

AUDIT REPORT

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

For the Years Ended December 31, 2017 and 2016

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
Toby Lemer	Commissioner
Marv Sutheimer	Commissioner
Mary Frovarp	Bookkeeper
Steve Frovarp	Clerk

Rath & Mehrer, P.C.

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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, 2017 and 2016, 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, 2017 and 2016, 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 July 27, 2018 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

July 27, 2018

MERCER COUNTY REGIONAL AIRPORT AUTHORITY

Management's Discussion and Analysis

December 31, 2017 and 2016

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, 2017 and 2016. 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, 2017 are as follows:

- * Net position of the airport authority increased \$12,183 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$1,634,523.
- * Total revenues from all sources were \$262,059.
- * Total expenses were \$249,876.
- * The airport authority's general fund had \$262,059 in total revenues and \$201,106 in total expenditures. Overall, the general fund balance increased by \$60,953 for the year ended December 31, 2017.

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Net position of the airport authority increased \$42,554 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$1,622,339.
- * Total revenues from all sources were \$243,351.
- * Total expenses were \$200,797.
- * The airport authority's general fund had \$243,351 in total revenues and \$208,302 in total expenditures. Overall, the general fund balance increased by \$35,049 for the year ended December 31, 2016.

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, 2017 and 2016?"

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, 2017 and 2016. 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 \$12,183 and \$42,554 for the years ended December 31, 2017 and 2016, 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 \$1,634,523, as of December 31, 2017 and \$1,622,339, as of December 31, 2016 are segregated into two separate categories. Net investment in capital assets for the year ended December 31, 2017 represents 60% of the airport authority's total net position. As of December 31, 2016, this total represents 63% 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, 2017 and 2016 represents 40% and 37%, 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, 2017 and 2016
(With comparative totals for December 31, 2015)

	2017	2016	2015
<u>Assets</u>			
Current Assets	654,375	593,421	558,372
Capital Assets (net of accumulated depreciation)	980,148	1,028,918	1,021,413
Total Assets	1,634,523	1,622,339	1,579,785
<u>Net Position</u>			
Net Investment in Capital Assets	980,148	1,028,918	1,021,413
Unrestricted	654,375	593,421	558,372
Total Net Position	1,634,523	1,622,339	1,579,785
	=====	=====	=====

Table II shows the changes in net position for the fiscal years ended December 31, 2017 and 2016. 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, 2017 and 2016
 (With comparative totals for December 31, 2015)

	2017	2016	2015
Revenues			
<u>Program Revenues:</u>			
Charges for Services	78,742	93,419	98,878
Operating Grants and Contributions	69,135	40,057	393,166
<u>General Revenues:</u>			
Property Taxes	74,568	74,157	74,532
Other Taxes	994	749	941
State Aid - Unrestricted	35,765	30,375	52,418
Interest Earnings and Other Revenue	2,855	4,593	1,410
Gain on Sale of Capital Assets			3,880
Total Revenues	262,059	243,351	625,224
Expenses			
General Government	249,876	200,797	381,145
Net Change in Position	12,183	42,554	244,080

Property taxes constituted 28%, operating grants and contributions 26% and charges for services made up 30% of the total revenues of governmental activities of the airport authority for the fiscal year ended December 31, 2017.

General government constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2017.

Property taxes constituted 30%, operating grants and contributions 16% and charges for services made up 38% of the total revenues of governmental activities of the airport authority for the fiscal year ended December 31, 2016.

General government constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2016.

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, 2017

	Total Cost Year Ended December 31, <u>2017</u>	Net Cost Year Ended December 31, <u>2017</u>
General Government	249,876	101,999
	=====	=====

Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended December 31, <u>2016</u>	Net Cost Year Ended December 31, <u>2016</u>
General Government	200,797	67,321
	=====	=====

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 \$262,059 and expenditures of \$201,106 for the year ended December 31, 2017. For the year ended December 31, 2016, the general fund had total revenue of \$243,351 and expenditures of \$208,302. As of December 31, 2017 and 2016, the unassigned fund balance of the airport authority's general fund was \$414,658 and 354,349, respectively.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2017, the airport authority amended the general fund budget. The gross effect of these amendments was to increase estimated revenues by \$68,435 and appropriations by \$65,740.

During the course of fiscal year 2016, the airport authority amended the general fund budget. The gross effect of these amendments was to decrease estimated revenues by \$16,696 and appropriations by \$57,943.

Actual revenue for the year ended December 31, 2017 was \$30,705 less than budgeted. This budget variance was due to the airport overestimating the budget for property tax relief and jet fuel sales. Actual expenditures for the year ended December 31, 2017 were under budget by \$88,963. This variance was mainly due to the airport overestimating the budget for capital outlay and repairs and maintenance.

Actual revenue for the year ended December 31, 2016 was \$9,198 less than budgeted. Actual expenditures for the year ended December 31, 2016 were equal to totals for the amended budget.

CAPITAL ASSETS

As of December 31, 2017 and 2016, the airport authority had \$980,148 and \$1,028,918, respectively, invested in capital assets. Table IV shows the balances as of December 31, 2017, 2016 and 2015.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2017 and 2016
(With comparative totals for December 31, 2015)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Buildings and Infrastructure	868,506	901,479	883,633
Machinery and Vehicles	111,642	127,439	137,780
Total (net of depreciation)	<u>980,148</u>	<u>1,028,918</u>	<u>1,021,413</u>
	=====	=====	=====

The December 31, 2017 total represents a decrease of \$48,770 in capital assets from January 1, 2017. The December 31, 2016 total represents an increase of \$7,505 in capital assets from January 1, 2016. The increase in capital assets was due to the completion of the construction of a airport hanger 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, 2017 and 2016, 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, 2017

	<u>Governmental Activities</u>
ASSETS:	
Cash	368,930.92
Investments	285,443.77
Capital Assets (net of accumulated depreciation):	
Buildings and Infrastructure	868,506.00
Machinery and Vehicles	111,642.00
 Total Capital Assets	 <u>980,148.00</u>
 Total Assets	 <u>1,634,522.69</u>
NET POSITION:	
Net Investment in Capital Assets	980,148.00
Unrestricted	654,374.69
 Total Net Position	 <u>1,634,522.69</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, 2016

	<u>Governmental Activities</u>
ASSETS:	
Cash	308,793.90
Investments	284,627.43
Capital Assets (net of accumulated depreciation):	
Buildings and Infrastructure	901,479.00
Machinery and Vehicles	127,439.00
	<u>1,028,918.00</u>
Total Capital Assets	1,028,918.00
	<u>1,622,339.33</u>
Total Assets	1,622,339.33
NET POSITION:	
Net Investment in Capital Assets	1,028,918.00
Unrestricted	593,421.33
	<u>1,622,339.33</u>
Total Net Position	=====

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, 2017

	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	249,876.05	78,742.03	69,135.23	(101,998.79)
=====				
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				74,567.52
Telcommunication tax				129.75
Homestead tax credit				864.71
Intergovernmental revenue not restricted to specific programs				35,764.78
Earnings on investments and other revenue				2,855.39
Total General Revenues				114,182.15
Change in Net Position				12,183.36
Net Position - January 1				1,622,339.33
Net Position - December 31				1,634,522.69
=====				

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, 2016

	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	200,796.76	93,418.56	40,057.36	(67,320.84)
=====				
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				74,157.30
Homestead tax credit				749.16
Intergovernmental revenue not restricted to specific programs				30,375.45
Earnings on investments and other revenue				4,593.07
Total General Revenues				109,874.98
Change in Net Position				42,554.14
Net Position - January 1				1,579,785.19
Net Position - December 31				1,622,339.33
=====				

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, 2017

	<u>General</u>
ASSETS:	
Cash	368,930.92
Investments	285,443.77
Total Assets	<u>654,374.69</u> =====
FUND BALANCES:	
Assigned to:	
Airport Improvement and Repairs	77,111.12
Federal Reserve Projects	162,605.90
Unassigned	414,657.67
Total Fund Balances	<u>654,374.69</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, 2016

	<u>General</u>
<u>ASSETS:</u>	
Cash	308,793.90
Investments	284,627.43
Total Assets	<u>593,421.33</u> =====
<u>FUND BALANCES:</u>	
Assigned to:	
Airport Improvement and Repairs	76,922.26
Federal Reserve Projects	162,149.62
Unassigned	354,349.45
Total Fund Balances	<u>593,421.33</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, 2017

Total Fund Balance		654,374.69
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	1,395,449.00	
Less Accumulated Depreciation	(415,301.00)	
Net Capital Assets	<u>980,148.00</u>	
Total Net Position of Governmental Activities		<u>1,634,522.69</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, 2016

Total Fund Balance		593,421.33
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	1,395,449.00	
Less Accumulated Depreciation	(366,531.00)	
Net Capital Assets		<u>1,028,918.00</u>
Total Net Position of Governmental Activities		<u>1,622,339.33</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, 2017

	<u>General</u>
<u>Revenues:</u>	
<u>Taxes</u>	
General Property Taxes	74,567.52
<u>Intergovernmental</u>	
FAA Grants	37,827.00
ND Aeronautics Commission	31,308.23
Telecommunication Tax	129.75
Homestead Tax Credit	864.71
State Aid	35,764.78
Total Intergovernmental	105,894.47
<u>Miscellaneous</u>	
Hanger Lease	11,881.50
Other Rents/Leases	2,143.80
100LL Fuel Sales	29,980.13
Jet Fuel Sales	34,736.60
Interest/Dividends	2,014.58
Hay Lease	303.05
Miscellaneous	537.76
Total Miscellaneous	81,597.42
Total Revenues	262,059.41
<u>Expenditures:</u>	
<u>Current:</u>	
<u>General Government</u>	
Salaries and Benefits	14,536.66
Insurance	5,050.65
Travel	1,972.55
Utilities	14,900.76
Hanger Expense	1,205.04
Terminal Supplies	4,489.42
Equipment Expense	13,154.34
Advertising and Promotions	1,909.76
Equipment Rental	480.00
Engineering Fees	47,857.18
Professional Fees	1,647.20
Landscaping	757.79
Repairs and Maintenance	42,673.32
AWOS Maintenance	4,000.00
100LL Fuel Purchases	27,081.52
Jet Fuel Purchases	17,002.65
Flight Training	386.34
Miscellaneous	2,000.87
Total Expenditures	201,106.05
Net Change in Fund Balance	60,953.36
Fund Balance - January 1	593,421.33
Fund Balance - December 31	654,374.69

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, 2016

	General
Revenues:	
<u>Taxes</u>	
General Property Taxes	74,157.30
<u>Intergovernmental</u>	
FAA Grants	34,143.18
ND Aeronautics Commission	5,914.18
Homestead Tax Credit	749.16
State Aid	19,899.79
Property Tax Relief	10,475.66
Total Intergovernmental	71,181.97
<u>Miscellaneous</u>	
Hanger Lease	10,581.02
Other Rents/Leases	2,793.80
100LL Fuel Sales	48,425.29
Jet Fuel Sales	31,618.45
Interest/Dividends	1,779.27
Hay Lease	1,315.00
Reimbursements	956.80
Miscellaneous	542.00
Total Miscellaneous	98,011.63
Total Revenues	243,350.90
Expenditures:	
<u>Current:</u>	
<u>General Government</u>	
Salaries and Benefits	14,026.52
Insurance	5,672.34
Travel	2,003.21
Utilities	12,688.02
Hanger Expense	1,282.93
Terminal Supplies	5,032.05
Equipment Expense	3,745.55
Advertising and Promotions	1,986.07
Equipment Rental	480.00
Engineering Fees	2,119.15
Professional Fees	2,300.00
Dues	150.00
Landscaping	357.66
Repairs and Maintenance	26,491.80
AWOS Maintenance	10,330.60
100LL Fuel Purchases	24,704.73
Jet Fuel Purchases	34,933.58
Testing and Supplies	389.08
Flight Training	1,270.00
Miscellaneous	2,063.47
Capital Outlay	56,275.00
Total Expenditures	208,301.76
Net Change in Fund Balance	35,049.14
Fund Balance - January 1	558,372.19
Fund Balance - December 31	593,421.33

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, 2017

Net Change in Fund Balance 60,953.36

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 depreciation exceeded capital outlay in the
current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(48,770.00)	(48,770.00)
Change in Net Position of Governmental Activities		12,183.36
		12,183.36

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, 2016

Net Change in Fund Balance	35,049.14
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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	56,275.00	
Current Year Depreciation Expense	(48,770.00)	7,505.00
	<hr/>	<hr/>
Change in Net Position of Governmental Activities		42,554.14
		=====

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, 2017 and 2016

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, 2017 the airport's carrying amount of deposits was \$654,375 and the bank balance was \$654,940. Of the bank balance, \$546,082 was covered by Federal Depository Insurance. The remaining balance of \$108,857 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2016 the airport's carrying amount of deposits was \$593,421 and the bank balance was \$630,123. Of the bank balance, \$545,261 was covered by Federal Depository Insurance. The remaining balance of \$84,862 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, 2017 the airport authority held certificates of deposit in the amount of \$285,444, which are all considered deposits.

At December 31, 2016 the airport authority held certificates of deposit in the amount of \$284,627, 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, 2017 and 2016:

	<u>2017</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</i>				
<i>being depreciated:</i>				
Buildings and				
Infrastructure	1,177,781			1,177,781
Machinery & Vehicles	217,668			217,668
Total	1,395,449			1,395,449
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and				
Infrastructure	276,302	32,973		309,275
Machinery & Vehicles	90,229	15,797		106,026
Total	366,531	48,770		415,301
Governmental Activities				
Capital Assets, Net	1,028,918	(48,770)	-0-	980,148
	=====	=====	=====	=====

	<u>2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
Capital assets				
being depreciated:				
Buildings and				
Infrastructure	1,126,962	50,819		1,177,781
Machinery & Vehicles	212,212	5,456		217,668
Total	<u>1,339,174</u>	<u>56,275</u>		<u>1,395,449</u>
Less accumulated depreciation for:				
Buildings and				
Infrastructure	243,329	32,973		276,302
Machinery & Vehicles	74,432	15,797		90,229
Total	<u>317,761</u>	<u>48,770</u>		<u>366,531</u>
Governmental Activities				
Capital Assets, Net	<u>1,021,413</u>	<u>7,505</u>	<u>-0-</u>	<u>1,028,918</u>

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

	<u>2017</u>	<u>2016</u>
General Government	48,770.00	48,770.00

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 (NDRF), 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 NDRF for its general liability, automobile and public assets insurance coverage. The coverage by NDRF 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 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, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	85,000.00	85,000.00	74,567.52	(10,432.48)
<u>Intergovernmental</u>				
FAA Grants		37,827.00	37,827.00	
ND Aeronautics Commission	700.00	31,308.23	31,308.23	
Financial Institution Tax	1,800.00	1,800.00		(1,800.00)
Telecommunication Tax	130.00	130.00	129.75	(0.25)
Homestead Tax Credit	1,000.00	1,000.00	864.71	(135.29)
State Aid	28,000.00	28,000.00	35,764.78	7,764.78
Property Tax Relief	12,500.00	12,500.00		(12,500.00)
Total Intergovernmental	44,130.00	112,565.23	105,894.47	(6,670.76)
<u>Miscellaneous</u>				
Hanger Lease	9,800.00	9,800.00	11,881.50	2,081.50
Other Rents/Leases	2,144.00	2,144.00	2,143.80	(0.20)
100LL Fuel Sales	30,000.00	30,000.00	29,980.13	(19.87)
Jet Fuel Sales	50,000.00	50,000.00	34,736.60	(15,263.40)
Interest/Dividends	970.00	970.00	2,014.58	1,044.58
Hay Lease	2,000.00	2,000.00	303.05	(1,696.95)
Reimbursements	10.00	10.00		(10.00)
Donations				
Miscellaneous	275.00	275.00	537.76	262.76
Total Miscellaneous	95,199.00	95,199.00	81,597.42	(13,601.58)
Total Revenues	224,329.00	292,764.23	262,059.41	(30,704.82)
<u>Expenditures:</u>				
<u>Current:</u>				
<u>General Government</u>				
Salaries and Benefits	22,575.00	22,575.00	14,536.66	8,038.34
Insurance	6,370.00	6,370.00	5,050.65	1,319.35
Travel	5,000.00	5,000.00	1,972.55	3,027.45
Utilities	17,200.00	17,200.00	14,900.76	2,299.24
Hanger Expense			1,205.04	(1,205.04)
Terminal Supplies	4,050.00	4,050.00	4,489.42	(439.42)
Equipment Expense	7,500.00	7,500.00	13,154.34	(5,654.34)
Advertising and Promotions	4,000.00	4,000.00	1,909.76	2,090.24
Equipmental Rental	500.00	500.00	480.00	20.00
Engineering Fees	5,000.00	47,857.18	47,857.18	
Professional Fees	1,000.00	1,000.00	1,647.20	(647.20)
Dues	105.00	105.00		105.00
Landscaping	700.00	700.00	757.79	(57.79)
Repairs and Maintenance	36,100.00	58,983.00	42,673.32	16,309.68
AWOS Maintenance	3,000.00	3,000.00	4,000.00	(1,000.00)
Automatic Credit Card Sales	500.00	500.00		500.00
100LL Fuel Purchases	25,000.00	25,000.00	27,081.52	(2,081.52)
Jet Fuel Purchases	36,239.00	36,239.00	17,002.65	19,236.35
Testing and Supplies	260.00	260.00		260.00
Flight Training	1,500.00	1,500.00	386.34	1,113.66
Miscellaneous	2,730.00	2,730.00	2,000.87	729.13
Capital Outlay	45,000.00	45,000.00		45,000.00
Total Expenditures	224,329.00	290,069.18	201,106.05	88,963.13
Net Change in Fund Balances		2,695.05	60,953.36	58,258.31
Fund Balance - January 1	593,421.33	593,421.33	593,421.33	
Fund Balance - December 31	593,421.33	596,116.38	654,374.69	58,258.31

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	83,355.00	83,355.00	74,157.30	(9,197.70)
<u>Intergovernmental</u>				
FAA Grants	45,000.00	34,143.18	34,143.18	
ND Aeronautics Commission	2,500.00	5,914.18	5,914.18	
Financial Institution Tax	1,800.00			
Telecommunication Tax	130.00			
Homestead Tax Credit	1,000.00	749.16	749.16	
State Aid	45,000.00	19,899.79	19,899.79	
Property Tax Relief		10,475.66	10,475.66	
Total Intergovernmental	95,430.00	71,181.97	71,181.97	
<u>Miscellaneous</u>				
Hanger Lease	4,000.00	10,581.02	10,581.02	
Other Rents/Leases	2,594.00	2,793.80	2,793.80	
100LL Fuel Sales	30,000.00	48,425.29	48,425.29	
Jet Fuel Sales	50,000.00	31,618.45	31,618.45	
Interest/Dividends	916.00	1,779.27	1,779.27	
Hay Lease	2,400.00	1,315.00	1,315.00	
Reimbursements	300.00	956.80	956.80	
Miscellaneous	2,500.00	542.00	542.00	
Total Miscellaneous	92,710.00	98,011.63	98,011.63	
Total Revenues	271,495.00	252,548.60	243,350.90	(9,197.70)
Expenditures:				
<u>Current:</u>				
<u>General Government</u>				
Salaries and Benefits	22,555.00	14,026.52	14,026.52	
Insurance	4,960.00	5,672.34	5,672.34	
Travel	5,000.00	2,003.21	2,003.21	
Utilities	19,600.00	12,688.02	12,688.02	
Hanger Expense	2,220.00	1,282.93	1,282.93	
Terminal Supplies	4,040.00	5,032.05	5,032.05	
Equipment Expense	10,000.00	3,745.55	3,745.55	
Advertising and Promotions	4,000.00	1,986.07	1,986.07	
Equipmental Rental	500.00	480.00	480.00	
Engineering Fees	50,000.00	2,119.15	2,119.15	
Professional Fees	3,500.00	2,300.00	2,300.00	
Dues	105.00	150.00	150.00	
Landscaping	500.00	357.66	357.66	
Repairs and Maintenance	21,920.00	26,491.80	26,491.80	
AWOS Maintenance	3,000.00	10,330.60	10,330.60	
Automatic Credit Card Sales	500.00			
100LL Fuel Purchases	25,000.00	24,704.73	24,704.73	
Jet Fuel Purchases	45,000.00	34,933.58	34,933.58	
Testing and Supplies	260.00	389.08	389.08	
Flight Training		1,270.00	1,270.00	
Miscellaneous	3,085.00	2,063.47	2,063.47	
Capital Outlay	40,500.00	56,275.00	56,275.00	
Total Expenditures	266,245.00	208,301.76	208,301.76	
Net Change in Fund Balances	5,250.00	44,246.84	35,049.14	(9,197.70)
Fund Balance - January 1	558,372.19	558,372.19	558,372.19	
Fund Balance - December 31	563,622.19	602,619.03	593,421.33	(9,197.70)

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Notes to the Budgetary Comparison Schedule
December 31, 2017 and 2016

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>2017</u>		
	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	224,329	68,435	292,764
	<u>Appropriations</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	224,329	65,740	290,069
	<u>2016</u>		
	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	269,245	(16,696)	252,549
	<u>Appropriations</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	266,245	(57,943)	208,302

Rath & Mehrer, P.C.

Certified Public Accountants

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Ken Mehrer, CPA
Bryce Fischer, CPA

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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, 2017 and 2016, 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 July 27, 2018.

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 II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

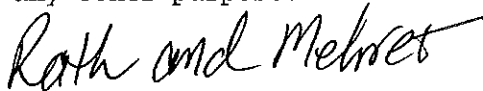
As part of obtaining reasonable assurance about whether the airport authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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

July 27, 2018

MERCER COUNTY REGIONAL AIRPORT AUTHORITY
Hazen, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2017 and 2016

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 X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted?

 Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The airport authority has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the airport authority.

Effect: There is no segregation of duties as one 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 financial statements. This increases the risk of misstatement of the airport authority's financial condition.

Recommendation: Due to the size of the airport authority, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The airport authority's financial statements as of December 31, 2017 and 2016 are prepared by the airport authority's external auditors.

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.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend the airport authority obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the airport authority to prepare its own financial statements.