# CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
JUNE 30, 2014

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CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
JUNE 30, 2014

OFFICIALS

| NAME | TITLE | EXPIRES |
|---|---|---|
| Todd Wetherell | Chairman | January 2016 |
| Mike Fox | Treasurer | January 2018 |
| Mike O'Neal | Secretary | January 2016 |
| Neal Rogge | Board Member | January 2018 |
| Kent Wenck | Board Member | January 2016 |
| Brian Lauck | Airport Director | May 2015 |
| Karen Aduddell | Clerk | Indefinite |

# BURKHARDT & DAWSON
## Certified Public Accountants

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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, 2014 and 2013, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Cherokee Aviation Authority as of June 30, 2014 and 2013, and the changes in its cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1.

**Basis of Accounting**

As described in Note 1, the financial statements were prepared on the cash basis of accounting, which is a basis of accounting other than U. S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

**Other Matters**

*Other Information*

The other information, Management's Discussion and Analysis on pages 4 through 7, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015 on our consideration of 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* in considering Cherokee Aviation Authority's internal control over financial reporting and compliance.

BURKHARDT & DAWSON, CPA's

Burkhardt & Dawson, CPAs

Certified Public Accountants

Cherokee, Iowa
January 22, 2015

## 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, 2014 and 2013. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- Operating receipts decreased 21%, or approximately $82,000, from fiscal year 2013 to fiscal year 2014.
- Operating disbursements decreased 65%, or approximately $133,000, from fiscal year 2013 to fiscal year 2014.
- The Authority's cash balance increased 15%, or approximately $52,000, from June 30, 2013 to June 30, 2014.

### 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, Disbursement and Changes in Cash Balance 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.

## FINANCIAL ANALYSIS OF THE AUTHORITY

*Statements of Cash Receipts, Disbursements and Changes in Cash Balance*

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 the Authority's cash balance.

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, insurance proceeds, equipment sales, equipment purchases, and grant expenses. A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2014 and June 30, 2013 is presented below:

CHANGES IN CASH BALANCE

| | YEAR ENDED JUNE 30, | |
|---|---|---|
| | 2014 | 2013 |
| Operating Receipts: | | |
| Tax Revenue | $ 96,056 | $ 91,744 |
| Hangar Rent | 28,077 | 33,010 |
| Fuel Sales | 180,038 | 261,705 |
| Other Income | 4,020 | 4,179 |
| TOTAL OPERATING RECEIPTS | $ 308,191 | $ 390,638 |
| Operating Disbursements: | | |
| Fuel Purchased for Resale | $ 114,064 | $ 249,138 |
| Contract Services Expense | 35,190 | 33,926 |
| Others | 53,782 | 52,635 |
| TOTAL OPERATING DISBURSEMENTS | $ 203,036 | $ 335,699 |
| EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS | $ 105,155 | $ 54,939 |

CHANGES IN CASH BALANCE

| | YEAR ENDED JUNE 30, | |
|---|---|---|
| | 2014 | 2013 |
| Non-Operating Receipts (Disbursements): | | |
| Interest on Investments | $ 3,972 | $ 2,832 |
| Grant Receipts | 265,757 | 578,155 |
| Insurance Proceeds | 5,098 | - |
| Sale of Equipment | 9,382 | - |
| Interest Expense | - | (5,819) |
| Loan Payments | - | (300,000) |
| Capital Improvements and Related Engineering Fees | - | (9,099) |
| Grant Expenses | (317,992) | (174,688) |
| Equipment Purchases | (19,662) | (7,397) |
| Real Estate Taxes Related to Land Acquisition | - | (8,788) |
| NET NON-OPERATING RECEIPTS (DISBURSEMENTS) | $ (53,445) | $ 75,196 |
| CHANGE IN CASH BALANCE | $ 51,710 | $ 30,135 |
| CASH BALANCE – BEGINNING OF YEAR | 347,106 | 216,971 |
| CASH BALANCE – END OF YEAR | $ 398,816 | $ 347,106 |
| Cash Basis Fund Balance: | | |
| Restricted for - Capital Reserve Fund | $ 183,128 | $ 202,757 |
| Unrestricted | 215,688 | 144,349 |
| TOTAL CASH BASIS FUND BALANCE | $ 398,816 | $ 347,106 |

In fiscal year 2014, operating receipts decreased $82,447, or 21%, from fiscal year 2013. The decrease was primarily a result of a decrease in fuel sales in fiscal year 2014. In fiscal year 2014, operating disbursements decreased by $132,663, or 40%, from fiscal year 2013. The decrease in disbursements was primarily due to decreases in fuel purchases.

A portion of the Authority's cash balance, $183,128 (46%), is restricted for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining cash balance, $215,688 (54%), is unrestricted and can be used to meet the Authority's obligations as they come due. The restricted cash balance decreased $19,629, or 10% during the year. The decrease was due to funds used for capital improvements and equipment purchases. The unrestricted cash balance increased $71,339, or 49%, during the year due to the change in fuel purchases and fuel sales.

**LONG TERM DEBT**

At June 30, 2014 and 2013, the Authority had no long term debt outstanding.

## ECONOMIC FACTORS

The financial position of the Authority improved in the current fiscal year as decreased fuel purchases increased its cash balance. 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, 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 BALANCES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| OPERATING RECEIPTS: | | |
| Tax Revenue | $ 96,056 | $ 91,744 |
| Hangar Rent | 28,077 | 33,010 |
| Fuel Sales | 180,038 | 261,705 |
| Land Rent | 4,000 | 4,000 |
| Other Income | 20 | 179 |
| TOTAL OPERATING RECEIPTS | $ 308,191 | $ 390,638 |
| | | |
| OPERATING DISBURSEMENTS: | | |
| Fuel Purchased for Resale | $ 114,064 | $ 249,138 |
| Bank Charges and Check Printing | 145 | 96 |
| Legal Fees | 1,319 | 172 |
| Audit Fees | 3,850 | 3,580 |
| Miscellaneous Fees | 552 | 727 |
| Dues and Memberships | 525 | 324 |
| Licenses and Permits | 184 | 9 |
| Travel and Conference Fees | 230 | 398 |
| Lease Expense | 150 | 100 |
| Real Estate Taxes | - | 1,692 |
| Grounds and Buildings Maintenance | 11,077 | 8,115 |
| Fuel Tank Maintenance | 1,478 | 2,001 |
| Contract Service Expense | 35,190 | 33,926 |
| Fuel Commissions | 8,982 | 12,617 |
| Insurance Expense | 10,871 | 10,715 |
| Fuel for Equipment | 1,757 | 1,412 |
| Equipment Maintenance | 5,122 | 3,591 |
| Utilities - Gas | 280 | 624 |
| Electricity | 3,374 | 2,973 |
| Telephone | 2,271 | 1,871 |
| Water | 433 | 405 |
| Internet | - | 309 |
| Office Supplies | 30 | 41 |
| Miscellaneous Supplies | 341 | 270 |
| Postage | 190 | 293 |
| Advertising | 272 | - |
| Other Expense | 349 | 300 |
| TOTAL OPERATING DISBURSEMENTS | $ 203,036 | $ 335,699 |
| | | |
| EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS | $ 105,155 | $ 54,939 |

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| NON-OPERATING RECEIPTS (DISBURSEMENTS): | | |
| Interest on Investments | $ 3,972 | $ 2,832 |
| Grant Receipts - Runway Pavement Maintenance Project | 100,639 | - |
| Grant Receipts - Snow Removal Equipment Purchase | 165,118 | - |
| Grant Receipts - Land and Building Acquisition | - | 550,500 |
| Grant Receipts - Overhead Hangar Door Project | - | 27,655 |
| Insurance Proceeds | 5,098 | - |
| Sale of Equipment | 9,382 | - |
| Interest Expense | - | (5,819) |
| Loan Payments | - | (300,000) |
| Capital Improvements and Related Engineering Fees | - | (9,099) |
| Grant Expenses - Runway Pavement Maintenance Project | (143,771) | - |
| Grant Expenses - Snow Removal Equipment Purchase | (174,221) | - |
| Grant Expenses - Land and Building Acquisition | - | (140,118) |
| Grant Expenses - Overhead Hangar Door Project | - | (34,570) |
| Equipment Purchases | (19,662) | (7,397) |
| Real Estate Taxes Related to Land | - | (8,788) |
| NET NON-OPERATING RECEIPTS (DISBURSEMENTS) | $ (53,445) | $ 75,196 |
| CHANGES IN CASH BALANCE | $ 51,710 | $ 130,135 |
| CASH BALANCE - BEGINNING OF YEAR | 347,106 | 216,971 |
| CASH BALANCE - END OF YEAR | $ 398,816 | $ 347,106 |
| CASH BASIS FUND BALANCE: | | |
| Restricted for: | | |
| Capital Reserve Fund | $ 183,128 | $ 202,757 |
| Unrestricted | 215,688 | 144,349 |
| TOTAL CASH BASIS FUND BALANCE | $ 398,816 | $ 347,106 |

See accompanying notes to financial statements

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 develop, 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 County Board of Supervisors and the Cherokee City Council. Each member of the Board has one vote.

REPORTING ENTITY - For financial reporting purposes, 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.

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.

BASIS OF ACCOUNTING – The 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.

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, 2014, part of the restricted funds has been used to pay for grant project expenses.

ADVERTISING COSTS – Advertising costs are expensed when incurred. Total advertising costs are $272 and $-0- for the years ended June 30, 2014 and 2013, respectively.

DATE OF MANAGEMENT'S REVIEW – Management has evaluated subsequent events through January 22, 2015, the date which the financial statements were issued.

NOTE 2 – CASH AND INVESTMENTS:

The Authority's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013 the Authority had certificates of deposit.

NOTE 3 – RISK MANAGEMENT:

The Authority is a member of 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 700 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 casualty 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 estimated for the fiscal 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 basis rate 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, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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, 2014 and 2013 were $3,944 and $3,897, respectively.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Authority's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to $150,000 each occurrence, each location. Property risks exceeding $150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Authority's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-

sharing protection provided by the Authority's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of $1,000,000, 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.

## 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 $32,900 and $31,233 during the years ended June 30, 2014 and 2013, respectively, plus commissions based on fuel sales of $8,982 and $12,617, respectively.

## NOTE 5 – RELATED PARTIES:

The clerk and a board member are siblings. The clerk is also employed at State Savings Bank where the Authority has bank accounts and certificates of deposits. The clerk was paid $2,290 and $2,705 during the years ended June 30, 2014 and 2013, respectively.

Brain Lauck, Airport Director and owner of Lauck Aviation, purchased fuel from the Authority of $5,144 and $7,012 for the years ended June 30, 2014 and 2013, respectively.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, respectively.

NOTE 7 – LEASES:

On February 1, 2014, the Authority renewed leased property from the City of Cherokee, Iowa under a ten year operating lease. The prior ten year lease expired February 1, 2014. Rent payments at June 30, 2014 and 2013 are $150 and $100, respectively.

Future minimum lease payments required under the operating leases for the year ended June 30, 2014 are as follows:

| YEAR ENDED JUNE 30, | AMOUNT |
|---|---|
| 2015 | $ 150 |
| 2016 | 150 |
| 2017 | 150 |
| 2018 | 150 |
| 2019 | 150 |
| Thereafter | 600 |
| TOTAL MINIMUM LEASE PAYMENTS | $ 1,350 |

NOTE 8 – COMMITMENT:

The Authority signed a grant agreement for $105,322 in June 2014 for the Relocate Runway-Design and AGIS Survey Project. The project had not been started prior to June 30, 2014. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable project costs.

NOTE 9 – SUBSEQUENT EVENTS:

The Authority signed a grant agreement for $179,000 in September 2014 for the Pavement Maintenance Project. The project had not been started prior to June 30, 2014. The maximum reimbursement from the Iowa Department of Transportation will be 70% of the allowable project costs.

# 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

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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 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, the financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2014 and 2013, and the related notes to financial statements, and have issued our report thereon dated January 22, 2015. Our report expressed an unmodified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Cherokee Aviation Authority's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items A, B and C to be material weaknesses and significant deficiencies.

**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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the years ended June 30, 2014 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 Responses to Findings**

Cherokee Aviation Authority's written responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee Aviation Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's

internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Burkhardt & Dawson, CPA's

Certified Public Accountants

Cherokee, Iowa
January 22, 2015

# CHEROKEE AVIATION AUTHORITY
# CHEROKEE, IOWA
# SCHEDULE OF FINDINGS
# YEAR ENDED JUNE 30, 2014

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

A. 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 – 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 – Members of the Authority review the financial statement each month. All bills are reviewed and approved by the Authority. A report of all disbursements and deposits is reviewed monthly by the Authority members. The Authority reviews the accounts receivable each month. A spreadsheet of grant transactions will be included in each monthly report packet.

CONCLUSION – Response accepted.

B. FINANCIAL REPORTING – 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.

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.

C. BANKING – Deposits are taking a significant amount of time to be deposited with the bank.

RECOMMENDATION – The Authority should make timely deposits.

RESPONSE – The Clerk for the Authority works part time and prepares deposits after the receipts are posted to accounts. The deposits are taken to the bank the following day.

CONCLUSION – Response accepted.

OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

A. 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.

B. TRAVEL EXPENSES – No disbursements of Authority money for travel expenses of spouses of Authority officials or employees were noted.

C. 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 timely in the newspaper as required.

RESPONSE – The Authority meeting minutes and approved expenses are published on the City of Cherokee website monthly for public view and signed copies of the minutes are on hand at the City Hall for public view. The Authority members feel that the cost of publishing the minutes in a local paper would be an excessive expense.

CONCLUSION – Response accepted.

D. 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, 2014.