



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 22, 2011

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Auditor of State David A. Vaudt today released an audit report on the Council Bluffs Airport Authority.

The Authority had total revenues of \$2,900,961 during the year ended June 30, 2011, a 50% increase over the prior year. Revenues included property tax of \$575,527, rental income of \$145,316 and federal grants of \$2,033,813. The increase in revenues is due to an increase in federal grants for airport improvement projects.

Expenses totaled \$1,382,754 for the year ended June 30, 2011, a 12% decrease from the prior year, and included \$189,021 for employee salaries, \$738,189 for depreciation and \$142,433 for interest expense.

The report addresses unsubstantiated vehicle use and the frequency of gas purchases by the Executive Director. Because mileage logs are not required and invoices do not document the vehicle for which gas was purchased, the reasonableness of the gas purchases or the daily miles driven by the Executive Director could not be determined.

The report also includes findings and recommendations related to credit card policies, fuel inventory, business transactions, revenue bond compliance and the taxability as a fringe benefit of an Authority provided vehicle.

A copy of the audit report is available for review at the Council Bluffs Airport Authority, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1133-0051-B000.pdf>.

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COUNCIL BLUFFS AIRPORT AUTHORITY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Assets	A 8
Statement of Revenues, Expenses and Changes in Net Assets	B 9
Statement of Cash Flows	C 10
Notes to Financial Statements	11-18
Other Supplementary Information:	<u>Schedule</u>
Schedule of Expenditures of Federal Awards	1 21
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	23-24
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	25-26
Schedule of Findings and Questioned Costs	27-40
Staff	41

Council Bluffs Airport Authority

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Knott	Chairman	Mar 10, 2015
John Dalton	Vice - Chairman	Mar 10, 2013
Jeanette M. Aldredge	Secretary/Treasurer	Mar 10, 2013
Dean Krueger	Member	Mar 10, 2013
Bill McGinn	Member	Mar 10, 2013
Rick Crowl	Member	Mar 10, 2015
Barbara Vredevelde	Member	Mar 10, 2015
Danny Smith	Executive Director	Indefinite

Council Bluffs Airport Authority



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Independent Auditor's Report

To the Members of the Council Bluffs
Airport Authority:

We have audited the accompanying basic financial statements of the Council Bluffs Airport Authority as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Council Bluffs Airport Authority as of and for the year ended June 30, 2010. Those financial statements were audited by other auditors whose report dated November 2, 2010 expressed an unqualified opinion on those financial statements.

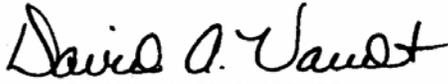
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the Council Bluffs Airport Authority at June 30, 2011 and June 30, 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2011 on our consideration of the Council Bluffs Airport Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Council Bluffs Airport Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Council Bluffs Airport Authority's basic financial statements. Other supplementary information included in Schedule 1, the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 7, 2011

Basic Financial Statements

Exhibit A

Council Bluffs Airport Authority

Statement of Net Assets

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 78,041	162,825
Receivables:		
Property tax	24,212	18,169
Hangar rent	2,070	795
Miscellaneous	-	7,367
Due from other governments:		
Federal Aviation Agency	604,616	766,534
Pottawattamie County	100,000	100,000
Iowa Department of Transportation	29,424	163,256
Prepaid expense	4,761	9,237
Total current assets	<u>843,124</u>	<u>1,228,183</u>
Noncurrent assets:		
Restricted cash	76,726	201,055
Due from other governments - Pottawattamie County (net of discount of \$26,228 and \$39,994, respectively)	303,772	420,006
Capital assets (net of accumulated depreciation)	24,987,040	23,302,795
Bond issuance costs	29,914	35,322
Total noncurrent assets	<u>25,397,452</u>	<u>23,959,178</u>
Total assets	<u>26,240,576</u>	<u>25,187,361</u>
Liabilities		
Current liabilities:		
Accounts payable	214,058	631,766
Accrued interest payable	10,592	11,079
Payroll tax payable	8,417	6,964
Unearned hangar rent	1,170	9,420
Current portion of:		
Bonds payable	150,000	140,000
Bank loan payable	100,000	-
Total current liabilities	<u>484,237</u>	<u>799,229</u>
Noncurrent liabilities:		
Bonds payable	2,605,000	2,755,000
Total liabilities	<u>3,089,237</u>	<u>3,554,229</u>
Net assets		
Invested in capital assets, net of related debt	22,232,040	23,302,795
Unrestricted	919,299	(1,669,663)
Total net assets	<u>\$ 23,151,339</u>	<u>21,633,132</u>

See notes to financial statements.

Council Bluffs Airport Authority

Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Land rent	\$ 35,650	29,285
Hangar rent	109,666	90,403
Other revenues	18,785	30,026
Total operating revenues	<u>164,101</u>	<u>149,714</u>
Operating expenses:		
Salaries	189,021	156,473
Depreciation	738,189	607,784
FICA	15,679	12,757
IPERS	12,680	10,096
Advertising	2,129	4,905
Dues	195	150
Engineering	7,486	4,810
Fuel	26,064	13,462
Insurance	66,946	68,677
Internet and web	1,465	948
License and subscriptions	3,114	2,416
Meetings	2,672	2,035
Office	7,749	7,564
Postage and freight	339	706
Professional fees	60,145	48,364
Radio and telephone	5,788	5,200
Buildings and grounds maintenance and repair	19,303	33,722
Equipment repair	12,203	24,050
Hangar repair	4,611	-
Runway repair	2,423	3,648
Trash hauling	1,590	1,729
Travel and training	6,406	5,275
Utilities	41,429	38,051
Miscellaneous	7,287	3,355
Total operating expenses	<u>1,234,913</u>	<u>1,056,177</u>
Operating loss	<u>(1,070,812)</u>	<u>(906,463)</u>
Non-operating revenues (expenses):		
Property tax	575,527	563,508
Interest income	13,866	16,144
Federal grants	2,033,813	933,531
Other grant revenue	113,654	-
Capital improvements grants from other governments	-	270,000
Amortization of bond issuance cost	(5,408)	(5,820)
Interest expense	(142,433)	(146,208)
Loss on sale of assets	-	(360,562)
Net non-operating revenues (expenses)	<u>2,589,019</u>	<u>1,270,593</u>
Change in net assets	1,518,207	364,130
Net assets beginning of year	<u>21,633,132</u>	<u>21,269,002</u>
Net assets end of year	<u>\$ 23,151,339</u>	<u>21,633,132</u>

See notes to financial statements.

Exhibit C

Council Bluffs Airport Authority

Statement of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from rent	\$ 135,791	102,028
Cash received from other revenues	26,152	73,266
Cash paid to suppliers for goods and services	(280,641)	(244,321)
Cash paid to employees for services	(215,927)	(178,615)
Net cash used for operating activities	<u>(334,625)</u>	<u>(247,642)</u>
Cash flows from noncapital financing activities:		
Cash received from property tax	\$ 569,484	568,887
Proceeds from bank loan	170,000	-
Principal paid on bank loan	(70,000)	-
Interest paid on bank loan	(3,480)	-
Net cash provided by noncapital financing activities	<u>666,004</u>	<u>568,887</u>
Cash flows from capital and related financing activities:		
Federal grants received	2,329,561	758,363
Received from other governments	229,888	370,001
Sale of capital assets	2,432	3,000
Acquisition of capital assets	(2,836,799)	(1,434,975)
Principal paid on revenue bonds	(140,000)	(130,000)
Interest paid on revenue bonds	(139,440)	(146,667)
Net cash used for capital and related financing activities	<u>(554,358)</u>	<u>(580,278)</u>
Cash flows from investing activities:		
Interest received	13,866	53
Net decrease in cash and cash equivalents	(209,113)	(258,980)
Cash and cash equivalents beginning of year	363,880	622,860
Cash and cash equivalents end of year	<u>\$ 154,767</u>	<u>363,880</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (1,070,812)</u>	<u>(906,463)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	738,189	613,604
Changes in assets and liabilities:		
Decrease in accounts receivable	6,092	14,750
Decrease in prepaid expense	4,476	23,047
Increase (decrease) in accounts payable	(5,773)	1,699
Increase in payroll taxes payable	1,453	711
Increase (decrease) in unearned hangar rent	(8,250)	5,010
Total adjustments	<u>736,187</u>	<u>658,821</u>
Net cash used for operating activities	<u>\$ (334,625)</u>	<u>(247,642)</u>

See notes to financial statements.

Council Bluffs Airport Authority

Notes to Financial Statements

June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

The Council Bluffs Airport Authority, a political subdivision of the State of Iowa, was formed in 1995 pursuant to the provisions of Chapter 330A of the Code of Iowa. The Authority provides and maintains airport facilities for the City of Council Bluffs, Iowa.

The Authority is a component unit of the City of Council Bluffs. The accompanying financial statements include only activity of the Airport Authority. Financial statements for the City of Council Bluffs can be obtained from the City.

A. Reporting Entity

For financial reporting purposes, the Council Bluffs Airport Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental 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 Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Council Bluffs Airport Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Council Bluffs Airport Authority are organized as an Enterprise Fund. Enterprise Funds are used to account for operations in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. All revenues, including property tax and all expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets.

Cash, Investments and Cash Equivalents – The Authority considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Cash – Funds set aside in a bond sinking account for the repayment of principal and interest on the Authority's bond debt are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

While the Authority has not adopted a formal written capital asset policy, reportable capital assets are informally defined by the Authority as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Buildings and improvements	\$ 25,000
Equipment and vehicles	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	40
Equipment and vehicles	5-7

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the years ended June 30, 2011 and 2010.

(2) Cash and Investments

The Authority's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Authority had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3, as amended by Statement No. 40.

(3) Capital Assets

Capital assets activity for the year ended June 20, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 2,192,064	-	-	2,192,064
Construction in progress	894,837	2,212,675	2,169,892	937,620
Total capital assets not being depreciated	3,086,901	2,212,675	2,169,892	3,129,684
Capital assets being depreciated:				
Buildings	4,683,029	2,173,857	2,500	6,854,386
Improvements other than buildings	17,806,644	157,976	-	17,964,620
Equipment and vehicles	271,055	50,250	-	321,305
Total capital assets being depreciated	22,760,728	2,382,083	2,500	25,140,311
Less accumulated depreciation for:				
Buildings	1,139,673	118,944	68	1,258,549
Improvement other than buildings	1,241,488	596,188	-	1,837,676
Equipment and vehicles	163,673	23,057	-	186,730
Total accumulated depreciation	2,544,834	738,189	68	3,282,955
Total capital assets being depreciated, net	20,215,894	1,643,894	2,432	21,857,356
Total capital assets, net	\$ 23,302,795	3,856,569	2,172,324	24,987,040
Total depreciation expense				<u>\$ 738,189</u>

Capital assets activity for the year ended June 20, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 2,192,064	-	-	2,192,064
Construction in progress	7,245,380	1,319,974	(7,670,517)	894,837
Total capital assets not being depreciated	<u>9,437,444</u>	<u>1,319,974</u>	<u>(7,670,517)</u>	<u>3,086,901</u>
Capital assets being depreciated:				
Buildings	2,507,694	2,175,335	-	4,683,029
Improvements other than buildings	12,667,890	5,735,263	(596,509)	17,806,644
Equipment and vehicles	240,886	83,357	(53,188)	271,055
Total capital assets being depreciated	<u>15,416,470</u>	<u>7,993,955</u>	<u>(649,697)</u>	<u>22,760,728</u>
Less accumulated depreciation for:				
Buildings	1,056,747	82,926	-	1,139,673
Improvements other than buildings	968,379	506,742	(233,633)	1,241,488
Equipment and vehicles	198,059	18,116	(52,502)	163,673
Total accumulated depreciation	<u>2,223,185</u>	<u>607,784</u>	<u>(286,135)</u>	<u>2,544,834</u>
Total capital assets being depreciated, net	<u>13,193,285</u>	<u>7,386,171</u>	<u>(363,562)</u>	<u>20,215,894</u>
Discretely presented component unit capital assets, net	<u>\$ 22,630,729</u>	<u>8,706,145</u>	<u>(8,034,079)</u>	<u>23,302,795</u>
Total depreciation expense			<u>\$ 607,784</u>	

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue bonds	\$ 2,895,000	-	140,000	2,755,000	150,000
Bank loan	-	170,000	70,000	100,000	100,000
Total	\$ 2,895,000	170,000	210,000	2,855,000	250,000

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue bonds	\$ 3,025,000	-	130,000	2,895,000	140,000

Revenue Bonds

Two issues of unmatured revenue bonds are outstanding at June 30, 2011 and June 30, 2010. The bonds bear interest at rates ranging from 4.35% to 5.05% per annum and mature in varying annual amounts, ranging from \$100,000 to \$275,000, with final maturities due in the year ending June 30, 2024.

The Airport Authority has pledged the net revenues of the Authority, including property tax received by the Authority under Chapter 330A.15 of the Code of Iowa, net of any specified operating expenses, to repay revenue bonds issued in June 2006 with an outstanding balance of \$2,755,000 at June 30, 2011. Proceeds from the bonds provided financing for construction of improvements to the Airport Authority facilities and runway. The bonds are payable solely from the net revenues of the Authority. Annual principal and interest payments on the bonds are expected to require more than 100% of net revenues. The total principal and interest remaining to be paid on the bonds outstanding at June 30, 2011 is \$3,783,313. For the year ended June 30, 2011, principal and interest paid and total customer net expenses were \$279,440 and (\$495,283), respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Authority and the bond holders hold a lien on the future earnings of the Authority.
- (b) Sufficient monthly transfers shall be made to a revenue bond retirement account for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues, including taxes received by the Authority under Chapter 330A.15 of the Code of Iowa, at a level not less than 100% of the amount of principal and interest on the bonds falling due in the same year.

At June 30, 2011, the Authority had established the required sinking account but did not make the required monthly transfers to the sinking account. In addition, the Authority's net revenues were less than the required 100% of principal and interest falling due during the year because operating expenses exceed revenues.

Details of revenue bonds payable at June 30, 2011 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2011
Airport Authority revenue bonds, 2006A	Jun 1, 2006	4.35-5.05%	June 1, 2017	\$ 105,000-195,000	1,465,000	\$ 965,000
Airport Authority revenue bonds, 2006B	Jun 1, 2006	4.55-5.00%	June 1, 2024	100,000-275,000	1,790,000	1,790,000
Total						<u>\$ 2,755,000</u>

Details of revenue bonds payable at June 30, 2010 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2011
Airport Authority revenue bonds, 2006A	Jun 1, 2006	4.35-5.05%	June 1, 2017	\$ 105,000-195,000	1,465,000	\$ 1,105,000
Airport Authority revenue bonds, 2006B	Jun 1, 2006	4.55-5.00%	June 1, 2024	100,000-275,000	1,790,000	1,790,000
Total						<u>\$ 2,895,000</u>

A summary of the annual revenue bond principal and interest requirements to maturity at June 30, 2011 is as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 150,000	133,070	283,070
2013	160,000	126,170	286,170
2014	170,000	118,650	288,650
2015	185,000	110,490	295,490
2016	195,000	101,518	296,518
2017-2021	1,105,000	358,680	1,463,680
2022-2024	790,000	79,735.00	869,735
Total	<u>\$2,755,000</u>	<u>1,028,313</u>	<u>3,783,313</u>

A summary of the annual revenue bond principal and interest requirements to maturity at June 30, 2010 is as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 140,000	139,440	279,440
2012	150,000	133,070	283,070
2013	160,000	126,170	286,170
2014	170,000	118,650	288,650
2015	185,000	110,490	295,490
2016-2020	1,060,000	409,440	1,469,440
2021-2024	1,030,000	130,493	1,160,493
Total	<u>\$2,895,000</u>	<u>1,167,753</u>	<u>4,062,753</u>

Bank Loan

On July 29, 2010, the Authority entered into a line of credit bank loan for a maximum loan amount of \$1,000,000 to assist with cash flow until certain grant funding is collected. The loan bears interest at 3.5% per annum plus .250% above the U.S. prime rate and matures on July 29, 2011. During the year ended June 30, 2011, the Authority drew down \$170,000 on the loan and repaid \$70,000 of principal, plus interest of \$3,449, leaving a principal balance on the loan of \$100,000 at June 30, 2011.

(5) Pension and Retirement Benefits

The Authority contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Authority is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$12,680, \$10,096 and \$9,253, respectively, equal to the required contribution for each year.

(6) Due from other Governments

The Authority entered into a memorandum of agreement with Pottawattamie County on February 23, 2004, which was amended on July 9, 2007. Pursuant to the agreement, the County is to pay the Authority for improvements made by the Authority to a County road in the amount of \$1,000,000. Payment is to be made in semi-annual installments on July 1 and December 1 each year, beginning July 1, 2006 and ending on or about December 31, 2015. The County made payments in the amount of \$100,000 for each of the years ended June 30, 2011 and 2010. The amount due from the County consists of the following:

	June 30,	
	2011	2010
Current portion	\$ 100,000	100,000
Long-term portion	330,000	460,000
Discount	(26,228)	(39,994)
Total	<u>\$ 403,772</u>	<u>520,006</u>

(7) Related Party Transactions

The Authority contractes with Advanced Air, Inc. to be the fixed base operator (FBO) at the Authority. The President of Advanced Air, Inc. is the daughter of the Executive Director of the Authority. Because the FBO contract expired on June 30, 2010 and the Authority failed to approve contract extensions covering the entire fiscal year ended June 30, 2011, the Authority's FBO performed services without a contract for the periods July 1, 2010 through November 17, 2010 and March 1, 2011 through June 30, 2011. Payments to Advanced Air, Inc. from the Authority for the years ended June 30, 2011 and 2010 were \$1,735 and \$22,698, respectively. In addition, during the year ended June 30, 2011, the Authority had no contract for and received no rent from Advanced Air, Inc. for use of approximately 11,600 square feet of hangar space.

(8) Risk Management

The Authority is exposed to various risks of loss, including those related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance, the Authority assumes liability for any deductibles and claims in excess of coverage limitations. There have been no significant reductions in insurance coverage or settlement amounts exceeding insurance coverage in any of three fiscal years.

(9) Contract Commitments

On October 30, 2009, the Authority entered into a contract for \$1,377,470 with MFT Construction, Inc. for itinerant apron rehabilitation and expansion. There has been one change order totaling \$13,975 issued subsequent to the original contract date, bringing the adjusted contract to \$1,391,445. The project is funded through a grant from the Federal Aviation Authority (FAA). As of June 30, 2011, \$1,141,178 had been expended on the project, leaving a remaining balance of \$250,267.

On September 30, 2010, the Authority entered into a contract for \$964,927 with Iowa Electric Inc. for construction of a wildlife fence. The project is funded through a grant from the FAA. As of June 30, 2011, \$595,872 had been expended on the project, leaving a remaining balance of \$369,055.

(10) Subsequent Events

On September 13, 2011, the Authority received an Administrative Order, Findings of Violation and Order for Compliance regarding noncompliance with Section 309(a)(3) of the Clean Water Act and 33 U.S.C., paragraph 1319(a)(3), from the United States Environmental Protection Agency (EPA). The violations cited by the EPA pertain to the discharge of stormwater associated with industrial activity (excavation and construction of a 5,500-foot runway) and management of stormwater at the construction site in accordance with the Authority's NPDES permit issued by the Iowa Department of Natural Resources (IDNR). The Administrative Order requires the Authority to take corrective action necessary to correct the deficiencies, eliminate and prevent recurrence of the violations cited in the Order within thirty days of the effective date of the Order. On November 8, 2011, the Authority submitted a plan to the EPA outlining a plan to correct the deficiencies, including a schedule for the corrective action. The EPA approved the plan on November 30, 2011.

On August 10, 2010, the Authority entered into a contract for \$484,550 with Tab Construction Company for a Storm Water Construction Project. The project will be funded through a grant awarded on August 17, 2011 by the FAA for a maximum of \$548,673.

On September 2, 2011, the Authority entered into a contract for \$419,563 with Henningsen Construction Inc. for construction of two conventional hangars. The contract will be partially funded through two grants awarded on July 13, 2010 by the Iowa Department of Transportation totaling \$219,178.

Other Supplementary Information

Council Bluffs Airport Authority

Council Bluffs Airport Authority
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Grantor/ Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Division:			
Airport Improvement Program	20.106	3-19-0022-12-2008	\$ 85,900
Airport Improvement Program	20.106	3-19-0022-13-2009	64,177
Airport Improvement Program	20.106	3-19-0022-15-2009	12,825
Airport Improvement Program	20.106	3-19-0022-16-2009	1,184,536
Airport Improvement Program	20.106	3-19-0022-17-2009	643,578
Airport Improvement Program	20.106	3-19-0022-18-2009	<u>42,797</u>
Total			<u><u>\$ 2,033,813</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Council Bluffs Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor’s report.

Council Bluffs Airport Authority



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Council Bluffs
Airport Authority:

We have audited the accompanying financial statements of the Council Bluffs Airport Authority as of and for the year ended June 30, 2011 and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council Bluffs Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Council Bluffs Airport Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs Airport Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Council Bluffs Airport Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Council Bluffs Airport Authority's internal control described in the accompanying Schedule of Findings and Questioned Costs as items II-A-11 through II-D-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items II-E-11 through II-M-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council Bluffs 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters which are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Authority. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Council Bluffs Airport Authority's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Authority's responses, we did not audit the Council Bluffs Airport Authority's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Council Bluffs Airport Authority and other parties to whom the Authority may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Council Bluffs Airport Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 7, 2011



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the Council Bluffs Airport Authority's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Council Bluffs Airport Authority's major federal program for the year ended June 30, 2011. The Council Bluff Airport Authority's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Council Bluffs Airport Authority's management. Our responsibility is to express an opinion on the Council Bluffs Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council Bluffs Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council Bluffs Airport Authority's compliance with those requirements.

In our opinion, the Council Bluffs Airport Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Council Bluffs Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Council Bluffs Airport Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

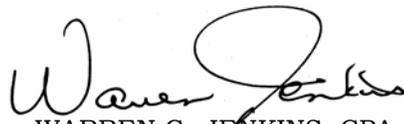
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance we consider to be a significant deficiency which is described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11. 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.

The Council Bluffs Airport Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Council Bluffs Airport Authority's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Council Bluffs Airport Authority and other parties to whom the Council Bluffs Airport Authority may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 7, 2011

Council Bluffs Airport Authority
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Council Bluffs Airport Authority qualified as a low-risk auditee.

Council Bluffs Airport Authority
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among individuals to prevent a single individual from handling duties which are incompatible. For the Authority, one individual approves disbursements and signs checks. In addition, payroll rates are not reviewed by an independent person once they are entered into the system.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Authority should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials.

Response – The Authority policy will be expanded to have an independent person review expenses monthly. The annual salary rates will also be reviewed by an independent person.

Conclusion – Response accepted.

II-B-11 Financial Reporting – During the audit, we identified material amounts of receivables incorrectly recorded in the Authority's financial statements. Adjustments were subsequently made by the Authority to properly reflect these amounts in the financial statements.

Recommendation – The Authority should implement procedures to ensure financial transactions are properly recorded in the financial statements.

Response – The material amounts mentioned were adjustments made by the previous audit firm. Procedures are in effect to properly record financial transactions.

Conclusion – Response acknowledged. The adjustments referred to were for fiscal year 2011 receivables incorrectly recorded. Procedures should be implemented to ensure receivables are properly recorded in the future.

II-C-11 Monthly Bank and General Ledger Reconciliation – The Authority contracts with an accounting firm to record revenue and expense activity and to perform monthly bank to book reconciliations. However, the Authority does not have procedures in place to review the monthly reconciliations for accuracy.

Recommendation – The Authority should establish procedures to ensure the monthly reconciliations are reviewed by Authority management monthly and such review is documented.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – The bank reconciliations are performed by our independent CPA who makes sure the activity is accurately reported. Bank reconciliations are given to each board member, and they are reviewed at each board meeting. The CPA firm has a representative at each board meeting to discuss questions.

Conclusion – Response acknowledged. The Authority should establish procedures to ensure specifics of each bank reconciliation, including cancelled checks and reconciling items, are reviewed for propriety by Authority management.

- II-D-11 Reconciliation of Billings, Collections and Delinquent Accounts – Documentation to support reconciliation of hangar rent billings, collections and delinquent accounts were not provided during our audit.

Recommendation – Procedures should be established to reconcile hangar rent billings, collections and delinquent accounts monthly. The Authority should review the reconciliations and monitor delinquencies.

Response – Hangar rents and billings are reconciled monthly. The policy of the Authority is to begin removal of any lessee from their rental unit if they are 30 days delinquent. A series of letters is sent to delinquent accounts.

Conclusion – Response accepted.

- II-E-11 Receipts – An independent person does not open the mail and prepare an initial listing of collections.

Recommendation – To provide control over the proper collection and recording of all receipts, an independent person should open the mail and prepare an initial listing of receipts. This listing should periodically be reconciled to the general ledger and to deposits by an independent person.

Response – We concur the Executive Director or the Office Manager opens the mail. An independent person will periodically open the mail, log all receipts and reconcile the list to the general ledger.

Conclusion - Response accepted.

- II-F-11 Disbursements – Policies do not prohibit blank checks from being signed in advance. Invoices for gas and other credit card purchases do not always document the purpose for the expenditures in enough detail to allow a reviewer to ascertain the public benefit derived from the expenditures. For example, documentation was not available to determine which vehicle was fueled, the reason for trips outside of Council Bluffs and who stayed in a hotel when more than one person is indicated on the hotel receipt. Also, although checks are prenumbered, a log is not maintained to account for the numerical sequence of checks issued.

Recommendation – Checks should only be signed when the completed check and appropriate supporting documentation are available for review. Prior to signing, the checks and supporting documentation should be reviewed for propriety. The Authority should establish policies requiring invoices for credit card purchases

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

document the purpose of the purchase. To strengthen controls over disbursements, the numerical sequence of checks, both issued and unissued, should be periodically accounted for.

Response – All checks will be accounted for numerically monthly. There will be no checks signed in advance. All credit card expenditures will be detailed for approval, i.e. which vehicle is involved, the individual who fueled the vehicle and the reason for the expenditure. All travel will be detailed as to purpose and individuals involved.

Conclusion - Response accepted.

II-G-11 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the Authority's computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the Authority's computer based systems were noted:

The Authority does not have written policies for:

- Requiring staff to log off unattended computers.
- Requiring unique user names and passwords for all personnel.
- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.
- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.

Also, the Authority does not have a written disaster recovery plan.

Recommendation – The Authority should develop written policies addressing the above items in order to improve the Authority's control over computer based systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, copies of user documentation and the disaster plan itself should be maintained at an off-site location.

Response – The Authority will adopt a written policy for their computer-based system, including a disaster recovery plan.

Conclusion - Response accepted.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-H-11 Accounting Policies and Procedures Manual – The Authority does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personal.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – The Authority will adopt a written accounting policy and procedures manual.

Conclusion – Response accepted.

II-I-11 Capital Assets – The Authority has not established a formal written capital asset policy establishing capitalization criteria and thresholds and asset useful lives. A physical inventory of capital assets is not performed periodically by an employee having no responsibility for maintaining the assets records.

Recommendation – The Authority should develop written capital asset policies establishing capitalization criteria and thresholds and asset useful lives and requiring periodic inspection of capital assets (reconciled to capital asset listings) by an employee having no responsibility for maintaining the capital asset records.

Response – The Authority will adopt a written capital asset policy.

Recommendation – Response accepted.

II-J-11 Accounts Receivable Write-off – During the year, three receivables totaling \$7,367 were written off. The write offs were not documented in the Board minutes as being approved by the Authority Board.

Recommendation – Write-offs of uncollectible accounts should be approved by the Authority Board prior to being written off.

Response – The mentioned accounts receivable written off were approved by the Authority Board. This should have been reflected in the minutes book. The Authority will review the minutes closer to ensure such items are mentioned.

Conclusion – Response accepted.

II-K-11 Salary and Wage Approvals – While the Authority annually approves percentage wage increases for Authority staff and records the increases in the minutes record, the minutes do not reflect the actual salary and/or hourly rate of pay for each employee.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – To ensure employees are paid the salary and/or hourly rate intended and approved by the Authority, the minutes record should reflect the total approved salary and/or hourly rate for each employee, not just the percentage increase.

Response – The minutes will reflect the actual approved salary of the personnel.

Conclusion – Response accepted.

- II-L-11 Credit Cards – The Authority provides a credit card to the Executive Director for use while on Authority business. The Authority has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

Recommendation – The Authority should adopt a formal written policy regulating the use of the Authority's credit card. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The Authority will adopt a formal written policy regarding credit card usage.

Conclusion – Response accepted.

- II-M-11 Fuel Inventory – The Authority maintains an inventory of unleaded and diesel fuel for Authority owned vehicles which provide maintenance and security to the airport. Fuel and mileage logs are not maintained for each Authority vehicle and completed each time a vehicle is fueled. Accordingly, no record exists to reconcile fuel purchased and used to fuel on hand or to ensure fuel is used only for Authority vehicles (see also finding IV-H-11 below).

Recommendation – The Authority should develop policies and procedures to require complete and accurate fuel and mileage logs be maintained for all Authority vehicles. Policies should also require the logs be reviewed periodically to ensure fuel is used only for Authority vehicles and recorded use is periodically reconciled to purchases and amounts on hand.

Response – A full log will be established to control all fuel going into and out of the storage facility. Periodic inventory of fuel on hand will be supervised by an independent person.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Council Bluffs Airport Authority
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

III-A-11 Airport Improvement Project Documentation – During fiscal years 2006 and 2007, the Authority obtained Federal Aviation Authority (FAA) approval for two runway projects, number 3-19-0022-12-2006 to construct runway 18/36 and number 3-19-0022-13-2007 to rehabilitate runway 14/32. The Authority was awarded an FAA Airport Improvement grant for each project. In accordance with FAA guidelines, expenditures and reimbursements for each project/grant award should be separately identified to the appropriate project. Since inception of these projects, the Authority, rather than maintain separate project accounts, has commingled the expenditures and grant reimbursements for the two projects. According to FAA officials, the FAA is aware of this error and is working with the Authority to correct the accounting for these two projects. The FAA represented it has reviewed the project expenses related to the two projects and is confident all work was appropriate and reimbursable under the Airport Improvement Program and the Authority has not, to date, been reimbursed more than the maximum allowed on the two projects in total.

Recommendation – The Authority should continue to work with the FAA to resolve the accounting errors for the two runway projects.

Response – The Airport Authority will continue to work closely with the FAA to identify all expenditures properly by grant. We believe at this date all expenses have been properly identified and assigned to the proper grant.

Conclusion – Response accepted.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Questionable Expenses – Certain expenses we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenses are detailed as follows:

Paid To	Purpose	Amount
Hy-Vee	Beer, wine, pop, cups for open house	\$ 198
Barley's Tip Top	Food and catering service for open house	851

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Authority should establish a policy prohibiting the purchase of alcoholic beverages. The Authority should determine and document the public purpose served by the remaining expenditures before authorizing any further payments. If this practice is continued, the Authority should establish written policies and procedures, including the requirement for proper documentation.

Response – The Authority will adopt a policy prohibiting the purchase of any alcoholic beverages. All other purchases for “open house” or “chamber events” will be approved at a Board meeting.

Conclusion – Response acknowledged. The Authority should also determine and document the public purpose served prior to authorizing payments for open houses, chamber events and other expenses which may be questionable as to public purpose.

IV-B-11 Travel Expenses – No expenditures of Authority money for travel expenses of spouses of Authority officials or employees were noted.

IV-C-11 Authority Minutes – Except as noted in II-J-11 and II-K-11 above and item IV-I-11 below, no transactions were found that we believe should have been approved in the Authority minutes but were not.

IV-D-11 Business Transactions – Business transactions between the Authority and Authority officials and employees are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Danny Smith, Executive Director, daughter is president of Advanced Air, Inc., Fixed Based Operator (FBO) for the Authority	Snow removal	\$ 1,130
	Van repair	483
	Safety switch	69
	Soap dispenser reimbursement	53
	Total	\$ 1,735

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

In addition, the Authority provided Advanced Air, Inc. use of approximately 11,600 square feet of airport hangar and certain terminal space at no charge during fiscal year 2011. Effective July 1, 2011, a property use agreement was signed by the Authority and Advanced Air, Inc. requiring rent payments of \$3,280 per month for a period of 60 months. It is unclear how long prior to fiscal year 2011 Advanced Air, Inc. received free use of the hangar.

Recommendation – These transactions may represent a conflict of interest. The Authority should consult legal counsel to determine the disposition of this matter.

Response – The FBO is not an employee of the Airport Authority. The Authority board independently negotiated a lease with the FBO in exchange for listed services to be provided by the FBO. There was never any month that the FBO was given any space free of charge. Legal counsel has been consulted regarding the FBO lease and/or contract. It was determined that this lease does not represent a conflict of interest.

Conclusion - Response acknowledged. Article V of the FBO agreement between the Authority and Advanced Air, Inc. which expired on March 31, 2011 includes the following provision, “As consideration for the services to be provided as described herein, it is agreed that the value of the FBO’s service to the Authority as FBO for the Council Bluffs Airport is \$600. In lieu of payment by the Authority to FBO, Authority has agreed to provide FBO with space in the terminal, and access to and use of space in the hangar...”. The agreement does not specify whether the \$600 is a monthly or annual value of the FBO’s service. Because the property use agreement effective July 1, 2011 provides for monthly rent payments from the FBO of \$3,280, or \$39,360 annually, for use of the terminal and hangar space, it is unclear how the \$600 value (whether per month or annually) assigned to the space during fiscal year 2011 was a fair exchange or represents an arm’s length transaction. In addition, one of the services specified in the agreement to be provided by the FBO was snow removal. It is unclear why, as noted in the table above, the Authority paid the FBO \$1,130 for snow removal. The Authority should consult legal counsel to determine the disposition of this matter.

IV-E-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Authority’s investment policy were noted.

IV-F-11 Revenue Bonds – The Authority’s revenue bond resolutions, Section 17(b), require the Authority establish a sinking account for the payment of principal and interest on the revenue bonds. Monthly transfers into the sinking account are required, sufficient to pay the full installment of principal and interest coming due on the next interest and/or interest and principal date. While the Authority has established the required sinking account, no transfers were made to the account during the fiscal year, as required. In addition, the Authority’s revenue bond resolutions, Section 19(b), require the Authority establish, impose, adjust and provide for the collection of rates to be charged by the Authority that produce net operating revenues equal to at least 100% of the principal and interest coming due in each fiscal year. The Authority’s fiscal year 2011 net operating expenses (expenses exceed revenues) of \$(495,283) were less than 100% of the \$279,440 revenue bond principal and interest due during fiscal year 2011.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The Authority should make monthly transfers to the sinking account as required. The Authority should consult bond counsel to determine the disposition of the net revenue violation.

Response – The Authority will consult with bond counsel regarding all sinking fund transactions and comply with their recommendations.

Conclusion – Response accepted.

IV-G-11 Authority Provided Vehicle – The Authority provides a vehicle to the Executive Director for business use. Pursuant to the Internal Revenue Service (IRS) Fringe Benefit Guide, Publication 15-B, personal vehicle use is defined as “Commuting between residence and work station, and vacation, weekend use, or use by spouse or dependents”. Also in accordance with the IRS Fringe Benefit Guide, personal use of employer provided vehicles is a taxable benefit to the employee. If the employee provides records to substantiate the personal versus business use of the vehicle, only the personal use is taxable. However, in the absence of records substantiating use, the value of all use of the vehicle represents wages to the employee.

The Authority does not have a policy governing the allowable use of the Authority provided vehicle. In addition, the Authority does not require personal versus business use be substantiated and the value of the use of the Authority provided vehicle is not included in the Executive Director’s taxable wages subject to applicable state and federal tax withholding, as required.

Recommendation – The Authority should contact the IRS to determine the disposition of this matter, including whether the Authority should review and include past use of the vehicle as part of the Executive Director’s wages and pay the appropriate state and federal taxes on the wages. The Authority should comply with IRS guidelines in the future and include the value of the Executive Director’s substantiated personal use or unsubstantiated personal and business use of the Authority provided vehicle in taxable wages, as required. Also, in accordance with an Attorney General’s opinion dated May 13, 1993, personal use should be limited and incidental to the business purposes for which the vehicle is provided.

Response – A vehicle is furnished to the Executive Director for the convenience of the Airport Authority. The Authority has in the past reviewed its policy regarding said vehicle. They did a study and decided to charge the executive director \$100 per month for personal use based on that study. The Authority will conduct a new study to determine if this policy needs updating.

Conclusion – Response acknowledged. The Authority should contact the IRS to determine whether past use of the Authority provided vehicle by the Executive Director should be taxed as wages. Also, IRS Publication 15-B prescribes rules that must be used to determine the value of a fringe benefit provided to an employee. The value of the fringe benefit calculated using IRS rules, less any amount paid by the employee for the benefit, must be included in taxable wages for that employee. The Authority should follow IRS prescribed rules for determining the value of this fringe benefit, including the amount to be included as taxable wages.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-H-11 Unsubstantiated Vehicle Use - The Authority provides a 2007 Ford Explorer to the Executive Director for business use. While the Authority maintains an inventory of unleaded fuel on site at the airport, the Executive Director chooses to fill the Authority provided vehicle at local gas stations in Council Bluffs. According to the Executive Director, these stations are close to his residence and are more convenient for filling the vehicle than fueling at the Airport. The Executive Director charges these local gas purchases to an Authority issued credit card which is in both the Authority and the Executive Director's name. No other employees have access to this credit card. No mileage logs are required or maintained to document miles and locations driven to and the gas purchase invoices do not document the vehicle being fueled. We reviewed the credit card transactions for the period June 2010 through June 2011 and noted 55 gas purchases ranging from multiple purchases on the same day to purchases 18 days apart and averaging \$48 per purchase, summarized as follows:

Transaction Date	Number of Days to Next Fill	Vendor	Amount	Location
6/6/2010	5	U Stop 21	\$ 44.71	Council Bluffs
6/11/2010	14	U Stop 21	39.87	Council Bluffs
6/25/2010	1	Eddys	49.42	Council Bluffs
6/26/2010	3	U Stop 21	37.15	Council Bluffs
6/29/2010	3	U Stop 21	50.08	Council Bluffs
			<u>221.23</u>	
7/2/2010	4	U Stop 21	48.47	Council Bluffs
7/6/2010	5	Eddys	52.53	Council Bluffs
7/11/2010	4	U Stop 21	44.97	Council Bluffs
7/15/2010	5	Eddys	43.58	Council Bluffs
7/20/2010	4	Eddys	40.99	Council Bluffs
7/24/2010	3	U Stop 21	42.57	Council Bluffs
7/27/2010	6	U Stop 21	43.24	Council Bluffs
			<u>316.35</u>	
8/2/2010	4	Eddys	42.33	Council Bluffs
8/6/2010	3	Eddys	51.28	Council Bluffs
8/9/2010	6	Eddys	53.10	Council Bluffs
8/15/2010	6	Eddys	53.09	Council Bluffs
8/21/2010	6	U Stop 21	40.28	Council Bluffs
8/27/2010	5	U Stop 21	41.53	Council Bluffs
			<u>281.61</u>	
9/1/2010	3	U Stop 21	43.57	Council Bluffs
9/4/2010	6	U Stop 21	44.23	Council Bluffs
9/10/2010	4	Eddys	50.57	Council Bluffs
9/14/2010	4	U Stop 21	48.73	Council Bluffs
9/18/2010	6	Eddys	45.63	Council Bluffs
9/24/2010	3	U Stop 21	47.14	Council Bluffs
9/27/2010	3	Gas Mart	34.91	St. Joseph, MO (Meeting in Kansas City)
9/30/2010	13	U Stop 21	53.97	Council Bluffs
			<u>368.75</u>	

Council Bluffs Airport Authority
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Transaction Date	Number of Days to Next Fill	Vendor	Amount	Location
10/13/2010	5	Eddys	54.11	Council Bluffs
10/18/2010	6	U Stop 21	59.26	Council Bluffs
10/24/2010	5	U Stop 21	48.51	Council Bluffs
10/29/2010	4	U Stop 21	44.36	Council Bluffs
			<u>206.24</u>	
11/2/2010	5	Eddys	51.07	Council Bluffs
11/7/2010	5	U Stop 21	52.27	Council Bluffs
11/12/2010	4	U Stop 21	51.73	Council Bluffs
11/16/2010	4	U Stop 21	38.99	Council Bluffs
11/20/2010	5	U Stop 21	44.99	Council Bluffs
11/25/2010	2	U Stop 21	49.01	Council Bluffs
11/27/2010	3	U Stop 21	37.92	Council Bluffs
11/30/2010	5	U Stop 21	47.00	Council Bluffs
			<u>372.98</u>	
12/5/2010	5	U Stop 21	47.24	Council Bluffs
12/10/2010	6	Eddys	54.99	Council Bluffs
12/16/2010	10	U Stop 21	47.44	Council Bluffs
12/26/2010	3	U Stop 21	58.08	Council Bluffs
12/29/2010	0	Eddys	45.44	Council Bluffs
12/29/2010	4	U Stop 21	47.03	Council Bluffs
			<u>300.22</u>	
1/2/2011	4	U Stop 21	51.03	Council Bluffs
1/6/2011	5	Eddys	49.13	Council Bluffs
1/11/2011	4	U Stop 21	51.57	Council Bluffs
1/15/2011	5	D.S. Express	49.39	Council Bluffs
1/20/2011	5	U Stop 21	55.11	Council Bluffs
1/25/2011	1	U Stop 21	48.56	Council Bluffs
1/26/2011	5	Ampride	55.84	Council Bluffs
1/31/2011	4	U Stop 21	45.48	Council Bluffs
			<u>406.11</u>	
2/4/2011	6	U Stop 21	52.21	Council Bluffs
2/10/2011	18	U Stop 21	49.56	Council Bluffs
2/28/2011		U Stop 21	45.91	Council Bluffs
			<u>147.68</u>	
		Total	<u>\$ 2,621.17</u>	

Fifteen of the gas purchases noted above were five days after the previous purchase. Based on information from Edmund's.com, we determined the size of the gas tank on a 2007 Ford Explorer and the average City miles which can be driven on one tank of gas. Based on this information, we determined the Executive Director would need to drive approximately 60 miles per day to use a tank of gas in five days. More than 60 miles per day would need to be driven for the twenty six instances in which gas was purchased less than five days after the previous purchase. Because mileage logs are not required and the invoices for gas purchases do not indicate which vehicle the gas was purchased for, we were unable to determine the reasonableness of the miles driven each day by the

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Executive Director or whether gas was purchased only for the Authority provided vehicle. Accordingly, we were unable to determine the propriety of the gas purchases.

For the period March 1, 2011 through June 30, 2011, no gas purchases were charged to the Authority's credit card. The Executive Director represented to help reduce of Authority's gas costs he was filling the Authority vehicle from the fuel inventory maintained at the airport during this time.

Recommendation – As previously noted in item IV-A-11 above and pursuant to Article III, Section 31 of the Constitution of the State of Iowa, public funds may only be spent for the public benefit. Pursuant to this Constitutional criteria and to achieve accountability and transparency, the Authority should consult legal counsel regarding the propriety of the gas purchases, including the possibility of requiring reimbursement from the Executive Director for unsubstantiated purchases. In addition, the Authority should establish policies requiring mileage logs be maintained to document miles and locations driven in Authority owned vehicles to substantiate business use.

Response – A policy will be implemented to establish a log for all vehicles. As noted in II-F, II-L and II-M, logs will be kept and a credit card policy will be adopted to record who used the vehicles, what vehicle was used and what the vehicle was used for. Any unsubstantiated purchases will be reimbursed.

Conclusion – Response acknowledged. The Authority should also consult legal counsel regarding the propriety of the noted past gas purchases, including requiring reimbursement from the Executive Director for any unsubstantiated purchases.

IV-I-11 Line of Credit – On July 29, 2010, the Authority entered into a line of credit bank loan for a maximum loan amount of \$1,000,000. The minutes record does not reflect approval of this loan agreement by the Authority.

Recommendation – The Authority should establish procedures to ensure all debt is properly approved by the Authority.

Response – The Board did approve the line of credit originally. The July 29, 2010 date was a renewal/extension of the original line of credit. This was also approved by the Board but failed to get mentioned in the written minutes.

Conclusion – Response acknowledged. The Authority should ensure the minutes record properly reflects approval of loan agreements.

IV-J-11 Credit Card Purchase – On August 8, 2010, the Authority paid a credit card bill which included \$60 for a subscription. The invoice indicated the purchase was for a one year subscription and included a \$30 mail in rebate. We were unable to determine whether the rebate was applied for and, if so, whether it was returned to and deposited by the Authority.

Recommendation – The Authority should ensure all rebates for products purchased are applied for and properly received and deposited.

Response – The Authority will instruct all personnel to inform the Office Manager of all rebates available.

Conclusion – Response accepted.

Council Bluffs Airport Authority

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-K-11 Fixed Base Operator Contract – The Authority contracts with Advanced Air, Inc. as the fixed base operator for the airport. A signed contract with Advanced Air, Inc. was not in place for the periods July 1, 2010 through November 17, 2010 and January 1, 2011 through February 15, 2011.

Recommendation – The Authority should ensure a signed contract, including terms and conditions for operating the airport, is in place at all times.

Response – The Authority will have a signed written contract with Advanced Air, Inc. or any other FBO at all times.

Conclusion – Response accepted.

IV-L-11 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Authority to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The Authority retains electronic images of the front of canceled checks, but not the back of canceled checks.

Recommendation – The Authority should retain an image of both the front and back of each canceled check as required.

Response – The Authority will contact their bank to request copies of the back of each cancelled check.

Conclusion - Response accepted.

Council Bluffs Airport Authority

Staff

This audit was performed by:

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