

Polk County Aviation Authority

Audited Financial Statements
and Required Supplementary Information
For the Years Ended June 30, 2012 and 2011



PCAA

Polk County Aviation Authority
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**POLK COUNTY AVIATION AUTHORITY
Officials**

Name	Title	Representing
John Pighetti	Chairperson	Polk County
Jeff Wangsness	Secretary	City of Ankeny
Dr. Paul Novak	Treasurer	Polk County
Brant Anderson	Member	City of Altoona
James M. Gocke	Member	Polk County
Jason Greubel	Member	City of Bondurant
Gary Lorenz	Member	City of Ankeny
Amy Beattie	Attorney	Brick Gentry PC
Tim Moerman	Staff Administrator	City of Ankeny
Margaret Waldschmitt	Recording Secretary	City of Ankeny
Jennifer Sease	Finance Director	City of Ankeny
Exec 1 Aviation, Inc	FBO	

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Polk County Aviation Authority
Ankeny, Iowa

We have audited the accompanying balance sheets of Polk County Aviation Authority as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Polk County Aviation 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Polk County Aviation Authority as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of Polk County Aviation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 18 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 19, 2012

POLK COUNTY AVIATION AUTHORITY

Management's Discussion and Analysis For the Year Ended June 30, 2012

The following discussion and analysis of the Polk County Aviation Authority's (the Authority) financial performance provides an introduction to the financial statements for the fiscal year ended June 30, 2012. It is intended to give the readers an overview of and additional insight into the financial activities of the Authority over the past year. This will be done most effectively by reading this discussion and analysis in conjunction with the information contained in the Authority's financial statements.

Financial Highlights

- The current assets of the Authority were \$2,748,531 while the current liabilities were \$295,357, a ratio of 9:1.
- The Authority's total assets decreased by \$1,250,096 and its total liabilities decreased by \$773,222 from 2011.
- The assets of the Authority exceeded its liabilities at the close of the year by \$11,536,003 (net assets). Of this amount, \$1,830,187 is unrestricted net assets and may be used to meet the Authority's ongoing obligations, and \$869,818 is restricted for airport improvement projects.

Overview of the Financial Statements

Following this discussion and analysis are the basic financial statements of the Authority together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's financial statements are designed to provide readers with a broad overview of the Authority's finances.

The *Balance Sheets* present the Authority's financial position, in its entirety, as of June 30. All of the Authority's assets and liabilities are presented with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Authority's overall financial position.

The *Statements of Revenues, Expenses, and Changes in Net Assets* present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement that will result in cash flows in future periods.

The *Statements of Cash Flows* relate to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are reported in this statement. A reconciliation is provided at the bottom of this statement to assist in the understanding of the difference between cash flows from operating activities and operating loss.

In addition to the basic financial statements and accompanying notes, this report also presents the *Budgetary Comparison Schedule*.

POLK COUNTY AVIATION AUTHORITY

**Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Analysis

The following represents the Authority's financial position for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,748,531	\$ 3,193,500
Capital assets	11,687,876	12,487,383
Other noncurrent assets	41,131	46,751
Total assets	<u>14,477,538</u>	<u>15,727,634</u>
Current liabilities	295,357	821,745
Noncurrent liabilities	2,646,178	2,893,012
Total liabilities	<u>2,941,535</u>	<u>3,714,757</u>
Invested in capital assets, net of related debt	8,835,998	9,420,010
Restricted	869,818	923,350
Unrestricted	1,830,187	1,669,517
Total net assets	<u>\$ 11,536,003</u>	<u>\$ 12,012,877</u>

The following represents the Authority's summary of changes in net assets for the years ended June 30:

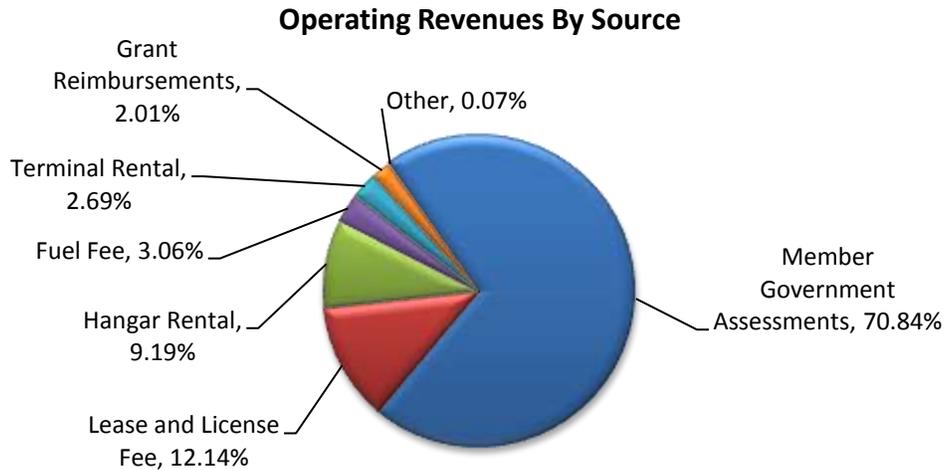
Changes In Net Assets

	<u>2012</u>	<u>2011</u>
Total operating revenues	\$ 887,948	\$ 973,408
Total operating expenses	343,017	400,318
Operating income before depreciation	544,931	573,090
Depreciation	834,479	852,688
Operating loss	(289,548)	(279,598)
Nonoperating income	12,043	20,849
Nonoperating expense	(202,350)	(221,307)
Grants for capital improvements	2,981	1,693,727
Change in net assets	(476,874)	1,213,671
Net assets - beginning	12,012,877	10,799,206
Net assets - ending	<u>\$ 11,536,003</u>	<u>\$ 12,012,877</u>

POLK COUNTY AVIATION AUTHORITY

**Management’s Discussion and Analysis
For the Year Ended June 30, 2012**

The following graph summarizes the Authority’s operating revenues for the year ended June 30, 2012:



The following is a comparison of the Authority’s operating revenues by source for the years ended June 30:

Operating Revenues By Source

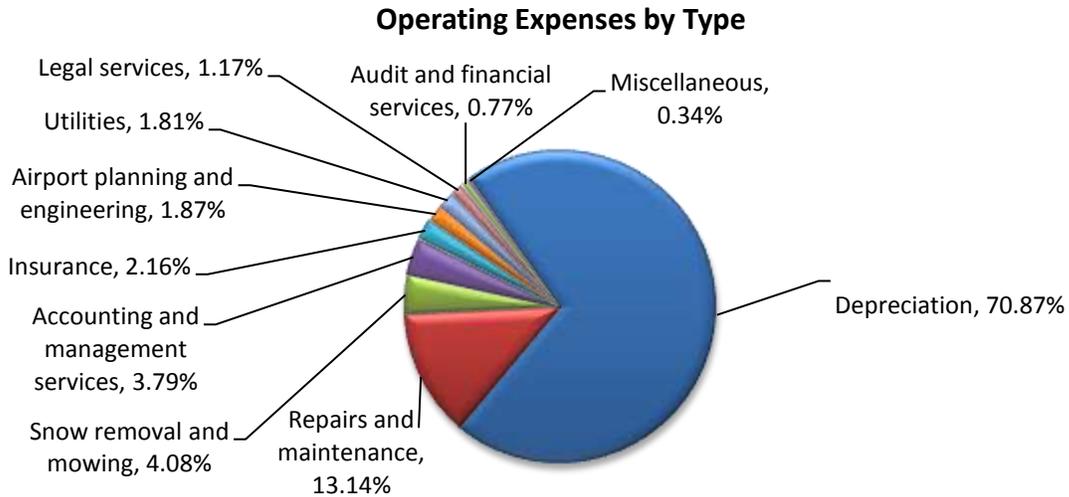
	2012	2011
Member government assessments	\$ 629,026	\$ 600,411
Grant reimbursements	17,864	75,926
Lease and license fee income	107,757	45,244
Fuel fee income	27,219	23,467
T-Hangar rental income	81,580	164,420
Terminal rental income	23,902	46,357
Other revenue	600	17,583
Total operating revenues	\$ 887,948	\$ 973,408

- Total operating revenues decreased by \$85,460 or 8.78%.
- Operating grant reimbursements decreased by \$58,062. Funds received in both years completed a General Aviation Vertical Infrastructure (GAVI) grant for repairs to the terminal building roof.
- Lease and license fee income increased by \$62,513, hangar rental income decreased by \$82,840 and Terminal rental income decreased by \$22,455. Due to a management agreement signed January 1, 2012, the FBO, Exec 1 Aviation, now performs onsite management services and collects all hangar rent. In return, they pay a portion of the rent collected as a lease fee to the Authority. Hangar and terminal rents collected prior to the agreement are recorded in their respective category. After January 1, all rent and lease revenue is recorded as lease and license fee income.
- Other revenue decreased by \$16,983. The current year amount reflects the cash received for the sale of a tractor/mower. The prior year included insurance proceeds for lightning strike damage.

POLK COUNTY AVIATION AUTHORITY

**Management’s Discussion and Analysis
For the Year Ended June 30, 2012**

The following graph summarizes the Authority’s operating expenses including depreciation for the year ended June 30, 2012:



The following is a comparison of the Authority’s operating expenses by type for the years ended June 30:

Operating Expenses By Type

	2012	2011
Repairs and maintenance	\$ 154,730	\$ 214,324
Snow removal and mowing	48,038	89,767
Depreciation	834,479	852,688
Utilities	21,289	29,981
Insurance	25,489	24,639
Airport planning and engineering	22,067	6,263
Accounting and management services	44,597	12,487
Legal services	13,731	9,893
Audit and financial services	9,050	7,875
Miscellaneous	4,026	5,089
Total operating expenses	\$ 1,177,496	\$ 1,253,006

- Total operating expenses decreased by \$75,510 or 6.03%.
- Accounting and management services expenses increased by \$32,110. This increase is primarily related to the management agreement signed on January 1, 2012, with Exec 1 Aviation, whereby, the Authority pays the FBO \$5,000 per month to perform specified maintenance duties including daily inspections, runway light repair labor, mowing services and a portion of the snow and ice removal services.
- Repair and maintenance costs decreased by \$59,594. In addition to the savings realized by the management agreement, other repair expenses returned to a more normal level in 2012 following

POLK COUNTY AVIATION AUTHORITY

**Management's Discussion and Analysis
For the Year Ended June 30, 2012**

unusual lightning strike and sinkhole events in 2011.

- Snow removal and mowing expenses decreased by \$41,729. In addition to the savings realized by the management agreement, the 2011-2012 winter season was mild compared to the average year.
- Airport planning and engineering costs increased by \$15,804 primarily due to the addition of a Terminal Development Study project. A portion of these expenses will be refunded by an IA-DOT Airport Improvement Program (AIP) grant once the project is complete.

Capital Assets and Debt Administration

Capital Assets. The Authority's capital assets, net of accumulated depreciation, as of June 30, 2012, amounts to \$11,687,876. The Authority's capital assets include land, construction in progress, buildings, infrastructure, and equipment and furniture.

The total decrease in the Authority's capital assets for the current fiscal year was \$799,507 or 6.40%.

The following represents the Authority's summary of capital assets for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 6,772,343	\$ 6,759,141
Construction in progress	112,592	90,822
Aviation museum	162,939	162,939
Equipment and furniture	61,676	82,076
Runway	8,462,384	8,462,384
Taxiway	3,451,883	3,451,883
Apron	1,611,720	1,611,720
T-hangars, access road	2,074,283	2,074,283
Taxiway (offset)	51,951	51,951
Terminal building	758,141	758,141
Parking lot improvements	81,574	81,574
Transmission line lighting	90,876	90,876
Field fence replacement	47,399	47,399
Total	<u>23,739,761</u>	<u>23,725,189</u>
Less: accumulated depreciation	<u>12,051,885</u>	<u>11,237,806</u>
Net	<u>\$ 11,687,876</u>	<u>\$ 12,487,383</u>

Major capital asset events during the current fiscal year included the following:

- Depreciation on capital assets was \$834,479. Accumulated depreciation of \$20,400 was removed following the sale of a tractor/mower resulting in a net change in accumulated depreciation on capital assets of \$814,079.
- Equipment and furniture decreased by \$20,400, the original cost of the tractor/mower that was sold during the year.

POLK COUNTY AVIATION AUTHORITY

Management's Discussion and Analysis For the Year Ended June 30, 2012

- The Authority incurred expenses of \$13,202 for legal fees related to the purchase of a parcel of land for the SE Four Mile Drive Relocation/Runway 22 Protection Zone (RPZ) project.
- The Authority held a contract for engineering services for the SE Four Mile Drive Relocation/Runway 22 RPZ project. Construction in progress at June 30 was \$112,592.

Additional information on the Authority's capital assets can be found in the notes to the financial statements on page 14 of this report.

Long-Term Debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$3,055,000. All of these bonds were issued by Polk County, Iowa during fiscal year 2005 on behalf of the Authority. The Authority has entered into an agreement with Polk County, Iowa to repay the debt and all related costs of the bond issue.

The Authority's total long-term debt decreased by \$246,834 (8.53%) during fiscal year 2012. The decrease was primarily due to the repayment of bond principal during the fiscal year.

Additional information on the Authority's long-term debt can be found in the notes to the financial statements on pages 14-16 of this report.

Budgetary Information

The Authority prepares an annual budget for all revenues and expenses. The budget is prepared on a modified accrual basis of accounting, which is an accounting method not in conformance with accounting principles generally accepted in the United States of America. A reconciliation is included in the Required Supplementary Information on page 20 showing the differences between the budget basis revenues and expenses and the full accrual basis revenues and expenses.

- Change in net assets was greater than budgeted by \$249,242.
- Operating expenses were under budget by \$247,138.
- Operating revenues were over budget by \$3,258.

Authority Development Initiatives

The Authority is in the process of planning and designing the relocation of SE Four Mile Drive for the purpose of protecting the eastern clearance zone for runway 22.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Polk County Aviation Authority, 410 West First Street, Ankeny, Iowa 50023.

POLK COUNTY AVIATION AUTHORITY

**Balance Sheets
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,850,213	\$ 1,034,863
Cash - restricted	879,335	446,478
Accounts receivable	13,177	1,706,707
Prepaid Insurance	5,806	5,452
	<u>2,748,531</u>	<u>3,193,500</u>
Noncurrent assets		
Capitalized bond issue costs - net of amortization of \$45,126 and \$39,506	41,131	46,751
Construction in progress	112,592	90,822
Property and equipment	11,575,284	12,396,561
	<u>11,729,007</u>	<u>12,534,134</u>
Total assets	<u>\$14,477,538</u>	<u>\$ 15,727,634</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 24,495	\$ 562,207
Interest payable	13,067	14,070
Deferred revenue	10,962	24,356
Current portion bonds payable	265,000	250,000
Discount on bonds payable	(2,257)	(2,532)
Advance refunding deferral	(15,910)	(26,356)
	<u>295,357</u>	<u>821,745</u>
Long-term debt		
Bonds payable	2,790,000	3,055,000
Discount on bonds payable	(17,869)	(20,126)
Advance refunding deferral - net of amortization of \$215,224 and \$188,868	(125,953)	(141,862)
	<u>2,646,178</u>	<u>2,893,012</u>
Total liabilities	<u>2,941,535</u>	<u>3,714,757</u>
 Net assets		
Invested in capital assets, net of related debt	8,835,998	9,420,010
Restricted for airport improvement projects	869,818	923,350
Unrestricted	1,830,187	1,669,517
Total net assets	<u>11,536,003</u>	<u>12,012,877</u>
Total liabilities and net assets	<u>\$14,477,538</u>	<u>\$ 15,727,634</u>

See accompanying notes to financial statements.

POLK COUNTY AVIATION AUTHORITY

**Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues		
Member government assessments	\$ 629,026	\$ 600,411
Grant reimbursements	17,864	75,926
Lease and license fee income	107,757	45,244
Fuel fee income	27,219	23,467
T-Hangar rental income	81,580	164,420
Terminal rental income	23,902	46,357
Other revenue	600	17,583
Total operating revenues	<u>887,948</u>	<u>973,408</u>
Operating expenses		
Operations		
Repairs and maintenance	154,730	214,324
Snow removal and mowing	48,038	89,767
Depreciation	834,479	852,688
Utilities	21,289	29,981
Insurance	18,118	17,229
Airport planning and engineering	22,067	6,263
	<u>1,098,721</u>	<u>1,210,252</u>
General and administration		
Accounting and management services	44,597	12,487
Legal services	13,731	9,893
Audit and financial services	9,050	7,875
Insurance	7,371	7,410
Miscellaneous	4,026	5,089
	<u>78,775</u>	<u>42,754</u>
Total operating expenses	<u>1,177,496</u>	<u>1,253,006</u>
Operating loss	(289,548)	(279,598)
Nonoperating income (expense)		
Investment income	12,043	20,849
Amortization of bond costs and discount	(8,152)	(14,706)
Interest expense	(194,198)	(206,601)
Change in net assets before capital contributions	<u>(479,855)</u>	<u>(480,056)</u>
Grants for capital improvements	2,981	1,693,727
Change in net assets	(476,874)	1,213,671
Net assets - beginning of year	<u>12,012,877</u>	<u>10,799,206</u>
Net assets - end of year	<u>\$ 11,536,003</u>	<u>\$ 12,012,877</u>

See accompanying notes to financial statements.

POLK COUNTY AVIATION AUTHORITY

**Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Member government assessments	\$ 629,026	\$ 600,411
Rental and fee income	245,334	361,330
Cash payments to suppliers for goods and services	<u>(363,887)</u>	<u>(375,094)</u>
Net cash provided by operating activities	<u>510,473</u>	<u>586,647</u>
Cash flows from capital and related financing activities:		
Outlay for property and equipment	(552,168)	(1,597,900)
Payment of bond principal	(250,000)	(240,000)
Payment of bond interest	(168,845)	(180,245)
Grant proceeds received	<u>1,696,704</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>725,691</u>	<u>(2,018,145)</u>
Cash flows from investing activities:		
Investment income	<u>12,043</u>	<u>20,849</u>
Net increase (decrease) in cash and cash equivalents	1,248,207	(1,410,649)
Cash and cash equivalents at beginning of year	1,034,863	1,679,616
Restricted cash and cash equivalents at beginning of year	446,478	1,212,374
Cash and cash equivalents at end of year	<u><u>\$ 2,729,548</u></u>	<u><u>\$ 1,481,341</u></u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (289,548)	\$ (279,598)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	834,479	852,688
(Increase) decrease in accounts receivable	(193)	(2,293)
(Increase) decrease in prepaid insurance	(353)	369
Increase (decrease) in accounts payable	(20,518)	24,855
Increase (decrease) in deferred revenue	<u>(13,394)</u>	<u>(9,374)</u>
Net cash provided by operating activities	<u><u>\$ 510,473</u></u>	<u><u>\$ 586,647</u></u>

See accompanying notes to financial statements.

POLK COUNTY AVIATION AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 1 - ORGANIZATION

The Polk County Aviation Authority was organized as an Aviation Authority under Chapter 330A of the Code of Iowa 1987. The Authority operates a municipal airport in Ankeny, Iowa. The member municipalities are the cities of Altoona, Ankeny, Bondurant, and the unincorporated area of Polk County. Through a 28E agreement, each member government contributes an annual levy based on the assessed value of taxable property in the municipality. The 28E agreements expire in the years 2020 and 2021. The breakdown of member government assessments for the year ended June 30, 2012 are \$74,003 from Altoona, \$304,237 from Ankeny, \$14,555 from Bondurant and \$236,231 from unincorporated Polk County. The breakdown of member government assessments for the year ended June 30, 2011 are \$69,188 from Altoona, \$289,336 from Ankeny, \$13,362 from Bondurant and \$228,525 from unincorporated Polk County.

The Board of Directors of the Authority consists of seven representatives of the member municipalities and area. The Board of Directors is composed of three representatives appointed by the Polk County Board of Supervisors; two representatives appointed by the mayor of Ankeny; one representative appointed by the mayor of Altoona; and one representative appointed by the mayor of Bondurant.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting. The Authority applies all GASB pronouncements as well as all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Authority are organized as an Enterprise Fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The Authority has the following two funds:

Capital Improvements Fund – to account for proceeds from the sale of bonds and used to pay costs of projects, including administrative costs. Net assets restricted for capital improvements are \$869,818 and \$923,350 at June 30, 2012, and 2011, respectively.

Airport Operations Fund – to account for all revenues derived from the services and facilities of the airport including tax revenues levied by the member governments, and for the costs of operation of the airport including the payment of bond principal and interest. Unrestricted net assets for airport operations are \$1,830,187 and \$1,669,517 at June 30, 2012, and 2011, respectively.

The Authority treats all bank accounts and certificates of deposits and all other investments with an original maturity of three months or less as cash equivalents for presentation in the statements of cash flows.

POLK COUNTY AVIATION AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable consists primarily of cost reimbursement and grant receivables from other governmental entities. Management believes that all receivables are collectible and therefore no allowance is recorded.

Deferred revenue reflects payments received on land leases and licenses prior to the date due. The account is adjusted to record revenue in the month of the rental period.

Capital assets are accounted for at historical cost. The cost of repair and maintenance is charged as an expense, while the cost of renewals or substantial betterments is capitalized.

Expenses related to the purchase of land have been capitalized. These include purchase price, appraisal fees, legal fees and crop loss payments.

Expenses relating to construction are capitalized as construction in progress. These costs are capitalized and depreciated when the asset is placed in service.

Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets of five to twenty years.

Expenses relating to the issuance of bonds and the discount on bonds have been capitalized and are being amortized over the life of the bonds.

The Authority's policy is to specifically identify which expenditures are paid from restricted funds when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating income includes revenues and expenses related to the primary, continuing operations of the Authority. Principal operating revenues includes member government assessments and charges for rentals or services. Principal operating expenses are the costs of maintaining the airport and include administrative expenses and depreciation of capital assets. Grant revenues received for capital improvements, investment income and interest expenses are classified as nonoperating in the financial statements.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

State law and the bond agreements limit the types of investments that may be used by the Authority. Authorized investments include direct obligations of the United States government and its agencies, certificates of deposit, commercial paper, repurchase agreements, open-end management investment companies registered with the Securities and Exchange Commission, and

POLK COUNTY AVIATION AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 3 – INVESTMENTS (CONTINUED)

Iowa Public Agency Investment Trust. There are further restrictions related to the ratings of the investments authorized. The investment policy of the Authority does not address concentration of credit risk.

The Authority is part of a state collateral pool that insures funds held for government entities by financial institutions. All of the Authority's funds are held in financial institutions.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
Land	\$ 6,759,141	\$ 13,202	\$ -	\$ 6,772,343
Aviation museum	162,939	-	-	162,939
Equipment and furniture	82,076	-	20,400	61,676
Runway	8,462,384	-	-	8,462,384
Taxiway	3,451,883	-	-	3,451,883
Apron	1,611,720	-	-	1,611,720
T-Hangars, access road	2,074,283	-	-	2,074,283
Taxiway (offset)	51,951	-	-	51,951
Terminal building	758,141	-	-	758,141
Parking lot improvements	81,574	-	-	81,574
Transmission line lighting	90,876	-	-	90,876
Field fence replacement	47,399	-	-	47,399
Total	<u>23,634,367</u>	<u>13,202</u>	<u>20,400</u>	<u>23,627,169</u>
Accumulated depreciation	<u>11,237,806</u>	<u>834,479</u>	<u>20,400</u>	<u>12,051,885</u>
Net	<u>\$ 12,396,561</u>	<u>\$ (821,277)</u>	<u>\$ -</u>	<u>\$ 11,575,284</u>

NOTE 5 - CONSTRUCTION IN PROGRESS AND COMMITMENTS

SE Four Mile Drive Relocation and Runway 22 Protection Zone Land Acquisition

The Authority has contracted for engineering services for the SE Four Mile Drive Relocation project for \$211,603 and for engineering services related to the acquisition of land for runway protection zones and obstruction clearing for \$105,880. As of June 30, 2012, construction in progress costs for these projects were \$112,592.

NOTE 6 – LONG-TERM DEBT

Defeased Debt

On August 20, 1998, the Authority issued revenue bonds in the amount of \$2,000,000. The bonds are dated August 1, 1998 and call for semi-annual interest payments on the first day of June and December. The bonds have interest rates from 4.500% to 4.875%.

POLK COUNTY AVIATION AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 6 – LONG-TERM DEBT (CONTINUED)

On August 10, 2000, the Authority issued revenue bonds in the amount of \$1,820,000. The bonds are dated August 1, 2000 and call for semi-annual interest payments on the first day of June and December. The bonds have interest rates from 6.00% to 6.25%.

An advance refunding of the bonds resulting in an in-substance defeasance of the debt occurred in July 2004 through the issuance of two new bond issues by Polk County, Iowa on behalf of the Authority. The Authority has entered into an agreement with Polk County, Iowa to repay the debt and all related costs of the bond issues. As of June 30, 2012, \$2,210,000 was still outstanding.

The net proceeds of \$3,343,994 (after payment of \$141,425 of underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 and 2000 Series bonds. As a result, the 1998 and 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the liabilities of the Authority. The amount of the defeased bonds outstanding to be paid from the escrow account was \$1,690,000 and \$1,895,000 at June 30, 2012 and 2011, respectively.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$357,087 which is shown net of accumulated amortization of \$215,224 in the accompanying financial statements as a deduction from bonds payable. The balance is being charged to operations through the year 2020 using the straight-line method.

Outstanding Debt

Polk County, Iowa issued a \$1,250,000 bond on behalf of the Authority on July 29, 2004. The proceeds will be used for capital improvements to the Airport. The Authority has entered into an agreement with Polk County, Iowa to repay the debt and all related costs of the bond issue. As of June 30, 2012, \$845,000 was still outstanding.

Bonds payable at 6-30-10	\$ 3,545,000
Principal payment on loans FY11	<u>(240,000)</u>
Bonds payable at 6-30-11	\$ 3,305,000
Principal payment on loans FY12	<u>(250,000)</u>
Bonds payable at 6-30-12	<u>\$ 3,055,000</u>

The notes are secured by the full faith and credit of the Authority and Polk County.

The bonds issued in July 2004 related to the refunding of the bonds noted above and for capital improvements mature and bear interest as follows:

POLK COUNTY AVIATION AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 6 – LONG-TERM DEBT (CONTINUED)

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Interest Rate</u>
2013	265,000	156,808	4.75% - 4.75%
2014	280,000	144,220	5.00% - 5.00%
2015	295,000	130,220	5.05% - 5.05%
2016	310,000	115,323	5.10% - 5.10%
2017	325,000	99,513	5.15% - 5.15%
2018 - 2021	1,580,000	213,763	5.20% - 5.25%
	<u>\$ 3,055,000</u>	<u>\$ 859,846</u>	

Interest incurred on the notes for the years ended June 30, 2012 and 2011 was \$167,842 and \$179,295 respectively. Interest expense for the years ended June 30, 2012 and 2011 includes amortization of the advance refunding deferral of \$ 26,356 and \$27,306 respectively.

NOTE 7 - RISK MANAGEMENT

Polk County Aviation Authority is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; environmental issues and natural disasters. These risks are covered by commercial insurance coverage.

NOTE 8- RELATED PARTY TRANSACTIONS

Management and accounting services are performed by City of Ankeny, a member government. Amounts paid for these services are reflected in the expense line item accounting and management services. An \$8,236 invoice payable to the City of Ankeny for administrative services is included in accounts payable at June 30, 2012.

On January 1, 2012, the Authority entered into a one-year contract with the Fixed Base Operator to provide on-site management services of the airport premises. Under this agreement, the FBO serves as the leasing agent for all T-hangars, garages and tie-down spaces, collecting rent in return for performing day-to-day maintenance and customer service duties and payment of the utilities for the leased buildings. The FBO pays the Authority \$3,000 plus 20% of the lease income per month as a lease fee. In addition, the Authority pays the FBO \$5,000 per month to perform other specified maintenance duties including daily inspections, runway light repair labor, mowing services, and a portion of the snow and ice removal services. The Authority continues to be responsible for maintenance of the runways and farm grounds, the perimeter fence and major structural repairs to the buildings. A \$5,683 invoice payable to Exec 1 Aviation is included in accounts payable at June 30, 2012.

The City of Ankeny has issued loans to the Authority in prior years and Polk County has issued bonds on behalf of the Authority as described in Note 6.

POLK COUNTY AVIATION AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 8- RELATED PARTY TRANSACTIONS (CONTINUED)

The Authority has contracted with Polk County for snow removal services.

The Authority rents 5.85 acres of land to a Board member at \$50 per acre and 4.00 acres of land at \$275 per acre.

NOTE 9 - OTHER AGREEMENTS

The Authority entered into a land license agreement with an outside party for use of Authority property to construct and maintain an office building. The agreement calls for monthly lease payments of \$500 for a period of twenty-five years. Two five-year renewal options are allowed. The property, including buildings, reverts to the Authority at the termination of the agreement.

The Authority has entered into a twenty-year lease for a fixed base operator to serve the airport. The lease allows for two additional consecutive five-year options. Rent will be charged as follows:

Base rent\$1 per year

License fee\$4,500 per year beginning July 1, 2008
The license fee shall be renegotiated each five years

Fuel fee\$0.09 per gallon sold or consumed is charged after April 30, 2004

Hangar land rent ...\$3,360 annually for 16,800 square feet commencing July 1, 2005 for a period of 15 years with 2 five year renewal options. The rent is adjusted annually based on the consumer price index. In 2012, the consumer price indexed rate was \$0.238 per square foot.

Building rent.....\$3,000 per month through December 31, 1999. For the remainder of the agreement, rent is calculated annually based on sublease income.

NOTE 10 – LITIGATION

The Authority is subject to an appeal of condemnation awards related to land acquisition for the SE Four Mile Drive Relocation and Runway Protection Zone Projects. The probability of an amount having to be paid over and above the original condemnation awards is undeterminable.

REQUIRED SUPPLEMENTARY INFORMATION

POLK COUNTY AVIATION AUTHORITY

**Budgetary Comparison Schedule
For the Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Over/(Under) Budget
Operating Revenues				
Member government assessments	\$ 629,026	\$ 629,026	\$ 629,026	\$ -
Lease and license fee income	44,200	106,800	107,757	957
Fuel fee income	26,000	25,000	27,219	2,219
Terminal rental income	54,400	23,900	23,902	2
T-hangar rental income	164,000	81,500	81,580	80
State grant reimbursement	28,500	17,864	17,864	-
Other revenue	-	600	600	-
Total Operating Revenues	946,126	884,690	887,948	3,258
Operating Expenses				
Offsite management services	13,000	15,000	14,597	(403)
Postage and office supplies	700	700	420	(280)
Onsite management services	-	30,000	30,000	-
Financial services	2,500	2,500	-	(2,500)
Advertising and promotion	-	-	1,745	1,745
Publications	1,000	1,400	1,381	(19)
Conferences and seminars	2,500	2,500	400	(2,100)
Legal services	10,000	16,500	13,731	(2,769)
Audit expenses	8,400	9,000	9,050	50
General insurance	4,800	3,900	3,842	(58)
Property insurance	1,600	8,100	8,087	(13)
Public officials insurance	7,800	7,400	7,371	(29)
Snow removal and mowing	64,000	55,000	45,408	(9,592)
Repairs and maintenance (general)	25,000	100,000	93,036	(6,964)
Repairs and maintenance (leased property)	-	22,500	19,706	(2,794)
Utilities-general	10,000	7,500	7,132	(368)
Airport planning and engineering	12,000	17,500	13,707	(3,793)
Miscellaneous	500	500	80	(420)
T-hangar utilities	8,600	4,200	4,121	(79)
T-hangar advertising	100	-	-	-
T-hangar property insurance	8,000	4,200	4,174	(26)
T-hangar snow and mowing	19,500	1,900	1,877	(23)
T-hangar maintenance and repairs	4,500	1,700	1,694	(6)
Terminal building property insurance	3,900	2,000	2,016	16
Terminal building snow and mowing	6,800	800	753	(47)
Terminal building maintenance and repairs	7,000	4,600	4,565	(35)
Terminal building utilities	21,000	10,000	10,036	36
SE Four Mile Dr roadway realignment	850,000	200,000	17,001	(182,999)
Runway 22 RPZ acquisition	57,000	60,000	17,972	(42,028)
Terminal building roof rehabilitation	-	35,729	35,729	-
Terminal development study	-	-	8,360	8,360
Total Operating Expenses	1,150,200	625,129	377,991	(247,138)

POLK COUNTY AVIATION AUTHORITY

Budgetary Comparison Schedule
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over/(Under) Budget
Other Income				
Investment income	17,500	14,200	12,043	(2,157)
FAA grant reimbursement	3,451,350	2,981	2,981	-
Total Other Income	3,468,850	17,181	15,024	(2,157)
Other Expenses				
Bond/loan principal	1,750,000	250,000	250,000	-
Bond/loan interest	168,845	168,845	167,842	(1,003)
Total Other Expenses	1,918,845	418,845	417,842	(1,003)
Net Change in Net Assets	1,345,931	(142,103)	107,139	249,242
Net Assets - Beginning	1,720,885	2,592,866	2,592,866	-
Net Assets - Ending	\$ 3,066,816	\$ 2,450,763	\$ 2,700,005	\$ 249,242

POLK COUNTY AVIATION AUTHORITY

**Explanation of Differences Between Budgetary
Basis and GAAP Basis Revenues and Expenses
For the Year Ended June 30, 2012**

Ordinary and other income:

Actual amount of ordinary income and other income on a budgetary basis from the budgetary comparison schedule	\$ 902,972
Total GAAP basis ordinary and other income	<u>\$ 902,972</u>

Ordinary and other expenses:

Actual amount of ordinary expenses and other expenses on a budgetary basis from the budgetary comparison schedule	\$ 795,833
Bond principal payments are recorded as an expenditure on a budgetary basis, but are not expensed on a GAAP basis.	(250,000)
Bond issuance costs are expensed and bond discounts are not recorded on a budgetary basis. These costs and discounts are recorded and amortized under GAAP.	34,507
Depreciation and losses on fixed assets are reported on a GAAP basis but are not recorded on a budgetary basis	834,479
Purchases of capital assets are reported as an expense on a budget basis but are capitalized and depreciated on a GAAP basis	(34,973)
Total GAAP basis ordinary and other expenses	<u>\$ 1,379,846</u>

The notes to the required supplementary information are an integral part of this schedule.

**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**

The Board of Directors
Polk County Aviation Authority
Ankeny, Iowa

We have audited the financial statements of Polk County Aviation Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Polk County Aviation Authority is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Polk County 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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Polk County 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2012 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. Those comments are presented in Part II of the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the members and constituents of Polk County Aviation Authority and other parties to whom the Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 19, 2012

**Polk County Aviation Authority
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

Part I—Findings Related to the Financial Statements

No material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Polk County Aviation Authority
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

Part II—Findings Related to Required Statutory Reporting

12-II-A QUESTIONABLE EXPENSES

No questionable expenditures of Authority funds were noted.

12-II-B TRAVEL EXPENSE

No expenditures of Authority money for travel expenses of spouses of Authority officials or employees were noted.

12-II-C BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-D DEPOSITS AND INVESTMENTS

No instances on noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Authority's investment policy were noted.