	466,376
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of Property and Equipment	(4,498,438)	(2,026,498)
Proceeds from Sales of Equipment	-	42,950
Proceeds from Bonds	1,330,000	-
Proceeds of Federal and State Capital Grants	3,839,920	2,262,152
Interest Paid on Bonds and Notes	(65)	(119)
Net Cash Provided by (Used in) Capital and Related Financing Activities	671,417	278,485
<u>Cash Flows from Investing Activities</u>		
Interest on Investments	2,109	4,413
<u>Net Increase in Cash and Cash Equivalents</u>	851,949	304,862
<u>Cash and Cash Equivalents, Beginning of Year</u>	304,862	-
<u>Cash and Cash Equivalents (Deficit), End of Year</u>	\$ 1,156,811	\$ 304,862

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

<u>Operating Loss</u>	\$ (1,306,258)	\$ (1,509,081)
Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	1,293,818	1,199,693
Gain on Sale of Equipment	-	(42,950)
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(4,091)	(8,833)
(Increase) Decrease in Property Tax Receivable	(49,960)	-
(Increase) Decrease in Prepaid Insurance	(5,997)	4,595
(Increase) Decrease in Bond Issuance Costs	(44,550)	-
Increase (Decrease) in Accounts Payable	162,937	(96,827)
Increase (Decrease) in Accrued Interest Payable	12,666	-
Increase (Decrease) in Accrued Liabilities	511	(59)
Increase (Decrease) in Accrued Compensated Absences	8,130	10,819
Increase (Decrease) in Rent Payable	(240)	(1,769)
<u>Net Cash Provided by (Used in) Operating Activities</u>	\$ 66,966	\$ (444,412)

See Accompanying Notes to Financial Statements

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 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.

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.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 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 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, 2010 was zero.

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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>1/1/2010</u> <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2010</u> <u>Balance</u>
Non-Depreciable Capital Assets				
Land	\$ 861,567	\$ -	\$ -	\$ 861,567
Depreciable Capital Assets				
Buildings	4,055,472	248,553	-	4,304,025
Runways and Improvements	20,057,515	340,136	-	20,397,651
Equipment	2,537,581	2,247	-	2,539,828
Construction in Progress	687,228	3,907,503	-	4,594,731
Total Depreciable Capital Assets	27,337,796	4,498,439	-	31,836,235
Less Accumulated Depreciation	<u>(8,411,967)</u>	<u>(1,293,818)</u>	<u>-</u>	<u>(9,705,785)</u>
Depreciable Capital Assets, Net	18,925,829	3,204,621	-	22,130,450
Total Capital Assets, Net	\$ 19,787,396	\$ 3,204,621	\$ -	\$ 22,992,017

BEMIDJI REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 GERF'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, 2010 AND 2009

retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. The Airport is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, and 7% for Coordinated Plan GERF members. The Airport's contributions for the years ending December 31, 2010, 2009 and 2008, were \$12,890, \$11,747 and \$10,201 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, 2010 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, 2010 AND 2009

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 commence 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, 2010:

	Balance 12/31/2009	Additions	Payments	Balance 12/31/2010
G.O. Revenue Bonds	\$ -	\$ 1,330,000	\$ -	\$ 1,330,000
Compensated Absences	36,734	8,130	-	44,864
Total	\$ 36,734	\$ 1,338,130	\$ -	\$ 1,374,864

The annual requirements to amortize long-term debt outstanding at December 31, 2010, including interest are as follows:

Year	Principal	Interest	Total
2011	\$ -	\$ 36,336	\$ 36,336
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
2016-2020	290,000	158,464	448,464
2021-2025	335,000	115,886	450,886
2026-2030	405,000	54,888	459,888
2031	90,000	1,688	91,688
Total	\$ 1,330,000	\$ 519,006	\$ 1,849,006

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE
DECEMBER 31, 2010

<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	\$ 67,440.68	\$ 67,440.68	\$ 437,110.15
Total Authority	\$ 67,440.68	\$ 67,440.68	\$ 437,110.15
	<u>Current Year</u>		<u>Cumulative</u>
PFC Revenue Received	\$ 67,440.68		\$ 1,112,185.13
Interest Earned	26.43		4,463.72
Total PFC Revenue Received	\$ 67,467.11		\$ 1,116,648.85
Expenditures on Approved PFC Projects			\$ 1,116,648.85

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

<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	3,380,578
	ARRA - Airport Improvement Program	20.106	<u>309,108</u>
	Total Federal Assistance Expended		<u>\$ 3,689,686</u>

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.



MILLER MCDONALD, INC.
 Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**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**

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, 2010 and 2009, and have issued our report thereon dated April 29, 2011.

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.

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.

April 29, 2011
 Bemidji, Minnesota



MILLER MCDONALD, INC.
Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**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, 2010 and 2009, and have issued our report thereon dated April 29, 2011. 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.

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. Finding 07-1. 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 April 29, 2011.

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, 2010 and 2009.

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.

April 29, 2011

Bemidji, Minnesota



MILLER MCDONALD, INC.
Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

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, 2010. 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, 2010.

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.

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.

April 29, 2011
Bemidji, Minnesota

BEMIDJI REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

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
 - ARRA - 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, 2010

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, 2010

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