

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	3
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	4
Statement of Cash Flows – Modified Cash Basis	5
Notes to the Financial Statements	6
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	14
Schedule of Findings and Responses	16

INDEPENDENT AUDITOR'S REPORT

To the Airport Commission
Airport Authority
Beulah, North Dakota

We have audited the accompanying modified cash basis financial statements of the Airport Authority, a component unit of the City of Beulah, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Airport Authority, as of December 31, 2019, and the respective changes in modified cash basis financial position and, cash flows thereof for the year ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2020, on our consideration of the Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Airport Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Authority's internal controls over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

June 1, 2020

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$ 148,070
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Non-current assets:

Capital assets, net of accumulated depreciation	614,848
Total non-current assets	<u>614,848</u>

Total assets	<u>762,918</u>
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NET POSITION

Net investment in capital assets	614,848
Unrestricted	<u>148,070</u>

Total net position	<u><u>\$ 762,918</u></u>
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See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – MODIFIED
CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Operating revenues;	
Charges for services	\$ 40,052
Operating grants and contributions	<u>13,794</u>
Total operating revenues	<u>53,846</u>
Operating expenses:	
Fuel	23,078
Repairs and maintenance	10,217
Insurance	1,361
Public relations	1,135
Depreciation	65,487
Lease	1,360
Utilities	4,084
Supplies and miscellaneous	<u>2,730</u>
Total operating expenses	<u>109,452</u>
Operating income (loss)	<u>(55,606)</u>
Nonoperating revenues (expenses)	
Property taxes	38,601
State aid distribution	19,203
Investment earnings	233
Miscellaneous	<u>896</u>
Total nonoperating revenues (expenses)	<u>58,933</u>
Change in net position	3,327
Net position - beginning	<u>759,591</u>
Net position - ending	<u><u>\$ 762,918</u></u>

See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:	
Receipts from customers	\$ 40,052
Receipts from others	13,794
Payments to suppliers	<u>(43,965)</u>
Net cash provided (used) by operating activities	<u>9,881</u>
Cash flows from noncapital and related financing activities:	
Taxes	38,601
Intergovernmental	19,203
Investment earnings	233
Miscellaneous receipts	<u>896</u>
Net cash provided (used) by noncapital and related financing activities	<u>58,933</u>
Cash flows from capital and related financing activities:	
Purchase of property and equipment	(15,070)
Net change in cash and cash equivalents	<u>53,744</u>
Cash and cash equivalents - January 1	<u>94,326</u>
Cash and cash equivalents - December 31	<u><u>\$ 148,070</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ (55,606)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	<u>65,487</u>
Net cash provided (used) by operating activities	<u><u>\$ 9,881</u></u>

See Notes to the Financial Statements

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DESCRIPTION OF THE AIRPORT AUTHORITY (COMPONENT UNIT)

Reporting Entity

The City of Beulah operates under a city council form of government. The Airport Commission is appointed by the City Council. The Airport Authority is accounted for as a special purpose government engaged in a business-type activity.

As discussed in Note 2, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (U.S. GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Airport Authority's significant accounting policies are as described below in Note 2.

Component units are legally separate organizations for which a government is financially accountable. The Airport Authority is included as a component unit in a separate report of the City of Beulah (the primary government) because of the significance of the operational and financial relationship with the City.

The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. The criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the government. Component units may also include organizations that are fiscally dependent on the government.

The members of the governing board of the Airport Authority are appointed by the City Council. Although the City does not have the authority to approve or modify the Airport Authority's operational and capital budgets, the tax rates established by the Airport Authority and bonded debt must be approved by the City Council. Complete financial statements of the primary government can be obtained from the City of Beulah auditor.

Based on the above criteria, the Airport Authority has no component units included in its report.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The Airport Authority reports as a business-type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Airport Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus of accounting, within the limitations of the modified cash basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when received and expenses recorded when incurred within the limitations of the modified cash basis of accounting.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues from rents and money from fuel sales are reported as non-operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. All expenses related to operating the Airport Authority are reported as operating expenses. Interest expense and financing costs are reported as non-operating.

The accompanying financial statements have been prepared on the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) deferred outflows, certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities), and deferred inflows are not recorded in these financial statements.

Budgets and Budgetary Accounting

The Airport Authority's annual budgeting process is a financial planning tool used to establish the estimated revenues and expenditures. The annual budget is developed after reviewing revenue forecasts, the impact of funding increases on rental and fuel rates and charges, prior year actual, or current program levels, new operating requirements, and the overall economic climate of the region and industry. The budget to actual results are reviewed periodically throughout the year to ensure compliance with the provisions of the Airport Authority's annual budget, which is approved by the Board.

In keeping with the requirements of a proprietary fund, budget comparisons have not been included in this report.

Cash and Cash Equivalents

The Airport Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except for certificates of deposit, which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal. Cash equivalents consist of certificates of deposit and are stated in the financial statements at cost, which approximates fair value.

Capital Assets

The Airport Authority's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Capital assets arising from cash transactions are accounted for as assets in the Statements of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are recorded at acquisition value at the date of donation.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statements of Activities, with accumulated depreciation reflected in the Statements of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Asset	Estimated life
Buildings	39 years
Infrastructure	5 – 30 years
Equipment	5 years

Net Position

Net position is displayed in two components:

- 1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Unrestricted net position - All other net position that does not meet the definition of net investment in capital assets or restricted net position.

It is the Airport Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Airport Authority requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Revenue Recognition

Revenues from rents and money from fuel sales are recognized when received in accordance with the modified cash basis of accounting.

Property Taxes

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1 of the year following the assessment date.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15. Penalty and interest are added on March 1 if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid.

Taxes are collected by the county, remitted monthly to the City, and distributed to the Airport Authority.

NOTE 3 DEPOSITS

In accordance with North Dakota statutes, the Airport Authority maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits other than with the Bank of North Dakota must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Credit Risk

The Airport Authority may invest idle funds as authorized by North Dakota statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress
- (b) Securities sold under agreement to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type above
- (c) Certificates of deposits fully insured by the federal deposit insurance corporation
- (d) Obligations of the state
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

As of December 31, 2019, the Airport Authority had investments in certificates of deposits as authorized by statutes. These amounts are classified as cash and cash equivalents on the financial statements in accordance with the Airport Authority's policy.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The Airport Authority maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2019, none of the Airport Authority's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Balance 1/1/19	Additions	Deletions	Balance 12/31/19
Capital assets being depreciated				
Buildings	\$ 56,795	\$ -	\$ -	\$ 56,795
Equipment	89,099	15,070	-	104,169
Infrastructure	1,138,288	-	-	1,138,288
Total capital assets being depreciated	<u>1,284,182</u>	<u>15,070</u>	<u>-</u>	<u>1,299,252</u>
Less accumulated depreciation:				
Buildings	6,143	1,506	-	7,649
Equipment	24,364	18,071	-	42,435
Infrastructure	588,410	45,910	-	634,320
Total accumulated depreciation	<u>618,917</u>	<u>65,487</u>	<u>-</u>	<u>684,404</u>
Total capital assets being depreciated, net	<u>\$ 665,265</u>	<u>\$ (50,417)</u>	<u>\$ -</u>	<u>\$ 614,848</u>

NOTE 5 CONCENTRATIONS OF CREDIT RISK

The Airport Authority collects taxes, rents, and money from fuel sales from constituents located within the city limits or the immediate area.

NOTE 6 RELATED PARTY TRANSACTIONS

The Airport Authority purchases a portion of its services and supplies from various entities that are controlled by the City Council members. It was not reasonably possible to determine the dollar amount of these transactions for the year ended December 31, 2019.

NOTE 7 RISK MANAGEMENT

The Airport Authority is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Airport Authority is covered under the City of Beulah NDIRF insurance policies. The City pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

The City also participates in the State Bonding Fund, which includes coverage of the Airport Authority. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Airport Authority purchases commercial insurance for products – completed operations liability, general liability, fire damage and premises medical payments coverage associated with the Airport.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 8 LEASE OBLIGATIONS

The Airport Authority has a lease on a tract of land that it uses. The Airport Authority is committed to pay rentals on this property through fiscal year 2064.

The annual primary rental figures, upon which the Consumer Price Index upward adjustment will be computed, are as follows:

2020	\$ 1,360
2021	1,360
2022	1,360
2023	1,360
2024	1,360
2025 - 2029	6,800
2030 - 2034	6,800
2035 - 2039	6,800
2040 - 2044	6,800
2045 - 2049	6,800
2050 - 2054	6,800
2055 - 2059	6,800
2060 - 2064	6,800
	<u>\$61,200</u>

The Airport Authority paid \$1,360 for rent during the year ended December 31, 2019.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the Authority's financial statements.

NOTE 10 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have significantly impacted the activities of the Authority. While the Authority expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain.

Subsequent events have been evaluated through June 1, 2020, which is the date these financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Airport Commission
Airport Authority
Beulah, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Airport Authority, a component unit of the City of Beulah, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements and have issued our report thereon dated June 1, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as item 2019-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport Authority's financial statements are free from 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*.

Airport Authority's Responses to Findings

The Airport Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Airport Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

June 1, 2020

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-001: Preparation of Financial Statements – Material Weakness

Criteria

An appropriate system of internal controls requires the Airport Authority to make the determination that the financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis of accounting. This requires the Airport Authority's personnel to maintain a working knowledge of current accounting principles and required financial statement disclosures.

Condition

The Authority has engaged its auditors to prepare the financial statements including all disclosures.

Cause

The Authority elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the Authority's financial statements.

Recommendation

We recommend the Authority consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensation control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Action

Due to the small size of the Authority, it is currently not cost effective for the Authority to obtain this level of training necessary to completely eliminate this internal control finding. The Authority will review training options and determine what level of training can be obtained on a cost effective basis.

2019-002: Proposition of Journal Entries – Material Weakness

Criteria

The Authority is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the modified cash basis of accounting.

Condition

During our audit, a material adjustment was proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause

The Authority did not recognize the requirement to record certificate of deposit balances.

**AIRPORT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Effect

Cash and net position were materially misstated prior to adjustment proposed by the Authority's auditors.

Recommendation

The Authority will need to determine the proper balance in each general ledger account prior to the audit. Certificates of deposit held by the Authority should be recorded at their fair value as of the Authority's year end.

Views of Responsible Officials and Planned Corrective Action

Due to the small size of the Authority, it is currently not cost effective for the Authority to obtain this level of training necessary to completely eliminate this internal control finding. The Authority will review training options and determine what level of training can be obtained on a cost effective basis.

2019-003: Lack of Segregation of Duties – Significant Deficiency

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

The Airport Authority has one staff person performing most of the accounting functions including recording, reconciling and this person also is one of the check signors authorizing payments.

Cause

Size and budget constraints limiting the number of personnel within the Airport Authority.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Action

The Authority will review duties of employees to determine if it is cost effective to obtain proper segregation of duties.