

AUDIT REPORT

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

For the Years Ended December 31, 2021 and 2020

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

LIST OF 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 |

Rath & Mehrer, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Mercer County Regional Airport Authority
Hazen, North Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities and the major fund of the Mercer County Regional Airport Authority, as of and for the years ended December 31, 2021 and 2020, 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.

In our opinion, the accompanying 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 airport authority as of December 31, 2021 and 2020, and the respective changes in modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the airport authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – 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.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the airport authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the airport authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary 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 budgeting comparison information and the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 budgeting comparison information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2023 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 control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

February 10, 2023

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2021

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>ASSETS:</u> | |
| Cash | 229,973.38 |
| Investments | 339,928.26 |
| Capital Assets (net of accumulated depreciation): | |
| Construction in Progress | 2,960,721.00 |
| Buildings and Infrastructure | 1,034,438.00 |
| Machinery and Vehicles | <u>50,605.00</u> |
| Total Capital Assets | <u>4,045,764.00</u> |
| Total Assets | <u>4,615,665.64</u> |
| <u>NET POSITION:</u> | |
| Net Investment in Capital Assets | 4,045,764.00 |
| Unrestricted | <u>569,901.64</u> |
| Total Net Position | <u><u>4,615,665.64</u></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, 2020

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>ASSETS:</u> | |
| Cash | 514,394.90 |
| Investments | 339,457.89 |
| Capital Assets (net of accumulated depreciation): | |
| Construction in Progress | 50,500.00 |
| Buildings and Infrastructure | 1,090,321.00 |
| Machinery and Vehicles | <u>66,373.00</u> |
| Total Capital Assets | <u>1,207,194.00</u> |
| Total Assets | <u>2,061,046.79</u> |
| <u>NET POSITION:</u> | |
| Net Investment in Capital Assets | 1,207,194.00 |
| Unrestricted | <u>853,852.79</u> |
| Total Net Position | <u><u>2,061,046.79</u></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, 2021

| | Program Revenues | | Net (Expense) |
|---|------------------|-------------------|---------------|
| | Charges for | Operating Grants | Revenue and |
| Expenses | Services | and Contributions | Changes in |
| | | | Net Position |
| | | | Governmental |
| | | | Activities |
| <u>Governmental Activities:</u> | | | |
| General Government | 233,779.21 | 54,725.32 | 2,606,828.80 |
| | | | 2,427,774.91 |
| <u>General Revenues:</u> | | | |
| Taxes: | | | |
| Property taxes; levied for general purposes | | | 96,978.15 |
| Telecommunications tax | | | 129.75 |
| Intergovernmental revenue not restricted to specific programs | | | 24,166.30 |
| Earnings on investments and other revenue | | | 5,569.74 |
| | | | 126,843.94 |
| Total General Revenues | | | 126,843.94 |
| Change in Net Position | | | 2,554,618.85 |
| Net Position - January 1 | | | 2,061,046.79 |
| Net Position - December 31 | | | 4,615,665.64 |

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, 2020

| | <u>Program Revenues</u> | | Net (Expense) |
|---|-------------------------|-------------------|---------------|
| | Charges for | Operating Grants | Revenue and |
| | Expenses | Services | Changes in |
| | | and Contributions | Net Position |
| | | | Governmental |
| | | | Activities |
| <u>Governmental Activities:</u> | | | |
| General Government | 187,987.00 | 59,220.72 | 51,183.00 |
| | | | (77,583.28) |
| <u>General Revenues:</u> | | | |
| Taxes: | | | |
| Property taxes; levied for general purposes | | | 93,440.88 |
| Telecommunications tax | | | 129.75 |
| Homestead tax credit | | | 1,058.41 |
| Intergovernmental revenue not restricted to specific programs | | | 23,315.94 |
| Earnings on investments and other revenue | | | 6,257.07 |
| Total General Revenues | | | 124,202.05 |
| Change in Net Position | | | 46,618.77 |
| Net Position - January 1 | | | 2,014,428.02 |
| Net Position - December 31 | | | 2,061,046.79 |

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, 2021

| | <u>General</u> |
|---------------------------------|--------------------------|
| <u>ASSETS:</u> | |
| Cash | 229,973.38 |
| Investments | <u>339,928.26</u> |
| Total Assets | <u><u>569,901.64</u></u> |
| <u>FUND BALANCES:</u> | |
| Assigned to: | |
| Airport Improvement and Repairs | 78,170.78 |
| Federal Reserve Projects | 215,663.53 |
| Unassigned | <u>276,067.33</u> |
| Total Fund Balances | <u><u>569,901.64</u></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, 2020

| | <u>General</u> |
|---------------------------------|--------------------------|
| <u>ASSETS:</u> | |
| Cash | 514,394.90 |
| Investments | <u>339,457.89</u> |
| Total Assets | <u><u>853,852.79</u></u> |
| <u>FUND BALANCES:</u> | |
| Assigned to: | |
| Airport Improvement and Repairs | 78,057.26 |
| Federal Reserve Projects | 215,329.72 |
| Unassigned | <u>560,465.81</u> |
| Total Fund Balances | <u><u>853,852.79</u></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, 2021

Total Fund Balance 569,901.64

Total net position reported for governmental 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 fund.

| | |
|-------------------------------|---------------------|
| Cost of Capital Assets | 4,705,123.00 |
| Less Accumulated Depreciation | <u>(659,359.00)</u> |

| | |
|--------------------|---------------------|
| Net Capital Assets | <u>4,045,764.00</u> |
|--------------------|---------------------|

| | |
|---|----------------------------|
| Total Net Position of Governmental Activities | <u><u>4,615,665.64</u></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, 2020

| | | |
|---|---------------------|----------------------------|
| Total Fund Balance | | 853,852.79 |
| Total net position reported for governmental 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 fund. | | |
| Cost of Capital Assets | 1,794,902.00 | |
| Less Accumulated Depreciation | <u>(587,708.00)</u> | |
| Net Capital Assets | | <u>1,207,194.00</u> |
| Total Net Position of Governmental Activities | | <u><u>2,061,046.79</u></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, 2021

| | <u>General</u> |
|----------------------------|---------------------|
| <u>Revenues:</u> | |
| <u>Taxes</u> | |
| General Property Taxes | 96,978.15 |
| <u>Intergovernmental</u> | |
| FAA Grants | 2,475,099.00 |
| ND Aeronautics Commission | 131,729.80 |
| Telecommunication Tax | 129.75 |
| State Aid | 24,166.30 |
| Total Intergovernmental | <u>2,631,124.85</u> |
| <u>Miscellaneous</u> | |
| Hanger Lease | 14,894.63 |
| Other Rents/Leases | 1,292.82 |
| 100LL Fuel Sales | 28,025.68 |
| Jet Fuel Sales | 9,024.99 |
| Interest/Dividends | 5,252.19 |
| Hay Lease | 1,487.20 |
| Miscellaneous | 317.55 |
| Total Miscellaneous | <u>60,295.06</u> |
| Total Revenues | <u>2,788,398.06</u> |
| <u>Expenditures:</u> | |
| Current: | |
| <u>General Government</u> | |
| Salaries and Benefits | 16,100.01 |
| Insurance | 6,296.00 |
| Travel | 2,187.25 |
| Utilities | 18,786.30 |
| Hanger Expense | 3,434.49 |
| Terminal Supplies | 5,366.73 |
| Equipment Expense | 3,034.19 |
| Equipment Rental | 480.00 |
| Engineering Fees | 4,000.60 |
| Professional Fees | 525.00 |
| Dues | 75.00 |
| Landscaping | 1,366.50 |
| Repairs and Maintenance | 25,212.93 |
| AWOS Maintenance | 28,585.40 |
| 100LL Fuel Purchases | 31,408.74 |
| Jet Fuel Purchases | 10,507.90 |
| Miscellaneous | 4,761.17 |
| Capital Outlay | <u>2,910,221.00</u> |
| Total Expenditures | <u>3,072,349.21</u> |
| Net Change in Fund Balance | <u>(283,951.15)</u> |
| Fund Balance - January 1 | <u>853,852.79</u> |
| Fund Balance - December 31 | <u>569,901.64</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, 2020

| | <u>General</u> |
|----------------------------|-------------------|
| <u>Revenues:</u> | |
| <u>Taxes</u> | |
| General Property Taxes | 93,440.88 |
| <u>Intergovernmental</u> | |
| FAA Grants | 48,658.00 |
| ND Aeronautics Commission | 2,525.00 |
| Telecommunication Tax | 129.75 |
| Homestead Tax Credit | 1,058.41 |
| State Aid | 23,315.94 |
| Total Intergovernmental | <u>75,687.10</u> |
| <u>Miscellaneous</u> | |
| Hanger Lease | 11,967.66 |
| Other Rents/Leases | 2,000.35 |
| 100LL Fuel Sales | 38,374.67 |
| Jet Fuel Sales | 6,878.04 |
| Interest/Dividends | 6,044.07 |
| Miscellaneous | 213.00 |
| Total Miscellaneous | <u>65,477.79</u> |
| Total Revenues | <u>234,605.77</u> |
| <u>Expenditures:</u> | |
| Current: | |
| <u>General Government</u> | |
| Salaries and Benefits | 16,762.84 |
| Insurance | 5,984.00 |
| Travel | 1,664.85 |
| Utilities | 17,974.39 |
| Terminal Supplies | 5,708.88 |
| Equipment Expense | 4,547.79 |
| Equipment Rental | 480.00 |
| Professional Fees | 4,380.00 |
| Dues | 225.00 |
| Landscaping | 3,023.88 |
| Repairs and Maintenance | 12,735.38 |
| 100LL Fuel Purchases | 37,176.50 |
| Testing and Supplies | 235.41 |
| Miscellaneous | 4,345.08 |
| Capital Outlay | <u>78,856.00</u> |
| Total Expenditures | <u>194,100.00</u> |
| Net Change in Fund Balance | <u>40,505.77</u> |
| Fund Balance - January 1 | <u>813,347.02</u> |
| Fund Balance - December 31 | <u>853,852.79</u> |

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

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Reconciliation of Governmental Fund Statement of
Revenues, Expenditures and Changes in Fund Balance to
the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2021

Net Change in Fund Balance (283,951.15)

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 | 2,910,221.00 | |
| Current Year Depreciation Expense | <u>(71,651.00)</u> | <u>2,838,570.00</u> |

Change in Net Position of Governmental Activities 2,554,618.85

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

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Reconciliation of Governmental Fund Statement of
Revenues, Expenditures and Changes in Fund Balance to the
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2020

Net Change in Fund Balance 40,505.77

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 | 78,856.00 | |
| Current Year Depreciation Expense | <u>(72,743.00)</u> | <u>6,113.00</u> |

Change in Net Position of Governmental Activities 46,618.77

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, 2021 and 2020

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 airport authority is financially accountable and other organizations for which the nature and significance of their relationships with the airport 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. These criteria include 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 a 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 the major governmental fund.

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 | 15 to 50 years |
| Machinery and Vehicles | 5 to 15 years |

F. 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.

G. 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 authority 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 investment 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, 2021 the airport authority's carrying amount of deposits was \$569,902 and the bank balance was \$811,616. Of the bank balance, \$549,733 was covered by Federal Depository Insurance. The remaining balance of \$261,883 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2020 the airport authority's carrying amount of deposits was \$853,853 and the bank balance was \$854,111. Of the bank balance, \$549,384 was covered by Federal Depository Insurance. The remaining balance of \$304,727 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, 2021 the airport authority held certificates of deposit in the amount of \$339,928, which are all considered deposits.

At December 31, 2020 the airport authority held certificates of deposit in the amount of \$339,458, 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 property taxes.

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2021 and 2020:

| | <u>2021</u> | | | |
|--|------------------------------|------------------|------------------|--------------------------------|
| | <u>Balance January 1</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance December 31</u> |
| <i>Governmental Activities:</i> | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Construction in Progress | 50,500 | 2,910,221 | - | 2,960,721 |
| Total | <u>50,500</u> | <u>2,910,221</u> | <u>-</u> | <u>2,960,721</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and Infrastructure | 1,521,425 | | | 1,521,425 |
| Machinery and Vehicles | 222,977 | | | 222,977 |
| Total | <u>1,744,402</u> | <u>-</u> | <u>-</u> | <u>1,744,402</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings and Infrastructure | 431,104 | 55,883 | | 486,987 |
| Machinery and Vehicles | 156,604 | 15,768 | | 172,372 |
| Total | <u>587,708</u> | <u>71,651</u> | <u>-</u> | <u>659,359</u> |
| Total capital assets being depreciated, net | <u>1,156,694</u> | <u>(71,651)</u> | <u>-</u> | <u>1,085,043</u> |
| Governmental Activities Capital Assets, Net | <u>1,207,194</u> | <u>2,838,570</u> | <u>-</u> | <u>4,045,764</u> |

| | <u>2020</u> | | | |
|--|------------------------------|------------------|------------------|--------------------------------|
| | <u>Balance January 1</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance December 31</u> |
| Governmental Activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Construction in Progress | 315,288 | 78,856 | 343,644 | 50,500 |
| Total | <u>315,288</u> | <u>78,856</u> | <u>343,644</u> | <u>50,500</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and Infrastructure | 1,177,781 | 343,644 | | 1,521,425 |
| Machinery and Vehicles | 222,977 | | | 222,977 |
| Total | <u>1,400,758</u> | <u>343,644</u> | <u>-</u> | <u>1,744,402</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings and Infrastructure | 375,221 | 55,883 | | 431,104 |
| Machinery and Vehicles | 139,744 | 16,860 | | 156,604 |
| Total | <u>514,965</u> | <u>72,743</u> | <u>-</u> | <u>587,708</u> |
| Total capital assets being depreciated, net | <u>885,793</u> | <u>270,901</u> | <u>-</u> | <u>1,156,694</u> |
| Governmental Activities Capital Assets, Net | <u>1,201,081</u> | <u>349,757</u> | <u>343,644</u> | <u>1,207,194</u> |

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

| | <u>2021</u> | <u>2020</u> |
|--------------------|---------------|---------------|
| General Government | <u>71,651</u> | <u>72,743</u> |

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 \$236,703 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, 2021

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---------------------------------|--------------------|-----------------|--------------|-------------------------------|
| Revenues: | | | | |
| <u>Taxes</u> | | | | |
| General Property Taxes | 101,230.00 | 96,978.15 | 96,978.15 | - |
| <u>Intergovernmental</u> | | | | |
| FAA Grants | 2,657,000.00 | 2,475,099.00 | 2,475,099.00 | - |
| ND Aeronautics Commission | 182,250.00 | 131,729.80 | 131,729.80 | - |
| Flight Training Reimbursement | 500.00 | | | - |
| Telecommunication Tax | 130.00 | 129.75 | 129.75 | - |
| Homestead Tax Credit | | | | - |
| State Aid | 20,000.00 | 24,166.30 | 24,166.30 | - |
| Total Intergovernmental | 2,859,880.00 | 2,631,124.85 | 2,631,124.85 | - |
| <u>Miscellaneous</u> | | | | |
| Hanger Lease | 20,000.00 | 14,894.63 | 14,894.63 | - |
| Other Rents/Leases | 2,243.00 | 1,292.82 | 1,292.82 | - |
| 100LL Fuel Sales | 20,000.00 | 28,535.65 | 28,025.68 | (509.97) |
| Jet Fuel Sales | 20,000.00 | 9,024.99 | 9,024.99 | - |
| Interest/Dividends | 5,000.00 | 5,252.19 | 5,252.19 | - |
| Hay Lease | 2,000.00 | 1,487.20 | 1,487.20 | - |
| Miscellaneous | 200.00 | 306.00 | 317.55 | 11.55 |
| Total Miscellaneous | 69,443.00 | 60,793.48 | 60,295.06 | (498.42) |
| Total Revenues | 3,030,553.00 | 2,788,896.48 | 2,788,398.06 | (498.42) |
| Expenditures: | | | | |
| <u>Current:</u> | | | | |
| <u>General Government</u> | | | | |
| Salaries and Benefits | 23,550.00 | 16,100.01 | 16,100.01 | - |
| Insurance | 7,090.00 | 6,336.00 | 6,296.00 | 40.00 |
| Travel | 5,000.00 | 2,187.25 | 2,187.25 | - |
| Utilities | 19,100.00 | 18,786.30 | 18,786.30 | - |
| Hanger Expense | | | 3,434.49 | (3,434.49) |
| Terminal Supplies | 4,700.00 | 5,326.55 | 5,366.73 | (40.18) |
| Equipment Expense | 7,500.00 | 3,034.19 | 3,034.19 | - |
| Advertising and Promotions | 3,000.00 | | | - |
| Equipment Rental | 500.00 | 480.00 | 480.00 | - |
| Engineering Fees | | 4,000.60 | 4,000.60 | - |
| Professional Fees | 3,000.00 | 525.00 | 525.00 | - |
| Dues | 105.00 | 75.00 | 75.00 | - |
| Landscaping | 4,700.00 | 1,366.50 | 1,366.50 | - |
| Repairs and Maintenance | 51,950.00 | 28,647.61 | 25,212.93 | 3,434.68 |
| AWOS Maintenance | 3,000.00 | 28,585.40 | 28,585.40 | - |
| Automatic Credit Card Sales | 500.00 | | | - |
| 100LL Fuel Purchases | 15,000.00 | 31,408.74 | 31,408.74 | - |
| Jet Fuel Purchases | 14,400.00 | 10,507.90 | 10,507.90 | - |
| Testing and Supplies | 250.00 | | | - |
| Flight Training | 3,670.00 | | | - |
| Miscellaneous | 5,240.00 | 4,761.16 | 4,761.17 | (0.01) |
| Capital Outlay | 3,000,000.00 | 2,910,221.00 | 2,910,221.00 | - |
| Total Expenditures | 3,172,255.00 | 3,072,349.21 | 3,072,349.21 | - |
| Excess (Deficiency) of Revenues | | | | |
| Over Expenditures | (141,702.00) | (283,452.73) | (283,951.15) | (498.42) |
| <u>Other Financing Sources</u> | | | | |
| Transfers In | 141,702.00 | | | - |
| Net Change in Fund Balance | - | (283,452.73) | (283,951.15) | (498.42) |
| Fund Balance - January 1 | 853,852.79 | 853,852.79 | 853,852.79 | |
| Fund Balance - December 31 | 853,852.79 | 570,400.06 | 569,901.64 | (498.42) |

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
For the Year Ended December 31, 2020

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|-------------------------------|--------------------|-----------------|------------|-------------------------------|
| Revenues: | | | | |
| <u>Taxes</u> | | | | |
| General Property Taxes | 112,430.00 | 112,430.00 | 93,440.88 | (18,989.12) |
| <u>Intergovernmental</u> | | | | |
| FAA Grants | 2,173,269.00 | 48,658.00 | 48,658.00 | - |
| ND Aeronautics Commission | 123,871.00 | 2,525.00 | 2,525.00 | - |
| Flight Training Reimbursement | 1,000.00 | 1,000.00 | | (1,000.00) |
| Telecommunication Tax | 130.00 | 130.00 | 129.75 | (0.25) |
| Homestead Tax Credit | | | 1,058.41 | 1,058.41 |
| State Aid | 15,300.00 | 15,300.00 | 23,315.94 | 8,015.94 |
| Total Intergovernmental | 2,313,570.00 | 67,613.00 | 75,687.10 | 8,074.10 |
| <u>Miscellaneous</u> | | | | |
| Hanger Lease | 16,000.00 | 16,000.00 | 11,967.66 | (4,032.34) |
| Other Rents/Leases | 2,263.00 | 2,263.00 | 2,000.35 | (262.65) |
| 100LL Fuel Sales | 35,000.00 | 35,000.00 | 38,374.67 | 3,374.67 |
| Jet Fuel Sales | 32,000.00 | 6,878.00 | 6,878.04 | 0.04 |
| Interest/Dividends | 2,300.00 | 2,300.00 | 6,044.07 | 3,744.07 |
| Hay Lease | 500.00 | 500.00 | | (500.00) |
| Miscellaneous | 200.00 | 200.00 | 213.00 | 13.00 |
| Total Miscellaneous | 88,263.00 | 63,141.00 | 65,477.79 | 2,336.79 |
| Total Revenues | 2,514,263.00 | 243,184.00 | 234,605.77 | (8,578.23) |
| Expenditures: | | | | |
| <u>Current:</u> | | | | |
| <u>General Government</u> | | | | |
| Salaries and Benefits | 22,096.00 | 22,096.00 | 16,762.84 | 5,333.16 |
| Insurance | 6,890.00 | 6,890.00 | 5,984.00 | 906.00 |
| Travel | 5,000.00 | 5,000.00 | 1,664.85 | 3,335.15 |
| Utilities | 19,300.00 | 19,300.00 | 17,974.39 | 1,325.61 |
| Hanger Expense | | | | - |
| Terminal Supplies | 5,150.00 | 5,150.00 | 5,708.88 | (558.88) |
| Equipment Expense | 12,600.00 | 12,600.00 | 4,547.79 | 8,052.21 |
| Advertising and Promotions | 3,000.00 | 3,000.00 | | 3,000.00 |
| Equipment Rental | 500.00 | 500.00 | 480.00 | 20.00 |
| Engineering Fees | | | | - |
| Professional Fees | 3,675.00 | 3,675.00 | 4,380.00 | (705.00) |
| Dues | 105.00 | 105.00 | 225.00 | (120.00) |
| Landscaping | 4,300.00 | 4,300.00 | 3,023.88 | 1,276.12 |
| Repairs and Maintenance | 39,986.00 | 19,986.00 | 12,735.38 | 7,250.62 |
| AWOS Maintenance | 3,000.00 | 3,000.00 | | 3,000.00 |
| Automatic Credit Card Sales | 500.00 | 500.00 | | 500.00 |
| 100LL Fuel Purchases | 43,000.00 | 43,000.00 | 37,176.50 | 5,823.50 |
| Jet Fuel Purchases | 38,000.00 | | | - |
| Testing and Supplies | 250.00 | 250.00 | 235.41 | 14.59 |
| Flight Training | 4,440.00 | 4,440.00 | | 4,440.00 |
| Miscellaneous | 5,040.00 | 5,040.00 | 4,345.08 | 694.92 |
| Capital Outlay | 2,297,431.00 | 54,064.00 | 78,856.00 | (24,792.00) |
| Total Expenditures | 2,514,263.00 | 212,896.00 | 194,100.00 | 18,796.00 |
| Net Change in Fund Balance | - | 30,288.00 | 40,505.77 | 10,217.77 |
| Fund Balance - January 1 | 813,347.02 | 813,347.02 | 813,347.02 | |
| Fund Balance - December 31 | 813,347.02 | 843,635.02 | 853,852.79 | 10,217.77 |

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Notes to the Budgetary Comparison Schedule
December 31, 2021 and 2020

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 expenditures 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 authority's budgets for the years ending December 31:

| | <u>2021</u> | | |
|--------------|----------------------------|------------------|---------------------------|
| | <u>Estimated Revenues</u> | | |
| | <u>Original Budget</u> | <u>Amendment</u> | <u>Amended Budget</u> |
| General Fund | 3,030,553 | (241,657) | 2,788,896 |
| | <u>Appropriations</u> | | |
| | <u>Original Budget</u> | <u>Amendment</u> | <u>Amended Budget</u> |
| General Fund | 3,172,255 | (99,906) | 3,072,349 |
| | <u>2020</u> | | |
| | <u>Estimated Revenues</u> | | |
| | <u>Original Budget</u> | <u>Amendment</u> | <u>Amended Budget</u> |
| General Fund | 2,514,263 | (2,271,079) | 243,184 |
| | <u>Appropriations</u> | | |
| | <u>Original Budget</u> | <u>Amendment</u> | <u>Amended Budget</u> |
| General Fund | 2,514,263 | (2,301,367) | 212,896 |

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Schedule of Expenditures of Federal Awards
For the Years Ended December 31, 2021 and 2020

| Federal Grantor Pass-Through Grantor Program Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Expenditures | |
|--|--|---|---------------------|------------------|
| | | | 2021 | 2020 |
| <u>U.S. Department of Transportation</u> | | | | |
| Direct Program: | | | | |
| Airport Improvement Program | 20.106 | N/A | <u>2,475,099.00</u> | <u>48,658.00</u> |

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

The de minimis indirect cost rate was not used.

Rath & Mehner, P.C.

Certified Public Accountants

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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, as of and for the years ended December 31, 2021 and 2020, 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 February 10, 2023.

Report on 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) as a basis for designing 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards require the auditor to perform limited procedures on the airport authority's response to the findings identified in our audits and 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

February 10, 2023

Rath & Mehrer, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
Mercer County Regional Airport Authority
Hazen, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Mercer County Regional Airport Authority's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the airport authority's major federal programs for the years ended December 31, 2021 and 2020. The airport authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

In our opinion, the airport authority complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2021 and 2020.

Basis for Opinion on Each Major Federal Program

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the airport authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audits do not provide a legal determination of the airport authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the airport authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the airport authority's compliance based on our audits. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the airport authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the airport authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the airport authority's internal control over compliance relevant to the audits in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the airport authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audits.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a

federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audits we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audits were not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

February 10, 2023

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2021 and 2020

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor’s Report Issued:

Governmental Activities
Major Governmental Fund

Unmodified – Modified Cash Basis
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

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor’s report issued on compliance for major program(s):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major program(s):

Federal Assistance Listing Number

Name of Federal Program

20.106

Airport Improvement Program

Dollar threshold used to distinguish between type A and type B Programs:

\$750,000

Auditee qualified as a low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2021-001 – 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 functions 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.

Repeat Finding from Prior Year: Yes, prior year finding No. 2019-001

2. 2021-002- 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, including the accompanying note disclosures, are prepared by the airport authority's external auditors.

Cause: The airport authority feels that it is more cost effective to have their external auditors prepare the complete financial statements 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 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.

Repeat Finding from Prior Year: Yes, prior year finding No. 2019-002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No matters were reported

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Summary Schedule of Prior Audit Findings
For the Years Ended December 31, 2021 and 2020

1. Finding No. 2019-001: Segregation of Duties

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2021-001.

Reasons for Recurrence and Corrective Action Plan: The airport authority has determined that it is not cost effective to employ additional personnel just to adequately segregate duties. See Corrective Action Plan.

2. Finding No. 2019-002: Financial Statement Preparation

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2021-002.

Reasons for Recurrence and Corrective Action Plan: The airport authority feels it is more cost effective to have their external auditors prepare the financial statements and note disclosures. See Corrective Action Plan.



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MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Corrective Action Plan
For the Years Ended December 31, 2021 and 2020

1. Finding No. 2021-001: Segregation of Duties

Contact Person: Mary Frovarp, Bookkeeper

Corrective Action Plan: The airport authority has determined that it is not cost effective to employ additional personnel just to adequately segregate duties.

Completion Date: The Mercer County Regional Airport Authority will implement when it becomes cost effective.

2. Finding No. 2021-002: Financial Statement Preparation

Contact Person: Mary Frovarp, Bookkeeper

Corrective Action Plan: The airport authority feels that it is more cost effective to have their external auditors prepare the financial statements and note disclosures.

Completion Date: The Mercer County Regional Airport Authority will implement when it becomes cost effective.