

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND  
QUESTIONED COSTS  
JUNE 30, 2012 AND 2011

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

TABLE OF CONTENTS

	<u>PAGE</u>
Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 7
FINANCIAL STATEMENTS:	
Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	9 - 10
Notes to Financial Statements	11 - 15
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	17
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	18 - 21
Independent Auditors' 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	22 - 25
Schedule of Findings and Questioned Costs	26 - 29

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

## OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
Kent Wenck	Chairman	2016
Mike Fox	Treasurer	2014
Mike O'Neal	Secretary	2016
Neal Rogge	Board Member	2014
Laverne Birch	Board Member	2016
Brian Lauck	Airport Director	2013
Karen Aduddell	Clerk	Indefinite

# BURKHARDT & DAWSON

## Certified Public Accountants

DONNA R. BURKHARDT, CPA  
LAURA M. DAWSON, CPA

793 North Second Street  
P.O. Box 1065  
Cherokee, Iowa 51012-1065

Tele: 712-225-5755  
Fax: 712-225-5756  
E-mail: [cpa@ncn.net](mailto:cpa@ncn.net)  
[www.burkhardtdawsoncpas.com](http://www.burkhardtdawsoncpas.com)

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2012 and 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 audits.

We conducted our audits 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 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 audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Cherokee Aviation Authority as of June 30, 2012 and 2011, and the changes in its cash basis financial position for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2013 on our consideration of the Cherokee Aviation 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.

Our audit was conducted for the purpose of forming an opinion on the Cherokee Aviation Authority's basic financial statements. The supplementary information included on page 17, including 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Cherokee Aviation Authority's basic financial statements. Management's Discussion and Analysis on pages 4 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BURKHARDT & DAWSON, CPA's

  
Certified Public Accountants

January 3, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee Aviation Authority provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Cherokee Aviation Authority is for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- \* The Authority's operating receipts increased 107% or approximately \$223,000, from fiscal 2011 to fiscal 2012.
- \* The Authority's operating disbursements increased 130%, or approximately \$186,000, from fiscal 2011 to fiscal 2012.
- \* Cash basis net assets decreased 23%, or approximately \$66,000, from June 30, 2011 to June 30, 2012.

### USING THIS ANNUAL REPORT

The Authority has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Authority's financial activities.

- The Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets present information on the Authority's operating receipts and disbursements, non-operating receipts and disbursements and whether the Authority's cash basis financial position has improved or deteriorated as a result of the years' activities.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.
- Supplementary Information - The Schedule of Expenditures of Federal Awards provides details of the federal program benefiting the Authority.

#### FINANCIAL ANALYSIS OF THE AUTHORITY

##### *Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets*

The purpose of the statements is to present the receipts received by the Authority and the disbursements paid by the Authority, both operating and non-operating. The statements also present fiscal snapshots of the cash balance at year end. Over time, readers of the financial statements are able to determine the Authority's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are received for hangar rentals, fuel sales, and tax revenues of the Authority. Operating disbursements are disbursements paid to operate the airport. Non-operating receipts and disbursements are for interest on investments, grant receipts, loan proceeds, insurance proceeds, equipment purchases, capital projects, and grant expenses. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2012 and June 30, 2011 is presented below:

	<u>2012</u>	<u>2011</u>
CHANGES IN CASH BASIS NET ASSETS		
Operating Receipts:		
Tax Revenues	\$ 86,340	\$ 82,937
Hangar Rent	17,590	23,017
Fuel Sales	315,082	98,805
Land Rent and Other Income	<u>12,818</u>	<u>4,354</u>
TOTAL OPERATING RECEIPTS	<u>\$ 431,830</u>	<u>\$209,113</u>
Operating Disbursements:		
Fuel Purchased for Resale	\$ 242,899	\$ 63,807
Contract Services Expense	33,707	33,319
Others	<u>52,437</u>	<u>45,730</u>
TOTAL OPERATING DISBURSEMENTS	<u>\$ 329,043</u>	<u>\$142,856</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 102,787</u>	<u>\$ 66,257</u>

	<u>2012</u>	<u>2011</u>
Non-Operating Receipts (Disbursements):		
Interest on Investments	\$ 4,022	\$ 4,219
Grant Receipts - Drainage Ditch Project	106,161	41,246
Loan Proceeds	300,000	0
Insurance Proceeds from Hail Damage	214,053	10,079
Capital Improvements and Related		
Engineering Fees	0	(55,275)
Grant Expenses - Drainage Ditch Project	(111,425)	0
Grant Expenses - Land and Building Acquisition	(470,304)	0
Capital Improvements to Repair Hail Damage	(210,611)	0
Equipment Purchases	(820)	(10,090)
	<u>\$ (168,924)</u>	<u>\$ (9,821)</u>
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ (168,924)</u>	<u>\$ (9,821)</u>
NET CHANGE IN CASH BASIS NET ASSETS	\$ (66,137)	\$ 56,436
CASH BASIS NET ASSETS BEGINNING OF YEAR	<u>283,108</u>	<u>226,672</u>
CASH BASIS NET ASSETS END OF YEAR	<u>\$ 216,971</u>	<u>\$283,108</u>
Cash Basis Net Assets:		
Restricted for: Capital Reserve Fund	\$ 151,192	\$206,027
Unrestricted	<u>65,779</u>	<u>77,081</u>
TOTAL CASH BASIS NET ASSETS	<u>\$ 216,971</u>	<u>\$283,108</u>

In fiscal year 2012, operating receipts increased by \$222,717, or 107%, from fiscal year 2011. The increase was primarily a result of an increase in fuel sales in fiscal year 2012. In fiscal year 2012, operating disbursements increased by \$186,187, or 130%, from fiscal year 2011. The increase in disbursements was primarily due to increases in fuel purchases.

A portion of the Authority's net assets of \$151,192 (70%), is restricted as of June 30, 2012 for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining net assets, \$65,779 (30%), are unrestricted net assets which can be used to meet the Authority's obligations as they come due. Restricted net assets decreased \$54,835, or (27%) during the year. The decrease was due to funds being used on two capital improvement grant projects. Unrestricted net assets decreased \$11,301, or (15%), during the year due to various changes in grant receipts versus grant expenses.

#### LONG TERM DEBT

At June 30, 2012 and June 30, 2011, the Authority had no long term debt outstanding.

#### SHORT TERM DEBT

At June 30, 2012, the Authority had \$300,000 in a short-term loan outstanding to purchase land, an increase of \$300,000 from June 30, 2011. The loan will be repaid when grant revenue is received. Additional information about the Authority's short-term debt is presented in Note 7 to the financial statements.

## ECONOMIC FACTORS

The financial position of the Authority did not improve in the current fiscal year as construction and relocation projects decreased net assets. However, fuel purchases and sales increased significantly. The current condition of the economy in the state continues to be a concern for Authority officials. Some of the realities that may potentially become challenges for the Authority to meet are:

- \* Facilities require constant maintenance and upkeep.
- \* Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Authority anticipates the current fiscal year will be one of transition as it continues to make important decisions regarding the future expansion plans of the Airport.

## CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee Aviation Authority, 1201 South Second Street, Cherokee, Iowa 51012.

**Financial Statements**

CHEROKEE AVIATION AUTHORITY  
 CHEROKEE, IOWA  
 STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BASIS NET ASSETS  
 YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>OPERATING RECEIPTS:</b>		
Tax Revenues	\$ 86,340	\$ 82,937
Hangar Rent	17,590	23,017
Fuel Sales	315,082	98,805
Land Rent and Other Income	<u>12,818</u>	<u>4,354</u>
<b>TOTAL OPERATING RECEIPTS</b>	<b><u>\$ 431,830</u></b>	<b><u>\$ 209,113</u></b>
<b>OPERATING DISBURSEMENTS:</b>		
Fuel Purchased for Resale	\$ 242,899	\$ 63,807
Bank Charges and Check Printing	91	34
Miscellaneous Fees	517	501
Legal Fees	0	451
Audit Fees	2,950	2,675
Dues, Memberships	320	320
Licenses and Permits	9	18
Travel and Conference Fees	250	418
Lease Expense	100	100
Grounds and Buildings Maintenance	12,661	7,000
Fuel Tank Maintenance	520	1,041
Contract Service Expense	33,707	33,319
Fuel Commissions	11,331	6,235
Insurance Expense	10,748	10,588
Fuel for Equipment	1,790	2,737
Equipment Maintenance	4,275	6,295
Utilities - Gas	534	798
Electricity	2,954	3,741
Telephone	1,603	1,343
Water	398	347
Internet	528	518
Office Supplies	12	11
Miscellaneous Supplies	206	205
Postage	308	202
Other Expenses	<u>332</u>	<u>152</u>
<b>TOTAL OPERATING DISBURSEMENTS</b>	<b><u>\$ 329,043</u></b>	<b><u>\$ 142,856</u></b>
<b>EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS</b>	<b><u>\$ 102,787</u></b>	<b><u>\$ 66,257</u></b>

CHEROKEE AVIATION AUTHORITY  
 CHEROKEE, IOWA  
 STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BASIS NET ASSETS  
 YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):		
Interest on Investments	\$ 4,022	\$ 4,219
Grant Receipts - Drainage Ditch Project	106,161	41,246
Loan Proceeds	300,000	0
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Grant Expenses - Land and Building Acquisition	(470,304)	0
Capital Improvements to Repair Hail Damage	(210,611)	0
Equipment Purchases	<u>(820)</u>	<u>(10,090)</u>
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ (168,924)</u>	<u>\$ (9,821)</u>
NET INCREASE (DECREASE) IN CASH BASIS NET ASSETS	<u>\$ (66,137)</u>	<u>\$ 56,436</u>
CASH BASIS NET ASSETS - BEGINNING OF YEAR	<u>283,108</u>	<u>226,672</u>
CASH BASIS NET ASSETS - END OF YEAR	<u>\$ 216,971</u>	<u>\$ 283,108</u>
CASH BASIS NET ASSETS:		
Restricted for:		
Capital Reserve Fund	\$ 151,192	\$ 206,027
Unrestricted	<u>65,779</u>	<u>77,081</u>
TOTAL CASH BASIS NET ASSETS	<u>\$ 216,971</u>	<u>\$ 283,108</u>

See accompanying notes to financial statement

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Cherokee Aviation Authority was formed in 2003 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Authority is to operate and maintain an airport and hangars in Cherokee County on behalf of the units of government, which are members of the Authority.

The governing body of the Authority is a Board of Directors. The City of Cherokee appoints two Board members who shall be residents of the City of Cherokee, Iowa; and, Cherokee County appoints two Board members who shall be residents of the unincorporated territory of Cherokee County, Iowa. One member of the Board shall be a resident of the unincorporated territory of Cherokee County and selected by the Cherokee Aviation Authority Board with approval by the Board of Supervisors and the Cherokee City Council. Each member of the Board has one vote.

A. REPORTING ENTITY - For financial reporting purposes, the Cherokee Aviation 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 Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. BASIS OF PRESENTATION - The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

C. BASIS OF ACCOUNTING - Cherokee Aviation Authority maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Authority are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Authority in accordance with U.S. generally accepted accounting principles.

D. RESTRICTED FUNDS - Restricted funds are set aside for payment of future capital improvements. The amended agreement with the City of Cherokee and Cherokee County requires 40% of the tax levy to be put in a capital reserve fund. The original agreement required 60%, but this was amended to 40% per a September 14, 2004 agreement for a two year period. As of March 2007, this amendment will be effective for the life of the 28E Agreement. As of June 30, 2012, part of the restricted funds have been used to pay for grant project expenses. The restricted funds will be reimbursed when grant revenue is received. During June 30, 2012 and 2011 required deposits were made to the restricted funds accounts.

E. DATE OF MANAGEMENT'S REVIEW - Management has evaluated subsequent events through January 3, 2013, the date which the financial statements were issued.

NOTE 2 - CASH AND INVESTMENTS:

The Authority's deposits in banks at June 30, 2012 and 2011 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.

At June 30, 2012 and 2011 the Authority had certificates of deposit.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 3 - RISK MANAGEMENT:

The Authority is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Authority's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Authority's contributions to the Pool for the years ended June 30, 2012 and 2011 were \$4,004 and \$3,878, respectively.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 3 - RISK MANAGEMENT - CONTINUED:

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of \$1,500,000, pollution liability on underground tanks in the amount of \$1,000,000, and an employee blanket crime bond in the amount of \$50,000. The Authority assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 4 - AIRPORT OPERATOR CONTRACT:

The Authority has entered into a contract with a manager for the operation of the airport. Under the contract, the contractor is to operate the airport site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools and equipment necessary for operation. For these services, the operator was paid \$30,900 and \$30,900 during the years ended June 30, 2012 and 2011, respectively, plus commissions based on fuel sales of \$11,331 and \$6,235, respectively.

NOTE 5 - RELATED PARTIES:

The clerk and the board chairman are siblings.

The clerk is employed at State Savings Bank. The Authority has bank accounts, certificate of deposits and a loan at State Savings Bank.

Brian Lauck, Airport Director and owner of Lauck Aviation, purchased fuel from the Authority of \$6,317 and \$6,774 for the years ended June 30, 2012 and 2011, respectively.

NOTE 6 - RENT INCOME:

The Authority has a verbal operating lease on 72 acres of farm ground with an unrelated party. The lease agreement is negotiated annually with the annual payment being made in the fall. One stipulation is that the tenant is required to plant low crop. The cost of this land is recorded by the City of Cherokee, since they own the land.

Land rental income resulted in income of \$4,000 and \$4,000, for the years ended June 30, 2012 and 2011, respectively.

NOTE 7 - SHORT-TERM NOTE PAYABLE:

During the year ended June 30, 2012, Cherokee Aviation Authority obtained a loan for \$300,000 from State Savings Bank with an interest rate of 4.0%. It originated April 24, 2012 and is due April 24, 2013. The balance at June 30, 2012 was \$300,000. The terms of the loan require the loan to be repaid from federal grant reimbursements.

NOTE 8 - SUBSEQUENT EVENTS:

The Authority signed a grant agreement for \$534,542 in August 2012 for the Land Acquisition Project. The project had been started prior to June 30, 2012. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable project costs. Partial reimbursement of \$452,678 was received in October 2012.

**SUPPLEMENTARY INFORMATION**

CHEROKEE AVIATION AUTHORITY  
 CHEROKEE, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2012

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>PROJECT NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0099-08-2011	\$105,853
Airport Improvement Program	20.106	3-19-0099-09-2012	<u>423,274</u>
Total			<u>\$529,127</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Cherokee Aviation Authority and is presented in conformity with an other comprehensive 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 amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

# BURKHARDT & DAWSON

## Certified Public Accountants

DONNA R. BURKHARDT, CPA  
LAURA M. DAWSON, CPA

793 North Second Street  
P.O. Box 1065  
Cherokee, Iowa 51012-1065

Tele: 712-225-5755  
Fax: 712-225-5756  
E-mail: [cpa@ncn.net](mailto:cpa@ncn.net)  
[www.burkhardtdawsoncpas.com](http://www.burkhardtdawsoncpas.com)

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated January 3, 2013. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audits 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

The management of Cherokee Aviation Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Cherokee Aviation 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 an opinion on the effectiveness of Cherokee Aviation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation 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 weaknesses 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.

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 a material misstatement of Cherokee Aviation Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 through II-C-12 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Aviation 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 audits 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 non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

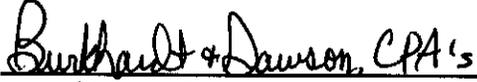
Comments involving statutory and other legal matters about the Authority's operations for the years ended June 30, 2012 and 2011 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Authority. Since our audits were based on tests and 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.

Cherokee Aviation Authority's written 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 Cherokee Aviation 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 members and customers of Cherokee Aviation Authority and other parties to whom the Authority may report and 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 Cherokee Aviation Authority during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's

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Certified Public Accountants

January 3, 2013

INDEPENDENT AUDITORS' 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

# BURKHARDT & DAWSON

## Certified Public Accountants

DONNA R. BURKHARDT, CPA  
LAURA M. DAWSON, CPA

793 North Second Street  
P.O. Box 1065  
Cherokee, Iowa 51012-1065

Tele: 712-225-5755  
Fax: 712-225-5756  
E-mail: cpa@ncn.net  
www.burkhardtdawsoncpas.com

INDEPENDENT AUDITORS' 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 Board of Directors of  
Cherokee Aviation Authority

Compliance

We have audited Cherokee Aviation 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 Cherokee Aviation Authority's major federal program for the year ended June 30, 2012. Cherokee Aviation 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 Cherokee Aviation Authority's management. Our responsibility is to express an opinion on Cherokee Aviation 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 noncompliance 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 Cherokee Aviation 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 Cherokee Aviation Authority's compliance with those requirements.

In our opinion, Cherokee Aviation 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, 2012.

#### Internal Control Over Compliance

The management of Cherokee Aviation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Cherokee Aviation Authority's internal control over compliance with 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 Cherokee Aviation Authority's internal control over compliance.

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 over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

Cherokee Aviation Authority's responses to the 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 Cherokee Aviation 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 members and customers of Cherokee Aviation Authority and other parties to whom Cherokee Aviation 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.

BURKHARDT & DAWSON, CPA'S

Burkhardt & Dawson, CPA's  
Certified Public Accountants

January 3, 2013

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) 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 material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no findings which are 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) Cherokee Aviation Authority did not qualify as a low-risk auditee.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over charge accounts, including billing, deposit preparation, posting transactions to accounting records, reconciling payments to receivable records and also grant reimbursement requests and grant contracts recording and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of accounting staff. The Authority should designate a member of the Board to provide additional control through review of financial and grant transactions to help ensure accounts receivable charges and payments on account are properly recorded and deposited intact and also to ensure grant reimbursement requests and subsequent receipts are properly recorded and deposited.

Response and Corrective Action Planned - The accounts payable are reviewed and approved by the Board at each monthly meeting. The checks are signed by an officer of the Authority. The Authority's Secretary reviews and reconciles the bank statements during each monthly meeting. If he is not present, another authority member does this.

Conclusion - Response accepted.

II-B-12 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the members of the Cherokee Airport Authority to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

II-B-12 Financial Reporting - Continued:

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - Management will consider obtaining additional knowledge regarding the basis of accounting.

Conclusion - Response accepted.

II-C-12 Banking - Deposits are taking a significant amount of time to be deposited with the bank.

Recommendation - The Authority should make timely deposits.

Response - Deposits will be made in a timely manner after receipt of payments.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

III-A-12 Segregation of Duties over Federal Receipts - The Authority did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See Item II-A-12.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-12 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-B-12 Travel Expense - No disbursements of Authority money for travel expenses of spouses of Authority officials or employees were noted.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Part IV: Other Findings Related to Statutory Reporting - Continued:

IV-C-12 Commission Minutes - No transactions were found that we believe should have been approved in the Authority minutes but were not. However, the minutes, including the schedule of bills allowed, were not published as required by Chapter 28E.6(3) of the Code of Iowa.

Recommendation - The Authority should ensure the minutes, including the schedule of bills allowed, are published as required.

Response - The Authority has chosen not to publish its minutes in the newspaper because of the cost. The minutes are published on the City of Cherokee website, a signed copy is available at City Hall and upon request.

Conclusion - Response accepted.

IV-D-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Authority's investment policy were noted. The Authority has adopted a depository resolution at June 30, 2012.

**CHEROKEE AVIATION AUTHORITY**  
**CHEROKEE, IOWA**  
**CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2012**

<b>Comment Number</b>	<b>Comment Title</b>	<b>Corrective Action Plan</b>	<b>Contact Person, Title, Phone Number</b>	<b>Anticipated Date of Completion</b>
III-A-12	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditors' comment. See the Schedule of Findings and Questioned Costs	Kent Wenck, Cherokee Aviation Authority Chairman (712)225-2810	Currently it is not cost beneficial to hire additional accounting staff