

AUDIT REPORT

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

For the Years Ended December 31, 2019 and 2018

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

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MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

OFFICIALS

Wayne Entze	Commission Chairman
Ryan Vigessa	Commission Vice Chairman
Ron Muth	Secretary/Treasurer
Deen Brecht	Commissioner
Wilbert Harsch	Commissioner
Marv Sutheimer	Commissioner
Mary Frovarp	Bookkeeper
Steve Frovarp	Clerk

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Mercer County Regional Airport Authority
Hazen, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of the Mercer County Regional Airport Authority, Hazen, North Dakota, as of and for the years ended December 31, 2019 and 2018, 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 1; 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 opinions 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 audits 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 judgement, 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 airport authority'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 airport authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the major fund of the Mercer County Regional Airport Authority, Hazen, North Dakota, as of December 31, 2019 and 2018, and the respective changes in modified cash basis financial position thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 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 opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the airport authority's basic financial statements. The management's discussion and analysis and the budgeting comparison information are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis and the budgeting comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis and the budgeting comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the airport authority's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 22, 2020

MERCER COUNTY REGIONAL AIRPORT AUTHORITY

Management's Discussion and Analysis

December 31, 2019 and 2018

The Management's Discussion and Analysis (MD&A) of the Mercer County Regional Airport Authority's financial performance provides an overall review of the airport authority's financial activities for the fiscal years ended December 31, 2018 and 2018. The intent of the MD&A is to look at the airport authority's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2019 are as follows:

- * Net position of the airport authority increased \$132,785 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$2,014,428.
- * Total revenues from all sources were \$386,188.
- * Total expenses were \$253,404.
- * The airport authority's general fund had \$386,188 in total revenues and \$283,944 in total expenditures. Overall, the general fund balance increased by \$102,245 for the year ended December 31, 2019.

Key financial highlights for the year ended December 31, 2018 are as follows:

- * Net position of the airport authority increased \$247,121 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$1,881,643.
- * Total revenues from all sources were \$476,956.
- * Total expenses were \$229,836.
- * The airport authority's general fund had \$476,956 in total revenues and \$420,229 in total expenditures. Overall, the general fund balance increased by \$56,728 for the year ended December 31, 2018.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the airport authority as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole airport authority, presenting both an aggregate view of the airport authority's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the airport authority's general fund.

REPORTING ON THE AIRPORT AUTHORITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the airport authority to provide programs and activities and attempt to answer the question "How did the airport authority do financially during the years ended December 31, 2019 and 2018?"

The Statement of Net Position presents information on all the airport authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the airport authority is improving or deteriorating.

The Statement of Activities presents information on how the airport authority's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the airport authority's net position and changes in that position. This change in net position is important because it tells the reader whether, for the airport authority as a whole, the financial position of the airport authority has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the airport authority reports governmental activities. Governmental activities are the activities where most of the airport authority's programs and services are reported including, but not limited to general government.

REPORTING ON THE AIRPORT AUTHORITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The airport authority uses one fund to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the airport authority to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the airport authority's major fund. Using the criteria established by GASB Statement No. 34, the airport authority's general fund is considered a "major fund".

FINANCIAL ANALYSIS OF THE AIRPORT AUTHORITY AS A WHOLE

Table I provides a summary of the airport authority's net position as of December 31, 2019 and 2018. A comparative analysis of airport-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the airport authority's net position increased by \$132,785 and \$247,121 for the years ended December 31, 2019 and 2018, respectively. Changes in net position may serve over time as a useful indicator of the airport authority's financial position.

The airport authority's net position of \$2,014,428, as of December 31, 2019 and \$1,881,643, as of December 31, 2018 are segregated into two separate categories. Net investment in capital assets for the year ended December 31, 2019 represents 60% of the airport authority's total net position. As of December 31, 2018, this total represents 62% of total net position. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position as of December 31, 2019 and 2018 represents 40% and 38%, respectively, of the airport authority's net position and is available to meet the airport authority's ongoing obligations.

Table I
Net Position
As of December 31, 2019 and 2018
(With comparative totals for December 31, 2017)

	2019	2018	2017
<u>Assets</u>			
Current Assets	813,347	711,102	654,375
Capital Assets (net of accumulated depreciation)	1,201,081	1,170,541	980,148
Total Assets	<u>2,014,428</u>	<u>1,881,643</u>	<u>1,634,523</u>
<u>Net Position</u>			
Net Investment in Capital Assets	1,201,081	1,170,541	980,148
Unrestricted	813,347	711,102	654,375
Total Net Position	<u>2,014,428</u>	<u>1,881,643</u>	<u>1,634,523</u>
	=====	=====	=====

Table II shows the changes in net position for the fiscal years ended December 31, 2019 and 2018. A comparative analysis of airport authority data is presented for both current years and prior year.

Table II
 Changes in Net Position
 As of December 31, 2019 and 2018
 (With comparative totals for December 31, 2017)

	2019	2018	2017
Revenues			
<u>Program Revenues:</u>			
Charges for Services	92,838	78,660	78,742
Operating Grants and Contributions	148,824	239,920	69,135
<u>General Revenues:</u>			
Property Taxes	105,970	119,046	74,568
Other Taxes	1,495	1,389	994
State Aid - Unrestricted	30,311	33,484	35,765
Interest Earnings and Other Revenue	6,749	4,456	2,855
Total Revenues	<u>386,188</u>	<u>476,956</u>	<u>262,059</u>
Expenses			
General Government	253,404	229,836	249,876
Net Change in Position	<u>132,785</u>	<u>247,121</u>	<u>12,183</u>
	=====	=====	=====

Property taxes constituted 27%, operating grants and contributions 39% and charges for services made up 24% of the total revenues of governmental activities of the airport authority for the fiscal year ended December 31, 2019.

General government constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2019.

Property taxes constituted 25%, operating grants and contributions 50% and charges for services made up 16% of the total revenues of governmental activities of the airport authority for the fiscal year ended December 31, 2018.

General government constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2018.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III
 Total and Net Cost of Services
 As of December 31, 2019

	Total Cost Year Ended December 31, 2019	Net Cost Year Ended December 31, 2019
General Government	253,404	(11,741)
	=====	=====

Total and Net Cost of Services
As of December 31, 2018

	Total Cost Year Ended December 31, <u>2018</u>	Net Cost Year Ended December 31, <u>2018</u>
General Government	229,836	88,745
	=====	=====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the airport authority's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the airport authority's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The airport authority's general fund had total revenue of \$386,188 and expenditures of \$283,944 for the year ended December 31, 2019. For the year ended December 31, 2018, the general fund had total revenue of \$476,956 and expenditures of \$420,229. As of December 31, 2019 and 2018, the unassigned fund balance of the airport authority's general fund was \$521,163 and 420,288, respectively.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2019, the airport authority amended the general fund budget. The gross effect of these amendments was to increase estimated revenues by \$35,984 and appropriations by \$32,356.

During the course of fiscal year 2018, the airport authority amended the general fund budget. The gross effect of these amendments was to increase estimated revenues by \$217,283 and appropriations by \$196,213.

Actual revenue for the year ended December 31, 2019 was \$9,770 less than budgeted. Actual expenditures for the year ended December 31, 2019 were under budget by \$108,386. This variance was mainly due to the airport overestimating the budget for engineering fees related to the preliminary and design services for the Airside Pavement Rehabilitation Project.

Actual revenue for the year ended December 31, 2018 was \$4,643 more than budgeted. Actual expenditures for the year ended December 31, 2018 were under budget by \$31,015.

CAPITAL ASSETS

As of December 31, 2019 and 2018, the airport authority had \$1,201,081 and \$1,170,541, respectively, invested in capital assets. Table IV shows the balances as of December 31, 2019, 2018 and 2017.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2019 and 2018
(With comparative totals for December 31, 2017)

	2019	2018	2017
Construction in Progress	315,288	234,916	
Buildings and Infrastructure	802,560	835,533	868,506
Machinery and Vehicles	83,233	100,092	111,642
Total (net of depreciation)	1,201,081	1,170,541	980,148
	=====	=====	=====

The December 31, 2019 total represents an increase of \$30,540 in capital assets from January 1, 2019. The December 31, 2018 total represents an increase of \$190,393 in capital assets from January 1, 2018. The increase in capital assets was due to the ongoing construction of a taxiway extension and the purchase of security cameras. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2019 and 2018, the airport authority had no outstanding debt.

CONTACTING THE AIRPORT AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, taxpayers and creditors with a general overview of the airport authority's finances and to show the airport authority's accountability for the money it receives to provide the best possible services to residents of Mercer County. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Mary Frovarp, Bookkeeper, Mercer County Regional Airport Authority, Hazen, ND 58545.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2019

	Governmental Activities
<u>ASSETS:</u>	
Cash	475,161.69
Investments	338,185.33
Capital Assets (net of accumulated depreciation):	
Construction in Progress	315,288.00
Buildings and Infrastructure	802,560.00
Machinery and Vehicles	83,233.00
Total Capital Assets	<u>1,201,081.00</u>
Total Assets	<u>2,014,428.02</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	1,201,081.00
Unrestricted	813,347.02
Total Net Position	<u>2,014,428.02</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2018

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	374,423.55
Investments	336,678.71
Capital Assets (net of accumulated depreciation):	
Construction in Progress	234,916.00
Buildings and Infrastructure	835,533.00
Machinery and Vehicles	100,092.00
Total Capital Assets	<u>1,170,541.00</u>
Total Assets	<u>1,881,643.26</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	1,170,541.00
Unrestricted	711,102.26
Total Net Position	<u>1,881,643.26</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
General Government	253,403.51	92,838.44	148,823.84	(11,741.23)
=====				
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				105,970.00
Telcommunication tax				129.75
Homestead tax credit				1,365.37
Intergovernmental revenue not restricted to specific programs				30,311.39
Earnings on investments and other revenue				6,749.48
Total General Revenues				144,525.99
Change in Net Position				132,784.76
Net Position - January 1				1,881,643.26
Net Position - December 31				2,014,428.02
				=====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2018

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
General Government	229,835.72	78,660.39	239,920.05	88,744.72

<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				119,045.79
Telcommunication tax				129.75
Homestead tax credit				1,259.61
Intergovernmental revenue not restricted to specific programs				33,484.31
Earnings on investments and other revenue				4,456.39
Total General Revenues				158,375.85
Change in Net Position				247,120.57
Net Position - January 1				1,634,522.69
Net Position - December 31				1,881,643.26
=====				

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Fund
December 31, 2019

	<u>General</u>
<u>ASSETS:</u>	
Cash	475,161.69
Investments	338,185.33
Total Assets	<u>813,347.02</u> =====
<u>FUND BALANCES:</u>	
Assigned to:	
Airport Improvement and Repairs	77,772.07
Federal Reserve Projects	214,411.54
Unassigned	521,163.41
Total Fund Balances	<u>813,347.02</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Fund
December 31, 2018

	General
<u>ASSETS:</u>	
Cash	374,423.55
Investments	336,678.71
Total Assets	<u>711,102.26</u> =====
<u>FUND BALANCES:</u>	
Assigned to:	
Airport Improvement and Repairs	77,422.92
Federal Reserve Projects	213,391.76
Unassigned	420,287.58
Total Fund Balances	<u>711,102.26</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2019

Total Fund Balance		813,347.02
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	1,716,046.00	
Less Accumulated Depreciation	(514,965.00)	
Net Capital Assets	<u>1,201,081.00</u>	
Total Net Position of Governmental Activities		<u>2,014,428.02</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2018

Total Fund Balance		711,102.26
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	1,635,674.00	
Less Accumulated Depreciation	(465,133.00)	
Net Capital Assets	<u>1,170,541.00</u>	1,170,541.00
Total Net Position of Governmental Activities		<u>1,881,643.26</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance
Modified Cash Basis
Governmental Fund
For the Year Ended December 31, 2019

	<u>General</u>
Revenues:	
<u>Taxes</u>	
General Property Taxes	105,970.00
<u>Intergovernmental</u>	
FAA Grants	132,840.00
ND Aeronautics Commission	14,813.84
Flight Training Reimbursement	1,170.00
Telecommunication Tax	129.75
Homestead Tax Credit	1,365.37
State Aid	30,311.39
Total Intergovernmental	<u>180,630.35</u>
<u>Miscellaneous</u>	
Hanger Lease	28,863.00
Other Rents/Leases	1,946.83
100LL Fuel Sales	26,286.75
Jet Fuel Sales	32,231.86
Interest/Dividends	6,094.03
Hay Lease	3,510.00
Miscellaneous	655.45
Total Miscellaneous	<u>99,587.92</u>
Total Revenues	<u>386,188.27</u>
Expenditures:	
Current:	
<u>General Government</u>	
Salaries and Benefits	16,324.55
Insurance	6,113.06
Travel	1,854.07
Utilities	18,890.19
Hanger Expense	20.57
Terminal Supplies	3,220.68
Equipment Expense	6,275.09
Advertising and Promotions	1,839.10
Equipment Rental	480.00
Engineering Fees	66,731.46
Professional Fees	200.00
Dues	75.00
Landscaping	1,928.41
Repairs and Maintenance	22,435.39
AWOS Maintenance	1,199.07
100LL Fuel Purchases	30,488.53
Jet Fuel Purchases	21,727.98
Testing and Supplies	229.08
Flight Training	1,137.84
Miscellaneous	2,401.44
Capital Outlay	80,372.00
Total Expenditures	<u>283,943.51</u>
Net Change in Fund Balance	<u>102,244.76</u>
Fund Balance - January 1	<u>711,102.26</u>
Fund Balance - December 31	<u>813,347.02</u> =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance
Modified Cash Basis
Governmental Fund
For the Year Ended December 31, 2018

	General
Revenues:	
<u>Taxes</u>	
General Property Taxes	119,045.79
<u>Intergovernmental</u>	
FAA Grants	216,868.44
ND Aeronautics Commission	20,539.16
Flight Training Reimbursement	2,512.45
Telecommunications Tax	129.75
Homestead Tax Credit	1,259.61
State Aid	33,484.31
Total Intergovernmental	274,793.72
<u>Miscellaneous</u>	
Hanger Lease	6,351.50
Other Rents/Leases	2,163.80
100LL Fuel Sales	37,165.87
Jet Fuel Sales	32,260.37
Interest/Dividends	3,457.99
Hay Lease	718.85
Miscellaneous	998.40
Total Miscellaneous	83,116.78
Total Revenues	476,956.29
Expenditures:	
Current:	
<u>General Government</u>	
Salaries and Benefits	15,860.94
Insurance	6,621.16
Travel	2,597.25
Utilities	17,602.78
Hanger Expense	312.21
Terminal Supplies	3,896.62
Equipment Expense	4,069.52
Advertising and Promotions	2,350.86
Equipment Rental	480.00
Professional Fees	2,775.00
Landscaping	2,233.78
Repairs and Maintenance	25,735.30
AWOS Maintenance	5,546.08
100LL Fuel Purchases	30,231.98
Jet Fuel Purchases	44,829.06
Testing and Supplies	207.21
Flight Training	9,018.50
Miscellaneous	5,635.47
Capital Outlay	240,225.00
Total Expenditures	420,228.72
Net Change in Fund Balance	56,727.57
Fund Balance - January 1	654,374.69
Fund Balance - December 31	711,102.26

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

Net Change in Fund Balance 102,244.76

The change in net position reported for governmental activities in the
statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense. This
is the amount by which capital outlay exceeded depreciation in the
current year.

Current Year Capital Outlay	80,372.00	
Current Year Depreciation Expense	(49,832.00)	30,540.00
	<hr/>	<hr/>
Change in Net Position of Governmental Activities		132,784.76
		=====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2018

Net Change in Fund Balance	56,727.57
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Current Year Capital Outlay	240,225.00	
Current Year Depreciation Expense	(49,832.00)	190,393.00
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Change in Net Position of Governmental Activities		247,120.57 =====

The accompanying notes are an integral part of these financial statements.

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Notes to the Financial Statements
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mercer County Regional Airport Authority have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the airport authority. The airport authority has considered all potential component units for which the authority is financially accountable and other organizations for which the nature and significance of their relationships with the authority are such that exclusion would cause the airport authority's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the airport authority 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 airport authority.

Based on these criteria, there are no component units to be included within the Mercer County Regional Airport Authority as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, Mercer County Regional Airport Authority. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the airport authority's governmental activities. Direct expenses are those that are specifically associated with program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the airport authority's fund. The emphasis of fund financial statements is on major governmental funds.

The airport authority reports the following major governmental fund:

General Fund. This is the airport authority's primary operating fund. It accounts for all financial resources of the general government.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the "current financial resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All government-wide statements utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a 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) and 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) are not recorded in these financial statements.

If the airport authority utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the airport authority as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and Infrastructure	20 to 50 years
Machinery and Vehicles	5 to 15 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the airport authority is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the airport authority or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the governing board through the adoption of a resolution. The governing board also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the airport authority's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The airport authority reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the airport authority's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the airport authority's policy to use fund balance in the following order:

- * Committed
- * Assigned
- * Unassigned

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the airport authority has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

H. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) 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.

Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the airport maintains deposits at the 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.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2019 the airport's carrying amount of deposits was \$813,347 and the bank balance was \$813,839. Of the bank balance, \$548,397 was covered by Federal Depository Insurance. The remaining balance of \$265,442 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2018 the airport's carrying amount of deposits was \$711,102 and the bank balance was \$711,226. Of the bank balance, \$547,150 was covered by Federal Depository Insurance. The remaining balance of \$164,076 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The airport authority may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2019 the airport authority held certificates of deposit in the amount of \$338,185, which are all considered deposits.

At December 31, 2018 the airport authority held certificates of deposit in the amount of \$336,679, which are all considered deposits.

Concentration of Credit Risk

The airport authority does not have a limit on the amount the airport authority may invest in any one issuer.

Note 3 PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2019 and 2018:

	<u>2019</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
<i>Capital assets not</i>				
<i>being depreciated:</i>				
Construction in Progress	234,916	80,372		315,288
Capital assets being depreciated:				
Buildings and Infrastructure	1,177,781			1,177,781
Machinery & Vehicles	222,977			222,977
Total	<u>1,400,758</u>			<u>1,400,758</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	342,248	32,973		375,221
Machinery & Vehicles	122,885	16,859		139,744
Total	<u>465,133</u>	<u>49,832</u>		<u>514,965</u>
Total capital assets being depreciated, net	<u>935,625</u>	<u>(49,832)</u>		<u>885,793</u>
Governmental Activities Capital Assets, Net	<u>1,170,541</u>	<u>30,540</u>	<u>-0-</u>	<u>1,201,081</u>
	=====	=====	=====	=====

2018

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities: Capital assets not being depreciated:				
Construction in Progress		234,916		234,916
Capital assets being depreciated:				
Buildings and Infrastructure	1,177,781			1,177,781
Machinery & Vehicles	217,668	5,309		222,977
Total	1,395,449	5,309		1,400,758
Less accumulated depreciation for:				
Buildings and Infrastructure	309,275	32,973		342,248
Machinery & Vehicles	106,026	16,859		122,885
Total	415,301	49,832		465,133
Total capital assets being depreciated, net	980,148	(44,523)		935,625
Governmental Activities Capital Assets, Net	980,148	190,393	-0-	1,170,541
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the airport authority as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
General Government	49,832.00	49,832.00
	=====	=====

Note 5 RISK MANAGEMENT

The Mercer County Regional Airport Authority is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), 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 pays an annual premium to NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$1,000,000 per occurrence for general liability and automobile; and \$202,729 for public assets.

The airport authority also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The airport authority pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the airport authority with a blanket fidelity bond coverage in the amount of \$148,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The airport authority has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for airport owners and operators general liability coverage.

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

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	112,500.00	112,500.00	105,970.00	(6,530.00)
<u>Intergovernmental</u>				
FAA Grants	135,000.00	135,000.00	132,840.00	(2,160.00)
ND Aeronautics Commission	17,500.00	17,500.00	14,813.84	(2,686.16)
Flight Training Reimbursement	2,200.00	2,200.00	1,170.00	(1,030.00)
Telecommunication Tax	130.00	130.00	129.75	(0.25)
Homestead Tax Credit			1,365.37	1,365.37
State Aid	15,300.00	30,311.00	30,311.39	0.39
Total Intergovernmental	170,130.00	185,141.00	180,630.35	(4,510.65)
<u>Miscellaneous</u>				
Hanger Lease	11,000.00	28,863.00	28,863.00	
Other Rents/Leases	5,244.00	5,244.00	1,946.83	(3,297.17)
100LL Fuel Sales	29,000.00	29,000.00	26,286.75	(2,713.25)
Jet Fuel Sales	30,000.00	30,000.00	32,231.86	2,231.86
Interest/Dividends	1,500.00	1,500.00	6,094.03	4,594.03
Hay Lease	400.00	3,510.00	3,510.00	
Donations	100.00	100.00		(100.00)
Miscellaneous	100.00	100.00	655.45	555.45
Total Miscellaneous	77,344.00	98,317.00	99,587.92	1,270.92
Total Revenues	359,974.00	395,958.00	386,188.27	(9,769.73)
<u>Expenditures:</u>				
<u>Current:</u>				
<u>General Government</u>				
Salaries and Benefits	17,650.00	17,650.00	16,324.55	1,325.45
Insurance	6,440.00	6,440.00	6,113.06	326.94
Travel	5,000.00	5,000.00	1,854.07	3,145.93
Utilities	16,064.00	16,064.00	18,890.19	(2,826.19)
Hanger Expense	5,000.00	5,000.00	20.57	4,979.43
Terminal Supplies	37,150.00	37,150.00	3,220.68	33,929.32
Equipment Expense	7,600.00	7,600.00	6,275.09	1,324.91
Advertising and Promotions	3,000.00	3,000.00	1,839.10	1,160.90
Equipmental Rental	500.00	500.00	480.00	20.00
Engineering Fees	135,000.00	135,000.00	66,731.46	68,268.54
Professional Fees	1,000.00	1,000.00	200.00	800.00
Dues	105.00	105.00	75.00	30.00
Landscaping	950.00	950.00	1,928.41	(978.41)
Repairs and Maintenance	1,000.00	1,000.00	22,435.39	(21,435.39)
AWOS Maintenance	3,000.00	3,000.00	1,199.07	1,800.93
Automatic Credit Card Sales	500.00	500.00		500.00
100LL Fuel Purchases	28,000.00	28,000.00	30,488.53	(2,488.53)
Jet Fuel Purchases	26,000.00	26,000.00	21,727.98	4,272.02
Testing and Supplies	225.00	225.00	229.08	(4.08)
Flight Training	6,000.00	6,000.00	1,137.84	4,862.16
Miscellaneous	4,790.00	4,790.00	2,401.44	2,388.56
Capital Outlay	55,000.00	87,356.00	80,372.00	6,984.00
Total Expenditures	359,974.00	392,330.00	283,943.51	108,386.49
Net Change in Fund Balances		3,628.00	102,244.76	98,616.76
Fund Balance - January 1	711,102.26	711,102.26	711,102.26	
Fund Balance - December 31	711,102.26	714,730.26	813,347.02	98,616.76

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	120,362.00	120,362.00	119,045.79	(1,316.21)
<u>Intergovernmental</u>				
FAA Grants		216,868.44	216,868.44	
ND Aeronautics Commission Flight Training Reimbursement	20,125.00	20,539.16	20,539.16	2,512.45
Telecommunication Tax	130.00	130.00	129.75	(0.25)
Homestead Tax Credit	900.00	900.00	1,259.61	359.61
State Aid	28,000.00	28,000.00	33,484.31	5,484.31
Total Intergovernmental	49,155.00	266,437.60	274,793.72	8,356.12
<u>Miscellaneous</u>				
Hanger Lease	11,000.00	11,000.00	6,351.50	(4,648.50)
Other Rents/Leases	2,244.00	2,244.00	2,163.80	(80.20)
100LL Fuel Sales	30,000.00	30,000.00	37,165.87	7,165.87
Jet Fuel Sales	40,000.00	40,000.00	32,260.37	(7,739.63)
Interest/Dividends	1,170.00	1,170.00	3,457.99	2,287.99
Hay Lease	1,000.00	1,000.00	718.85	(281.15)
Miscellaneous	100.00	100.00	998.40	898.40
Total Miscellaneous	85,514.00	85,514.00	83,116.78	(2,397.22)
Total Revenues	255,031.00	472,313.60	476,956.29	4,642.69
Expenditures:				
<u>Current:</u>				
<u>General Government</u>				
Salaries and Benefits	23,955.00	23,955.00	15,860.94	8,094.06
Insurance	5,851.00	5,851.00	6,621.16	(770.16)
Travel	5,000.00	5,000.00	2,597.25	2,402.75
Utilities	15,200.00	15,200.00	17,602.78	(2,402.78)
Hanger Expense	5,000.00	5,000.00	312.21	4,687.79
Terminal Supplies	4,580.00	4,580.00	3,896.62	683.38
Equipment Expense	7,500.00	7,500.00	4,069.52	3,430.48
Advertising and Promotions	4,000.00	4,000.00	2,350.86	1,649.14
Equipmental Rental	500.00	500.00	480.00	20.00
Professional Fees	3,300.00	3,300.00	2,775.00	525.00
Dues	105.00	105.00		105.00
Landscaping	7,679.00	7,679.00	2,233.78	5,445.22
Repairs and Maintenance	53,350.00	53,350.00	25,735.30	27,614.70
AWOS Maintenance	3,000.00	3,000.00	5,546.08	(2,546.08)
Automatic Credit Card Sales	500.00	500.00		500.00
100LL Fuel Purchases	28,000.00	28,000.00	30,231.98	(2,231.98)
Jet Fuel Purchases	37,000.00	37,000.00	44,829.06	(7,829.06)
Testing and Supplies	200.00	200.00	207.21	(7.21)
Flight Training	1,500.00	1,500.00	9,018.50	(7,518.50)
Miscellaneous	2,736.00	5,107.50	5,635.47	(527.97)
Capital Outlay	46,075.00	239,916.29	240,225.00	(308.71)
Total Expenditures	255,031.00	451,243.79	420,228.72	31,015.07
Net Change in Fund Balances		21,069.81	56,727.57	35,657.76
Fund Balance - January 1	654,374.69	654,374.69	654,374.69	
Fund Balance - December 31	654,374.69	675,444.50	711,102.26	35,657.76

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Notes to the Budgetary Comparison Schedule
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the airport clerk prepares the preliminary budget. The airport budget is prepared for the general fund by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before December 1, the board adopts the final budget. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the airport's budgets for the years ending December 31:

	<u>2019</u>		
	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	359,974	35,984	395,958
	<u>Appropriations</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	359,974	32,356	392,330
	<u>2018</u>		
	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	255,031	217,283	472,314
	<u>Appropriations</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	255,031	196,213	451,244

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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

INDEPENDENT AUDITOR'S REPORT

Governing Board
Mercer County Regional Airport Authority
Hazen, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Mercer County Regional Airport Authority, Hazen, North Dakota, as of and for the years ended December 31, 2019 and 2018, 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 May 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audits 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the airport authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002, that we consider to be significant deficiencies.

Compliance and Other Matters

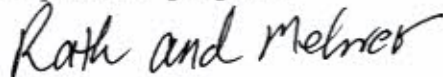
As part of obtaining reasonable assurance about whether the airport authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 Response to Findings

The airport authority's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The airport authority's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

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 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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 22, 2020

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2019 and 2018

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:
Governmental Activities Unmodified-Modified Cash Basis
Major Governmental Fund Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes No
* Significant deficiency(ies) identified? Yes None Reported
Noncompliance Material to financial statements noted? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2019-001 - Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the function of approval, custody of assets, posting and reconciliation.

Condition: The airport authority has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

Cause: The airport authority does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The airport authority is aware of the condition and segregates duties whenever possible.

2. 2019-002 - Financial Statement Preparation

Criteria: A good system of internal controls requires the airport authority to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the airport authority must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The airport authority's financial statements as of December 31, 2019 and 2018 are prepared by the airport authority's external auditors.

Cause: The airport authority feels that it is more cost effective to have their internal auditors prepare the complete financial statement and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and will review and approve them prior to external distribution.

Views of Responsible Officials: The airport authority will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.