



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

December 16, 2013

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Auditor of State Mary Mosiman today released an audit report on the Council Bluffs Airport Authority.

The Authority had total revenues of \$1,140,965 during the year ended June 30, 2013, a 42.9% decrease from the prior year. Revenues included property tax of \$589,746, rental income of \$316,495 and federal grants of \$116,950. The decrease in revenues is due to a decrease in federal grants for airport improvement projects.

Expenses totaled \$1,691,561 for the year ended June 30, 2013, a 16.2% increase over the prior year, and included \$185,173 for employee salaries, \$829,317 for depreciation and \$159,245 for professional fees. The increase in expenses is primarily due to an increase in legal fees related to United States Environmental Protection Agency violations and the related settlement.

A copy of the audit report is available for review at the Council Bluffs Airport Authority, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1333-0051-B000.pdf>.

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COUNCIL BLUFFS AIRPORT AUTHORITY

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

JUNE 30, 2013

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Council Bluffs Airport Authority

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Knott	Chairman	Mar 10, 2015
Rick Crawl	Vice Chairman	Mar 10, 2015
Jeanette M. Aldredge	Secretary/Treasurer	Mar 10, 2017
Barbara Vredevelde	Member	Mar 10, 2015
Dennis Caudle	Member	Mar 10, 2017
Steve Grandfield	Member	Mar 10, 2017
Scott Hartman	Member	Mar 10, 2017
Danny Smith	Executive Director	Indefinite

Council Bluffs Airport Authority



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Independent Auditor's Report

To the Members of the Council Bluffs
Airport Authority:

Report on the Financial Statements

We have audited the accompanying Statement of Net Position, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows, of the Council Bluffs Airport Authority as of and for the years ended June 30, 2013 and 2012, and the related Notes to Financial Statements, which collectively comprise the Authority's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 financial position of the Council Bluffs Airport Authority as of June 30, 2013 and June 30, 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2013 on our consideration of the Council Bluffs Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Council Bluffs Airport Authority's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 26, 2013

Basic Financial Statements

Exhibit A

Council Bluffs Airport Authority

Statement of Net Position

June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 566,897	81,414
Receivables:		
Accounts	1,894	188
Property tax	50,425	28,233
Hangar rent	11,395	850
Miscellaneous	3,280	3,280
Due from other governments:		
Federal Aviation Agency	130,724	393,847
Pottawattamie County (net of \$15,173 discount for 2012)	-	344,827
Iowa Department of Transportation	10,549	77,992
Prepaid expense	35,398	24,731
Total current assets	<u>810,562</u>	<u>955,362</u>
Noncurrent assets:		
Restricted cash	33,942	1,935
Capital assets (net of accumulated depreciation)	24,919,027	25,561,293
Bond issuance costs	20,453	24,948
Total noncurrent assets	<u>24,973,422</u>	<u>25,588,176</u>
Total assets	<u>25,783,984</u>	<u>26,543,538</u>
Liabilities		
Current liabilities:		
Accounts payable	73,457	225,783
Accrued interest payable	9,427	10,024
Payroll tax payable	8,166	7,872
Due to other governments	100,000	-
Unearned hangar rent	870	2,430
Current portion of:		
Capital lease	797	-
Bonds payable	170,000	160,000
Total current liabilities	<u>362,717</u>	<u>406,109</u>
Noncurrent liabilities:		
Capital lease	4,434	
Bonds payable	2,275,000	2,445,000
Total noncurrent liabilities	<u>2,279,434</u>	<u>2,445,000</u>
Total liabilities	<u>2,642,151</u>	<u>2,851,109</u>
Net position		
Net investment in capital assets	22,468,796	22,956,293
Unrestricted	673,037	736,136
Total net position	<u>\$ 23,141,833</u>	<u>23,692,429</u>

See notes to financial statements.

Council Bluffs Airport Authority

Statement of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Land rent	\$ 152,035	67,843
Hangar rent	164,460	118,175
Other revenues	51,684	29,186
Total operating revenues	<u>368,179</u>	<u>215,204</u>
Operating expenses:		
Salaries	185,173	204,012
Depreciation	829,317	790,155
FICA	12,965	16,584
IPERS	15,851	16,152
Advertising	343	500
Dues	721	1,042
Engineering	-	750
Fuel	27,697	19,770
Insurance	79,493	74,031
Internet and web	1,748	789
License and subscriptions	3,101	2,948
Meetings	1,961	2,006
Office	4,668	7,902
Postage and freight	422	763
Professional fees	159,245	91,228
Radio and telephone	5,524	3,449
Buildings and grounds maintenance and repair	17,345	10,163
Equipment repair	28,306	9,585
Hangar repair	2,354	3,019
Runway repair	2,625	7,421
Trash hauling	1,182	1,120
Travel and training	1,560	1,374
Utilities	48,938	44,116
Miscellaneous	7,042	8,639
Total operating expenses	<u>1,437,581</u>	<u>1,317,518</u>
Operating loss	<u>(1,069,402)</u>	<u>(1,102,314)</u>
Non-operating revenues (expenses):		
Property tax	589,746	594,562
Interest income	15,541	11,266
Federal grants	116,950	986,424
Other grant revenue	10,549	189,754
Contributions from other governments	40,000	-
Reimbursements to other governments	(100,000)	-
Amortization of bond issuance cost	(4,495)	(4,966)
Interest expense	(125,598)	(133,636)
Loss on sale of assets	(23,887)	-
Net non-operating revenues	<u>518,806</u>	<u>1,643,404</u>
Change in net position	(550,596)	541,090
Net position beginning of year	23,692,429	23,151,339
Net position end of year	<u>\$ 23,141,833</u>	<u>23,692,429</u>

See notes to financial statements.

Exhibit C

Council Bluffs Airport Authority

Statement of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from rent	\$ 304,390	188,498
Cash received from other revenues	49,978	25,718
Cash paid to suppliers for goods and services	(370,041)	(305,266)
Cash paid to employees for services	(213,695)	(237,293)
Net cash used for operating activities	(229,368)	(328,343)
Cash flows from noncapital financing activities:		
Cash received from property tax	567,554	590,541
Cash received from County	40,000	55,348
Principal paid on bank loan	-	(155,348)
Interest paid on bank loan	-	(1,133)
Net cash provided by noncapital financing activities	607,554	489,408
Cash flows from capital and related financing activities:		
Federal grants received	447,516	1,148,625
Received from other governments	370,549	248,699
Sale of capital assets	800	-
Acquisition of capital assets	(393,734)	(1,358,002)
Principal paid on revenue bonds	(160,000)	(150,000)
Interest paid on revenue bonds	(126,195)	(133,071)
Net cash provided by (used for) capital and related financing activities	138,936	(243,749)
Cash flows from investing activities:		
Interest received	368	11,266
Net increase (decrease) in cash and cash equivalents	517,490	(71,418)
Cash and cash equivalents beginning of year	83,349	154,767
Cash and cash equivalents end of year	\$ 600,839	83,349
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,069,402)	(1,102,314)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	829,317	790,155
Changes in assets and liabilities:		
Increase in accounts receivable	(12,251)	(2,248)
Increase in prepaid expense	(10,667)	(19,970)
Increase in accounts payable	34,901	5,319
Increase (decrease) in payroll taxes payable	294	(545)
Increase (decrease) in unearned hangar rent	(1,560)	1,260
Total adjustments	840,034	773,971
Net cash used for operating activities	\$ (229,368)	(328,343)

See notes to financial statements.

Council Bluffs Airport Authority

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, the Council Bluffs Airport Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Council Bluffs Airport Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

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

C. Measurement Focus and Basis of Accounting

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

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

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Position:

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

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

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

Reportable capital assets are defined by the Authority as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of five years.

Asset Class	Amount
Buildings and improvements	\$ 5,000
Land improvements	5,000
Machinery, equipment and vehicles	1,000
Infrastructure	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	10 - 50
Land improvements	5 - 50
Machinery, equipment and vehicles	5 - 10
Infrastructure	25 - 50

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the years ended June 30, 2013 and 2012.

(2) Cash and Investments

The Authority's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Capital Assets

Capital assets activity for the year ended June 20, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 2,192,064	-	-	2,192,064
Construction in progress	1,059,097	176,005	484,344	750,758
Total capital assets not being depreciated	3,251,161	176,005	484,344	2,942,822
Capital assets being depreciated:				
Buildings	6,865,738	484,344	95,151	7,254,931
Improvements other than buildings	19,196,199	704	-	19,196,903
Equipment and vehicles	321,305	35,029	21,636	334,698
Total capital assets being depreciated	26,383,242	520,077	116,787	26,786,532
Less accumulated depreciation for:				
Buildings	1,422,075	169,944	70,463	1,521,556
Improvement other than buildings	2,437,780	630,235	-	3,068,015
Equipment and vehicles	213,255	29,138	21,637	220,756
Total accumulated depreciation	4,073,110	829,317	92,100	4,810,327
Total capital assets being depreciated, net	22,310,132	(309,240)	24,687	21,976,205
Total capital assets, net	\$ 25,561,293	(133,235)	509,031	24,919,027
Total depreciation expense				\$ 829,317

Capital assets activity for the year ended June 20, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 2,192,064	-	-	2,192,064
Construction in progress	937,620	1,353,056	1,231,579	1,059,097
Total capital assets not being depreciated	3,129,684	1,353,056	1,231,579	3,251,161
Capital assets being depreciated:				
Buildings	6,854,386	11,352	-	6,865,738
Improvements other than buildings	17,964,620	1,231,579	-	19,196,199
Equipment and vehicles	321,305	-	-	321,305
Total capital assets being depreciated	25,140,311	1,242,931	-	26,383,242
Less accumulated depreciation for:				
Buildings	1,258,549	163,526	-	1,422,075
Improvements other than buildings	1,837,676	600,104	-	2,437,780
Equipment and vehicles	186,730	26,525	-	213,255
Total accumulated depreciation	3,282,955	790,155	-	4,073,110
Total capital assets being depreciated, net	21,857,356	452,776	-	22,310,132
Total capital assets, net	\$ 24,987,040	1,805,832	1,231,579	25,561,293
Total depreciation expense				\$ 790,155

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Capital lease purchase agreement	\$ -	5,231	-	5,231	797
Revenue bonds	2,605,000	-	160,000	2,445,000	170,000
Total	\$ 2,605,000	5,231	160,000	2,450,231	170,797

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue bonds	\$ 2,755,000	-	150,000	2,605,000	160,000
Bank loan	100,000	55,348	155,348	-	-
Total	\$ 2,855,000	55,348	305,348	2,605,000	160,000

Capital Lease Purchase Agreement

The Authority entered into a capital lease purchase agreement to lease a copier with a historical cost of \$5,231. The following is a schedule of the future minimum lease payments, including interest at 15.72% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2013:

Year Ending June 30,	Copier
2014	\$ 1,498
2015	1,498
2016	1,498
2017	1,497
2018	1,497
Total minimum lease payments	7,488
Less interest	(2,257)
Present value of net minimum lease	\$ 5,231

No payments under the capital lease purchase agreement were made during the year ended June 30, 2013.

Revenue Bonds

Two issues of unmatured revenue bonds are outstanding at June 30, 2013 and June 30, 2012. The bonds bear interest at rates ranging from 4.35% to 5.05% per annum and mature in varying annual amounts, ranging from \$100,000 to \$275,000, with final maturities due in the year ending June 30, 2024.

The Authority has pledged the net revenues of the Authority, including property tax received by the Authority under Chapter 330A.15 of the Code of Iowa, net of any specified operating expenses, to repay revenue bonds issued in June 2006 with an outstanding balance of \$2,445,000 at June 30, 2013. Proceeds from the bonds provided financing for construction of improvements to the Authority's facilities and runway. The bonds are payable solely from the net revenues of the Authority. Annual principal and interest payments on the bonds are expected to require less than 85% of net revenues. The total principal and interest remaining to be paid on the bonds outstanding at June 30, 2013 is \$3,214,073. For the year ended June 30, 2013, principal and interest paid and total customer net revenues were \$286,195 and \$349,661, respectively.

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

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

Details of revenue bonds payable at June 30, 2013 are as follows:

Issue	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2013
Series 2006A	Jun 1, 2006	4.35-5.05%	June 1, 2017	\$ 105,000-195,000	1,465,000	\$ 655,000
Series 2006B	Jun 1, 2006	4.55-5.00	June 1, 2024	100,000-275,000	1,790,000	1,790,000
Total						<u>\$ 2,445,000</u>

Details of revenue bonds payable at June 30, 2012 are as follows:

Issue	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2012
Series 2006A	Jun 1, 2006	4.35-5.05%	June 1, 2017	\$ 105,000-195,000	1,465,000	\$ 815,000
Series 2006B	Jun 1, 2006	4.55-5.00	June 1, 2024	100,000-275,000	1,790,000	1,790,000
Total						<u>\$ 2,605,000</u>

A summary of the annual revenue bond principal and interest requirements to maturity at June 30, 2013 is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 170,000	118,650	288,650
2015	185,000	110,490	295,490
2016	195,000	101,518	296,518
2017	205,000	91,865	296,865
2018	210,000	82,013	292,013
2019-2023	1,205,000	250,787	1,455,787
2024	275,000	13,750	288,750
Total	<u>\$ 2,445,000</u>	<u>769,073</u>	<u>3,214,073</u>

A summary of the annual revenue bond principal and interest requirements to maturity at June 30, 2012 is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 160,000	126,170	286,170
2014	170,000	118,650	288,650
2015	185,000	110,490	295,490
2016	195,000	101,518	296,518
2017	205,000	91,865	296,865
2018-2022	1,150,000	305,932	1,455,932
2023-2024	540,000	40,618	580,618
Total	<u>\$ 2,605,000</u>	<u>895,243</u>	<u>3,500,243</u>

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the Authority is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$15,851, \$16,152 and \$12,680, respectively, equal to the required contribution for each year.

(6) Due from other Governments

The Authority entered into a memorandum of agreement with Pottawattamie County on February 23, 2004, which was amended on July 9, 2007. Pursuant to the agreement, the County is to pay the Authority \$1,000,000 for improvements made by the Authority to a County road. Payment is to be made in semi-annual installments on July 1 and December 1 each year, beginning July 1, 2006 and ending on or about December 31, 2015. The County made payments of \$400,000 and \$70,000 for each of the years ended June 30, 2013 and 2012, respectively. The \$400,000 paid by the County during fiscal year 2013 included \$40,000 in excess of the actual amount owed. The Authority has recorded a corresponding liability in the financial statements to reflect the amount owed back to the County at June 30, 2013. The amount due from the County consisted of the following:

	June 30,	
	2013	2012
Current portion	\$ -	360,000
Discount	-	(15,173)
Total	\$ -	344,827

(7) Related Party Transactions

The Authority contracts with Advanced Air, Inc. to be the fixed base operator (FBO) at the Authority. The President of Advanced Air, Inc. is the daughter of the Executive Director of the Authority. Payments to Advanced Air, Inc. from the Authority for the years ended June 30, 2013 and 2012 were \$41,201 and \$49,088, respectively.

(8) Risk Management

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

(9) EPA Commitment

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

As of June 30, 2012, the Authority was notified of the EPA's intent to file an administrative complaint seeking \$177,500 of civil penalties for violation of the Clean Water Act. The Authority was offered an opportunity to negotiate a resolution of the proposed penalty prior to the EPA's filing of the complaint. A settlement was reached and the Authority paid \$60,000 in civil penalties in September 2013. A liability has been recorded in the financial statements at June 30, 2013 to reflect the \$60,000 owed to the EPA at that date.

(10) Pending Litigation

The Authority is a defendant in a lawsuit for which the probability and amount of loss, if any, is undeterminable.



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

To the Members of the Council Bluffs
Airport Authority:

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Council Bluffs Airport Authority as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council Bluffs Airport 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 the Council Bluffs Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs Airport Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Council Bluffs Airport Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items (A) through (E), we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council Bluffs Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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 year ended June 30, 2013 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.

Council Bluffs Airport Authority's Responses to the Findings

The Council Bluffs Airport Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Council Bluffs Airport 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 the Council Bluffs Airport Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 26, 2013

Council Bluffs Airport Authority

Schedule of Findings

Year ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Billings, Collections and Delinquent Accounts – Although hangar rent billings, collections and delinquent accounts are accounted for by the administrative assistant weekly, there is no evidence of independent review of the billings and related collections.

Recommendation – The Authority should establish procedures to provide a periodic independent review of hangar rent billings, collections and delinquent accounts.

Response – The Board will assign an independent representative to review billings, collections and delinquent accounts.

Conclusion – Response accepted.

- (B) Receipts – An independent person does not open the mail and prepare an initial listing of collections.

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

Response – The Board will assign an independent representative to periodically open mail and prepare a listing of collections.

Conclusion – Response accepted.

- (C) Disbursements – Policies do not prohibit blank checks from being signed in advance.

Recommendation – Checks should only be signed when the completed check and appropriate supporting documentation are available for review. Prior to signing, the checks and supporting documentation should be reviewed for propriety and approved for payment.

Response – The accounting policies of the Authority provide that checks are only signed when accompanied by an approved claim. The Board will emphasize that blank checks will not be signed and will review the policy to make it clearer, if necessary.

Conclusion – Response accepted.

Council Bluffs Airport Authority

Schedule of Findings

Year ended June 30, 2013

- (D) Financial Reporting – During the audit, we identified payables not recorded in the Authority’s financial statements. Adjustments were subsequently made by the Authority to properly include these amounts in the financial statements.

Recommendation – The Authority should implement procedures to ensure all payables are identified and properly recorded in the Authority’s financial statements.

Response – Both of these payables were found after June 30, 2013. The Authority will be cognizant and record such payables in the future.

Conclusion – Response accepted.

- (E) Capital assets – Written approval is not required prior to deleting items from the capital asset record.

The Airport sold a copier to Advanced Air, Inc., a company owned and operated by the Executive Director’s daughter, for \$800. There is no evidence the sale was approved by the Authority Board or measures were taken to ensure a fair price was received for the asset.

Recommendation – The Authority should establish a formal policy requiring written approval for all asset dispositions.

Transactions between the Authority and Advanced Air, Inc., including asset dispositions, should be approved by the Authority Board prior to the transaction. Measures should be taken (i.e. competitive bidding) to ensure all such transactions are arms-length in fact and appearance.

Response – The majority of the unapproved deletions were for computers and printers that have been replaced and the old ones abandoned. In addition, two old pieces of equipment were sold several years ago and had not been deleted. The Authority will keep the capital assets schedule up to date in the future.

Conclusion – Response acknowledged. In addition, the Authority should establish procedures to ensure all transactions with Advanced Air, Inc. are approved by the Authority Board and measures are taken to ensure the transactions are arms-length in fact and appearance.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Council Bluffs Airport Authority

Schedule of Findings

Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

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

Paid To	Purpose	Amount
Hy-Vee	Food, pop, coffee, supplies for breakroom and Board meetings, net of \$375 Board member reimbursements	\$ 1,162

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

Recommendation – The Authority should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Authority should establish written policies and procedures, including the requirement for proper documentation.

Response – The above expenditures are for cups, plates, coffee, etc., and are used for visitors, persons doing business for/with the airport and other airport related functions. The entertainment policy (currently in effect) will be expanded to cover these practices.

Conclusion – Response acknowledged. The policy should also document how the public benefits from these expenditures.

- (2) Travel Expenses – No expenditures of Authority money for travel expenses of spouses of Authority officials or employees were noted.
- (3) Authority Minutes – No transactions were found that we believe should have been approved in the Authority minutes but were not.
- (4) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Authority’s investment policy were noted.
- (5) Authority Provided Vehicle – The Authority provides a vehicle to the Executive Director for business use. Pursuant to the Internal Revenue Service (IRS) Fringe Benefit Guide, Publication 15-B, personal vehicle use is defined as “Commuting between residence and work station, and vacation, weekend use, or use by spouse or dependents”. Also in accordance with the IRS Fringe Benefit Guide, personal use of employer provided vehicles is a taxable benefit to the employee. If the employee provides records to substantiate the personal versus business use of the vehicle, only the personal use is taxable. However, in the absence of records substantiating use, the value of all use of the vehicle represents wages to the employee.

Council Bluffs Airport Authority

Schedule of Findings

Year ended June 30, 2013

The Authority has implemented a policy to deduct 50 cents for every mile that was recorded as personal use from the Director's salary. However, the Authority did not include commuting between his residence and his work station as personal miles and, beginning January 1, 2013, the standard IRS mileage rate was 56.5 cents per mile. There is no independent review of the Executive Director's mileage log.

We reviewed the Executive Director's mileage log for the month of May 2013 and noted 93.2 miles were reported as personal use, resulting in that month's payroll deduction of \$46.60 (93.2 miles x 50 cents/mile). However, after adding commuting miles and using the correct IRS rate of 56.5 cents per mile, the 359.1 miles of personal use of the Authority's vehicle for the month of May should have resulted in a \$202.89 wage deduction.

Recommendation – The Authority should comply with IRS guidelines when determining personal use miles (i.e., include commuting miles) and should use the proper IRS mileage rate in calculating wage deductions for the Director's personal use of the Authority's vehicle. An independent review of the Director's mileage log should be performed, including periodically tracing log mileage to the vehicle's actual mileage. In accordance with an Attorney General's opinion dated May 13, 1993, personal use should be limited and incidental to the business purposes for which the vehicle is provided.

Response – The vehicle usage policy of the Authority provides for a vehicle to be used by the Executive Director for the convenience of the Authority. IRS Code section 132 refers to diminimus amounts of personal use and to unusual circumstances surrounding the vehicle being provided. Whereby, we believe the amount of personal use to be diminimus, the Authority does require reimbursement for any personal use. Under the IRS Code, a working fringe benefit does not tax commuting mileage if the employee is expected to be flexible and available to be at the place of work at any and all hours. The Executive Director is on call at all times for any emergency at the airport. Also, the vehicle in question has to be equipped with lights and the ability to transport people and equipment. In addition to the above, it has a GVW (gross vehicle weight) in excess of 6,000 lbs. (pounds). It would typically be an all-wheel drive vehicle for inclement weather.

Conclusion – Response acknowledged. The IRS Taxable Fringe Benefit Guide (IRS Guide) defines commuting as "travel between an employee's personal residence and main or regular place of work" and states "reimbursements for these expenses are never excludable" (i.e., are taxable wages). The IRS Guide also discusses commuting expenses and provides examples of commuting for which reimbursements are taxable, including:

- "An employee drives from his residence to his principal or regular workplace(s) (during or after work hours, whether required or not by employer)" and
- "An employee drives from her residence to her regular workplace on the weekend because of an urgent meeting convened by her employer."

Council Bluffs Airport Authority

Schedule of Findings

Year ended June 30, 2013

The IRS Guide defines de minimis fringe benefits as “Property or services, provided by an employer for an employee, with a value so small that accounting for it is unreasonable or administratively impracticable. The value of the benefit is determined by the frequency it is provided to each individual employee, or, if this is not administratively practical, by the frequency provided by that employer to the workforce as a whole. § 132(e), Reg. IRC § 1.132-6(b).” The IRS Guide, defines infrequent as “not more than one day per month” and states “The (de minimis) rule is available to cover infrequent, occasional situations. Reg. § 1.132-6(d); Reg. § 1.132-6(e)(2)”.

The IRS Guide also discusses qualified nonpersonal use vehicles, defined as “any vehicle the employee is not likely to use more than minimally for personal purposes because of its design” and identifies qualified nonpersonal use vehicles as generally including all of the following:

- Clearly marked police, fire, or public safety officer vehicles.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized.
- Qualified specialized utility repair truck meeting all the following:
 - The truck (not a van or pickup) is designed to carry tools, equipment, etc.
 - The truck has permanent interior construction, including shelves and racks.
 - The employer must require the employee to commute for emergency call-outs to restore or maintain utility services (i.e. gas, water, sewer). Reg. § 1.274-5T(k)(5)
- An ambulance or hearse used for its specific purpose.
- Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds.
- Delivery trucks with seating for the driver only, or the driver plus a folding jump seat.
- A passenger bus with a capacity of at least 20 passengers used for its specific purpose.
- Construction or specially designed work vehicles (i.e., bucket trucks, dump trucks, cement mixers, forklifts, garbage trucks).
- School buses.
- Tractors, combines and other special-purpose farm vehicles. Reg. § 1.274-(k)(2)

Regarding pickup trucks, the IRS Guides states these “must be either:

1. Equipped with **at least one** of the following items:
 - a. A hydraulic lift gate.
 - b. Permanent tanks or drums.

Council Bluffs Airport Authority

Schedule of Findings

Year ended June 30, 2013

- c. Permanent side boards or panels that materially raise the level of the sides of the truck bed.

or

2. Used primarily to transport a particular type of load (other than over the public highways) in a construction, manufacturing, processing, arming, mining, drilling, timbering, or other similar operation for which it was specially designed or significantly modified.”

Based on IRS guidelines, there appear to be no circumstances pertaining to the Director’s commuting miles that would allow exclusion from taxable wages. It does not appear the Executive Director’s use of the Authority’s vehicle meets the IRS definition of diminimus, nor does the Authority’s vehicle meet the IRS definition of a qualified nonpersonal use vehicle for purposes of excluding commuting mileage from income.

The Authority should contact the IRS to determine the disposition of this matter. In addition, procedures should be established to ensure independent review of the Director’s mileage log.

Council Bluffs Airport Authority

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Jenny M. Podrebarac, Senior Auditor
Russell G. Jordan, CPA, Staff Auditor
Michael A. Chervek, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State