

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

**ARKANSAS CITY AND WINFIELD, KANSAS**

**FINANCIAL STATEMENT**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

**EDW. B. STEPHENSON & CO., CPAs CHARTERED**

1002 Main  
Winfield, Kansas 67156  
(620) 221-9320

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**  
**ARKANSAS CITY AND WINFIELD, KANSAS**  
 FINANCIAL STATEMENT  
 FOR THE YEAR ENDED DECEMBER 31, 2012

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## INDEPENDENT AUDITORS' REPORT

*EDW. B  
STEPHENSON  
& CO., CPAs  
CHARTERED*

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EDW. B. STEPHENSON  
(1905-1985)

JAMES R. DOBBS  
(1927-1997)

HARRY L. SHETLAR, JR.  
(1931-2000)

MORRIS W. JARVIS  
(1935-1999)

N. DEAN BRADBURY  
(1936-2005)

LOREN L. PONTIOUS  
(Retired)

### SHAREHOLDERS

AARON R. IVERSON, CPA

MICHAEL B. NORTON, CPA

MAURICE P. ROBERTS, CPA

### ACCOUNTANTS

SARAH M. KINDT

MELISSA J. SCHOOLEY

HEIDI M. HUENERGARDT, CPA

Strother Field Commission  
Strother Field Airport-Industrial Park  
Arkansas City and Winfield, Kansas

### ***Report on the Financial Statements***

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, a Municipal Financial Reporting Entity as of and for the year ended December 31, 2012 and the related notes to the financial statement.

### ***Management's responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 – Basis of Accounting, to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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***Opinions***

*Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1 – Basis of Accounting of the financial statement, the financial statement is prepared by Strother Field Airport-Industrial Park to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between regulatory basis of accounting described in Note 1 – Basis of Accounting, and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Strother Field Airport-Industrial Park as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

*Opinion on Regulatory Basis of Accounting*

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Strother Field Airport-Industrial Park as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1 – Basis of Accounting.

***Other Matters***

*Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the 2012 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual, individual fund schedules of regulatory basis receipts and expenditures-actual, (schedules 1 and 2 as listed in the table of contents) and are presented for analysis and are not a required part of the 2012 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The schedule of expenditures of federal awards, (appendix C as listed in the table of contents) as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statement. The 2012 information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 basic financial statement or the 2012 basic financial statement itself, and other additional procedures in

**Strother Field Airport-Industrial Park August 2, 2013 Independent Auditor's Report**

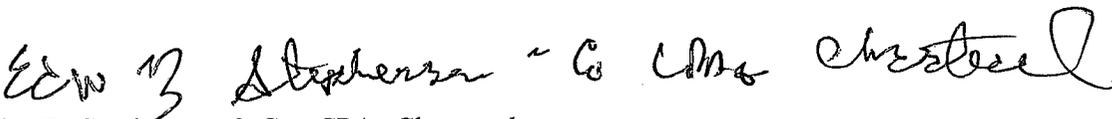
accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 supplementary information is fairly stated in all material respects in relation to the 2012 basic financial statement as a whole, on the basis of accounting described in Note 1 – Basis of Accounting.

The 2011 Actual columns presented in the individual fund schedules of regulatory receipts and expenditures-actual (Schedule 2 as listed in the table of contents) are also presented for comparative analysis and are not a required part of the 2011 basic financial statement upon which we rendered an unqualified opinion dated August 29, 2012. The 2011 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of Kansas Department of Administration, Office of Management Analysis and Standards at the following line <http://da.ks.gov/ar/muniserv/>. Such 2011 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 basic financial statement. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 basic financial statement or to the 2011 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 basic financial statement as a whole, on the basis of accounting described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards* we have also issued our report dated August 2, 2013, on our consideration of Strother Field Airport-Industrial Park's internal control over financial reporting and on our test 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 accessing the results of our audit.

This report is intended solely for the information of the Strother Field Airport-Industrial Park Commission, management, the Kansas Department of Transportation, the U. S. Department of Transportation, the Federal Aviation Administration, and for filing with the Kansas Department of Administration and Division of Accounts and Reports, and should not be used for any other purpose.



Edw. B. Stephenson & Co., CPAs Chartered

August 2, 2013

## **FINANCIAL SECTION**

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Summary Statement of Receipts, Expenditures and Unencumbered Cash

Regulatory Basis

For the Year Ended December 31, 2012

| Funds                                              | Beginning<br>Unencumbered<br>Cash Balance | Prior Year<br>Cancelled<br>Encumbrance<br>s | Receipts              | Expenditures          | Ending<br>Unencumbered<br>Cash Balance | Add<br>Encumbrances<br>and Accounts<br>Payable | Ending Cash<br>Balance |
|----------------------------------------------------|-------------------------------------------|---------------------------------------------|-----------------------|-----------------------|----------------------------------------|------------------------------------------------|------------------------|
| Governmental Type Funds:                           |                                           |                                             |                       |                       |                                        |                                                |                        |
| Special Purpose Funds:                             |                                           |                                             |                       |                       |                                        |                                                |                        |
| Taxiway Improvements - Runway - Grant (Project 18) | \$ -                                      | \$ -                                        | \$ 79,984.00          | \$ 79,984.00          | \$ -                                   | \$ -                                           | \$ -                   |
| Taxiway Improvements - Runway - Grant (Project 19) | -                                         | -                                           | 1,295,802.11          | 3,525,093.52          | (2,229,291.41)                         | 2,238,815.47                                   | 9,524.06               |
| FAA Improvement Reserve Fund                       | 555,543.68                                | -                                           | 2,130.88              | 81,176.72             | 476,497.84                             | -                                              | 476,497.84             |
| Capital Projects Fund                              | -                                         | -                                           | 104,839.68            | 121,431.96            | (16,592.28)                            | -                                              | (16,592.28)            |
| Business Funds:                                    |                                           |                                             |                       |                       |                                        |                                                |                        |
| Enterprise Fund                                    | <u>2,121,796.17</u>                       | <u>-</u>                                    | <u>748,765.34</u>     | <u>663,597.33</u>     | <u>2,206,964.18</u>                    | <u>7,971.49</u>                                | <u>2,214,935.67</u>    |
| Total Reporting Entity                             | <u>\$2,677,339.85</u>                     | <u>\$ -</u>                                 | <u>\$2,231,522.01</u> | <u>\$4,471,283.53</u> | <u>\$ 437,578.33</u>                   | <u>\$ 2,246,786.96</u>                         | <u>\$ 2,684,365.29</u> |

Composition of Cash:

|                               |                       |
|-------------------------------|-----------------------|
| Petty Cash                    | \$ 100.00             |
| Checking-Cornerbank, N.A.     | 531,487.16            |
| Money Market-Union State Bank | 93,773.49             |
| CDs-Union State Bank          | 494,865.88            |
| CDs-Cornerbank, N.A.          | 517,877.64            |
| CDs-RCB Bank                  | 756,668.92            |
| CDs-Community National Bank   | 143,745.00            |
| CDs-Stock Exchange Bank       | 145,847.20            |
|                               | <u>\$2,684,365.29</u> |

Total Reporting Entity

The notes to the financial statement are an integral part of this statement.

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes To The Financial Statement  
For The Year Ended December 31, 2012

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Municipal Financial Reporting Entity

Strother Field Airport-Industrial Park was created October 6, 1966, through a mutual contract between Arkansas City, Kansas, and Winfield, Kansas, pursuant to K.S.A. 12-2905 (Inter-Local Cooperation Act). Strother Field Airport-Industrial Park is jointly governed by the Cities of Arkansas City and Winfield. The Strother Field Airport-Industrial Park Commission, the Governing Body, consists of three members of the City Commissions from each city, with the City Manager and City Attorney from each city acting as ex-officio members, and one County Commissioner. The county commissioner is a voting commissioner, however is not a tie-breaker in voting. For financial reporting purposes, the financial statement includes all of the operations of the Strother Field Airport-Industrial Park as a governmental unit.

### Regulatory Basis Fund Types

The financial transactions of Strother Field are recorded in individual funds. A fund is defined as an independent fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

In accordance with State of Kansas Statutes, the following different types of funds comprise the financial activities of Strother Field for the year ending December 31, 2012:

Special Purpose fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Capital Project fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund, electric fund, etc.).

### Basis of Accounting

*Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrances obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Industrial Park has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Industrial Park to use the regulatory basis of accounting.

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes To The Financial Statement  
For The Year Ended December 31, 2012

## Budget

Strother Field is not subject to K.S.A. 79-2925, which requires that budgets be prepared for all taxing subdivisions of the state.

## Ad Valorem Taxes

K.S.A. 79-201r exempts Strother Field from ad valorem taxation for all taxable years commencing after December 31, 1991.

## **NOTE 2 DEPOSITS AND INVESTMENTS**

### Cash and Investments

The Industrial Park's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

K.S.A. 9-1401 establishes the depositories which may be used by the Industrial Park. The statute requires banks eligible to hold the Industrial Park's funds have a main or branch bank in the county in which the city is located, or in an adjoining county if such institution has been designated as an official depository, and the banks to provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Industrial Park has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Industrial Park's investment of idle funds to time deposits, open accounts, and certificate of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Industrial Park has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk.* State statutes place no limit on the amount the Industrial Park can invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Industrial Park manages this risk by placing funds with financial institutions only after contacting all eligible institutions in the taxing area.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that, in the event of the failure of the issuer, or counter party, the Industrial Park will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State statutes require investments to be adequately secured, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012, by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka

There are currently restrictions on the use of a portion of the Industrial Park's cash and cash equivalents. Those funds can only be used for purposes approved by the Federal Aviation Administration (FAA). Surplus agricultural land was sold during 2005 that had been given to Strother Field by the FAA. The use of those proceeds must be in accordance with FAA guidelines. The total of the Industrial Park's restricted funds as of December 31, 2012 are \$476,497.84.

At December 31, 2012, the Industrial Park's carrying amount of deposits was \$2,684,365.29 and the bank balance was \$3,320,334.61. The bank balance was held among five banks resulting in a concentration of credit risk with three of the banks. Of the bank balance \$1,107,984.61 was covered by federal deposit insurance;

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes To The Financial Statement  
For The Year Ended December 31, 2012

\$2,354,488.38 was collateralized with securities held by the pledging financial institutions' agents in the Industrial Park's name.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Municipality will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

## **NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### Deficit Cash/Unencumbered Cash for Individual Funds

Special Purpose Fund – Taxiway Improvements – Runway – Grant (Project #19) has a deficit unencumbered balance at December 31, 2012. This project is reimbursed by the Federal Aviation Administration. Note 12 shows the reimbursements received after year end.

Special Purpose Fund – Capital Projects a deficit unencumbered balance at December 31, 2012. This fund includes a project through the State of Kansas – Water Pollution Control Revolving Loan Program – provides project payments after expenditures have been spent.

### Compliance with Kansas Statutes

Management is not aware of any statutory violations for the period covered by the audit.

## **NOTE 4 LONG-TERM DEBT**

The City of Winfield provided street, sewer, water and street lighting improvements to B & B Theatres. The City of Winfield issued General Obligation Bonds to Strother Field to pay the City of Winfield back for the above improvements. The debt will be serviced over ten years with an average interest rate of 3.867%. If Strother Field does not for any reason satisfy its payment obligations, the cities of Arkansas City and Winfield shall each be responsible for paying one-half of the principal and interest. Actual principal payments may vary depending on the final Project costs.

On February 20, 2007 Strother Field entered into a loan agreement with the Kansas Department of Health and Environment (KDHE) to retrofit and rehabilitate the existing mechanical wastewater treatment facility. The KDHE will loan Strother Field \$1,271,849.23 of which \$1,231,250 may be used for project costs and \$40,599.23 is required for a Reserve Account. The terms of the loan are as follows, an interest rate (gross rate) of 2.50% per annum, and forty loan payments in the amount of \$40,599.23 to be paid bi-annually starting on September 1, 2008 with the last payment to be paid on March 1, 2028. As of December 31, 2012 Strother field has advanced \$879,822.66 of the KDHE loan of which \$851,737.47 is project costs and \$28,085.19 is placed in the reserve account. Currently the project is still on going, therefore, the current maturities on long-term debt and interest will not be disclosed for the KDHE loan until the project is completed and the KDHE has amended the loan agreement.

## STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes to the Financial Statement  
For the Year Ended December 31, 2012

Changes in long-term liabilities for the Entity for the year ended December 31, 2012, were as follows:

| Issue                                                                   | Interest Rates | Date of Issue | Amount of Issue | Date of Final Maturity | Balance Beginning of Year | Additions           | Reductions/ Payments | Net Change        | Balance End of Year | Interest Paid      |
|-------------------------------------------------------------------------|----------------|---------------|-----------------|------------------------|---------------------------|---------------------|----------------------|-------------------|---------------------|--------------------|
| Theatre Street/Light Improvements- Note Payable to the City of Winfield | 3.87%          | 9/1/06        | \$ 52,700.20    | 9/1/2016               | \$ 23,430.18              | \$ -                | \$ 5,528.48          |                   | \$ 17,901.70        | \$ 906.16          |
| State of Kansas-Water Pollution Control Revolving Loan Program          | 2.50%          | 2/20/2007     | 1,271,849.23    | 3/1/2028               | 541,449.25                | 108,296.66          | 67,868.07            |                   | 581,877.84          | 13,308.65          |
| Total Contractual Indebtedness                                          |                |               |                 |                        | \$ 564,879.43             | \$108,296.66        | \$ 73,396.55         |                   | \$599,779.54        | \$14,214.81        |
| Compensated Absences                                                    |                |               |                 |                        | 9,405.96                  |                     |                      | \$(153.45)        | 9,252.51            | N/A                |
| ∞ Total Long-Term Debt                                                  |                |               |                 |                        | <u>\$ 574,285.39</u>      | <u>\$108,296.66</u> | <u>\$ 73,396.55</u>  | <u>\$(153.45)</u> | <u>\$609,032.05</u> | <u>\$14,214.81</u> |

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes to the Financial Statement  
For the Year Ended December 31, 2012

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

|                                                                         | Year               |                    |                    |                    |                    |                     | Total               |
|-------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
|                                                                         | 2013               | 2014               | 2015               | 2016               | 2017               | 2018-2023           |                     |
| <b>PRINCIPAL</b>                                                        |                    |                    |                    |                    |                    |                     |                     |
| Theatre Street/Light Improvements- Note Payable to the City of Winfield | \$ 5,742.29        | \$ 5,964.37        | \$ 6,195.04        | \$ -               | \$ -               | \$ -                | \$ 17,901.70        |
| State of Kansas-Water Pollution Control Revolving Loan Program          | 67,068.08          | 68,755.27          | 70,484.89          | 72,258.03          | 74,075.76          | 229,235.81          | 581,877.84          |
| <b>TOTAL PRINCIPAL</b>                                                  | <u>\$72,810.37</u> | <u>\$74,719.64</u> | <u>\$76,679.93</u> | <u>\$72,258.03</u> | <u>\$74,075.76</u> | <u>\$229,235.81</u> | <u>\$599,779.54</u> |
| <b>INTEREST</b>                                                         |                    |                    |                    |                    |                    |                     |                     |
| Theatre Street/Light Improvements- Note Payable to the City of Winfield | \$ 692.34          | \$ 470.26          | \$ 239.60          | \$ -               | \$ -               | \$ -                | \$ 1,402.20         |
| State of Kansas-Water Pollution Control Revolving Loan Program          | 14,130.38          | 12,443.19          | 10,713.57          | 8,940.43           | 7,122.70           | 9,998.58            | 63,348.85           |
| <b>TOTAL INTEREST</b>                                                   | <u>\$14,822.72</u> | <u>\$12,913.45</u> | <u>\$10,953.17</u> | <u>\$ 8,940.43</u> | <u>\$ 7,122.70</u> | <u>\$ 9,998.58</u>  | <u>\$ 64,751.05</u> |
| <b>TOTAL PRINCIPAL AND INTEREST</b>                                     | <u>\$87,633.09</u> | <u>\$87,633.09</u> | <u>\$87,633.10</u> | <u>\$81,198.46</u> | <u>\$81,198.46</u> | <u>\$239,234.39</u> | <u>\$664,530.59</u> |

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes To The Financial Statement  
For The Year Ended December 31, 2012

## **NOTE 5 OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS**

### Consolidated Omnibus Budget Reconciliation Act (COBRA)

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Industrial Park makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the Industrial Park under this program.

### Compensated Absences

Employees with less than eight (8) continuous years of service will accrue vacation leave at the rate of twelve (12) days per year (or an equivalent thereof) up to maximum of eighteen (18) days (or equivalent), after which no further accrual is permitted. Employees with eight (8) continuous years of service or more will accrue vacation at the rate of eighteen (18) days per year (or an equivalent thereof) up to a maximum of twenty-four (24) days (or equivalent) after which no further accrual is permitted. Vacation leave is accrued on a pro-rata basis during each normal pay period. Employees who terminate their employment in good standing may be paid for all accrued vacation. At December 31, 2012 earned but unused vacation leave amounted to \$9,252.51.

## **NOTE 6 DEFINED BENEFIT PENSION PLAN**

*Plan description.* The Industrial Park participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603), at the following website: <http://kpers.org/annualreport2012.pdf> or by calling 1-888-275-5737.

*Funding Policy.* K.S.A. 74-419 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% for covered salary for Tier 1 members and at 6% for covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 4149H of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS are funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

## **NOTE 7 FEDERAL GRANT - FEDERAL AVIATION ADMINISTRATION**

Strother Field has two federal grants with the CFDA 20.106 Airport Improvement Program. Strother Field tracks these grants by project numbers. Project 18, for Reconstruction of Taxiway A and Square the Connector to the Runway, was awarded in 2011 and the engineering phase was completed in 2011. Project 19, for Reconstruction of Taxiway A was awarded in 2012 and is still in progress at the end of the year.

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Notes To The Financial Statement  
For The Year Ended December 31, 2012

## NOTE 8 INTERFUND TRANSFERS

The following is a summary of transfers between funds during the year:

| From Fund           | To General<br>Fund | To Special<br>Purpose<br>Fund | To Capital<br>Projects<br>Fund | To Business<br>Fund | Total<br>Transfers Out |
|---------------------|--------------------|-------------------------------|--------------------------------|---------------------|------------------------|
| Enterprise          | \$ -               | \$ 132,557.11                 | \$ -                           | \$ -                | \$ 132,557.11          |
| Special Purpose     | -                  | -                             | -                              | -                   | -                      |
| FAA Improvement     | -                  | -                             | -                              | -                   | -                      |
| Capital Projects    | -                  | -                             | -                              | -                   | -                      |
| Other               | -                  | -                             | -                              | -                   | -                      |
| <b>Total</b>        |                    |                               |                                |                     |                        |
| <b>Transfers In</b> | <u>\$ -</u>        | <u>\$ 132,557.11</u>          | <u>\$ -</u>                    | <u>\$ -</u>         | <u>\$ 132,557.11</u>   |

## NOTE 9 CONTINGENCIES

### Environmental

The EPA placed the Strother Field Industrial Park Superfund Site on the National Priorities List, which the EPA believes require remediation because of a potential release of hazardous substances from the site.

Under a Cost Allocation Agreement, General Electric and Grief Brothers Corporation are obligated to pay all costs of the remedial action and response costs reimbursements to EPA. There is a theoretical risk that in the future either GE or Greif could become incapable of meeting their financial obligations under the Cost Allocation Agreement. It is uncertain whether Strother Field's insurance policies will cover any of such costs it may have to bear. Because of this risk, the final cost to Strother Field cannot be stated with certainty, and no estimate of the potential loss to Strother Field has been stated in this financial statement.

### FAA Restrictions

The sale of surplus agricultural land during 2005 generated over \$900,000 in funds for Strother Field to expend in the future. There are strict restrictions on how those funds can be expended. The uses that the funds have been expended on to date are reported in Schedule 2 of the supplementary information. The FAA Compliance Office has indicated that these uses are satisfactory to them.

## NOTE 10 FAA IMPROVEMENT RESERVE FUND

The sale of surplus agricultural land during 2005 generated over \$900,000 in funds for Strother Field to expend in the future. There are strict restrictions on how those funds can be expended. The Board of Commissioners and FAA approved to expend funds for repayment on the KDHE Water Pollution Revolving Loan Program, used for improvements for the wastewater plant. The uses that the funds have been expended on during the current and prior year are on Schedule 2 of the supplementary information. The FAA Compliance Office has indicated that these uses are satisfactory to them. In 2008 this fund was titled the Debt Service Fund and has been changed to be titled the FAA Improvement Reserve Fund in 2009.

# **STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Notes To The Financial Statement  
For The Year Ended December 31, 2012

## **NOTE 11 THREE YEAR OIL LEASES**

Strother Field entered into two separate three year oil leases in 2012. One lease is for 15.4 acres at \$650 per acre, which resulted in an additional \$10,010.00 in income outside the normal course of business. A second lease is for 320 acres at \$650 per acre, which resulted in an additional \$208,000.00 in income outside the normal course of business. The total oil lease income of \$218,010.00 is reflected in Schedule 2 – Enterprise Fund of the supplementary information in the Gas and Oil Income line item.

The Chesapeake Exploration LLC. lease includes a renewal clause which states the lessee shall have the option to extend the lease for an additional two years. The only action required would be the payment to Strother Field of an additional amount per acre equal to the same price paid to the lessor under the original terms of this lease times the net acres actually owned by the lessor.

Both leases are setup for Strother Field to receive 3/16 in royalties on any production over the three year period. There was no production in 2012.

## **NOTE 12 SUBSEQUENT EVENTS**

Strother Field received notice of inclusion of the FAA Reconstruct Taxiway A project for year 2014 in the Kansas Airport Improvement program offered through the Kansas Department of Transportation – Division of Aviation. This grant is designed to help with the decreased percentage of reimbursement from the FAA. The grant is 5% of the Reconstruct Taxiway A Project with a maximum amount of \$175,685.00.

The project 19, for Reconstruction of Taxiway A, is currently complete. Strother Field has completed 6 additional draw downs totaling \$1,416,905.00 in federal funds after year end. This project's total grant award is not to exceed \$3,162,318.00 and is a reimbursement of 90% of Strother Field's expenses. As of December 31, 2012, Strother Field has been reimbursed \$1,157,080.00 for \$1,285,643.91 of project expenses. Strother Field entered into an agreement with Garver LLC and TTK Construction CO., Inc. to complete the project contract and had \$2,228,542.27 in uncompleted contracts at the end of the year.

Subsequent events were evaluated through the date of the financial statement, August 2, 2013.

**REGULATORY-REQUIRED SUPPLEMENTARY  
INFORMATION**

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Summary of Expenditures – Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2012

| Funds                                                                 | Certified<br>Budget | Adjustment for<br>Qualifying<br>Budget Credits | Total<br>Budget for<br>Comparison | Expenditures<br>Chargeable to<br>Current Year | Variance -<br>Over<br>(Under) |
|-----------------------------------------------------------------------|---------------------|------------------------------------------------|-----------------------------------|-----------------------------------------------|-------------------------------|
| <b>Governmental Type Funds:</b>                                       |                     |                                                |                                   |                                               |                               |
| Special Purpose Funds                                                 |                     |                                                |                                   |                                               |                               |
| <i>No Special Purpose Funds are Subject to the Kansas Budget Laws</i> |                     |                                                |                                   |                                               |                               |
| Capital Projects Fund                                                 |                     |                                                |                                   |                                               |                               |
| <i>No Capital Projects Fund is Subject to the Kansas Budget Laws</i>  |                     |                                                |                                   |                                               |                               |
| <b>Business Funds:</b>                                                |                     |                                                |                                   |                                               |                               |
| Enterprise Funds                                                      |                     |                                                |                                   |                                               |                               |
| <i>No Enterprise Fund is Subject to the Kansas Budget Laws</i>        |                     |                                                |                                   |                                               |                               |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Special Purpose Fund-Taxiway Improvements - Runway - Grant (Project 18)

Schedule of Receipts and Expenditures

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                    | <u>2011</u>     | <u>2012</u>     |
|------------------------------------|-----------------|-----------------|
| Receipts                           |                 |                 |
| Grants-FAA                         | \$ 65,091.00    | \$ 75,877.00    |
| Other Support                      | 3,425.04        | -               |
| Transfer in from Enterprise Fund   | -               | 4,107.00        |
|                                    | <u>        </u> | <u>        </u> |
| Total Receipts                     | \$ 68,516.04    | \$ 79,984.00    |
|                                    | <u>        </u> | <u>        </u> |
| Expenditures                       |                 |                 |
| Taxiway Expenditures               | \$ 68,516.04    | \$ 79,984.00    |
| Transfer to Enterprise Fund        | -               | -               |
|                                    | <u>        </u> | <u>        </u> |
| Total Expenditures                 | \$ 68,516.04    | \$ 79,984.00    |
|                                    | <u>        </u> | <u>        </u> |
| Receipts Over (Under) Expenditures | \$ -            | \$ -            |
| Unencumbered Cash - Beginning      | <u>        </u> | <u>        </u> |
|                                    | -               | -               |
| Unencumbered Cash - Ending         | <u>        </u> | <u>        </u> |
|                                    | \$ -            | \$ -            |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Special Purpose Fund-Taxiway Improvements - Runway - Grant (Project 19)

Schedule of Receipts and Expenditures

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                    | <u>2011</u>                 | <u>2012</u>                     |
|------------------------------------|-----------------------------|---------------------------------|
| Receipts                           |                             |                                 |
| Grants-FAA                         | \$ -                        | \$ 1,167,352.00                 |
| Other Support                      | -                           | -                               |
| Transfer in from Enterprise Fund   | -                           | 128,450.11                      |
|                                    | <u>                    </u> | <u>                    </u>     |
| Total Receipts                     | <u>\$ -</u>                 | <u>\$ 1,295,802.11</u>          |
| Expenditures                       |                             |                                 |
| Taxiway Expenditures               | \$ -                        | \$ 3,525,093.52                 |
| Transfer to Enterprise Fund        | -                           | -                               |
|                                    | <u>                    </u> | <u>                    </u>     |
| Total Expenditures                 | <u>\$ -</u>                 | <u>\$ 3,525,093.52</u>          |
| Receipts Over (Under) Expenditures | \$ -                        | \$ (2,229,291.41)               |
| Unencumbered Cash - Beginning      | <u>-</u>                    | <u>-</u>                        |
| Unencumbered Cash - Ending         | <u><u>\$ -</u></u>          | <u><u>\$ (2,229,291.41)</u></u> |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

FAA Improvement Reserve Fund  
 Schedule of Receipts and Expenditures  
 Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                                       | 2011           | 2012           |
|-------------------------------------------------------|----------------|----------------|
| Receipts                                              |                |                |
| Interest Income                                       | \$ 5,681.43    | \$ 2,130.88    |
| Transfer from Enterprise Fund                         | -              | -              |
|                                                       | \$ 5,681.43    | \$ 2,130.88    |
| Total Receipts                                        | \$ 5,681.43    | \$ 2,130.88    |
| Expenditures                                          |                |                |
| Water Tower Bond Principal Payment                    | \$ -           | \$ -           |
| Water Tower Bond Interest Payment                     | -              | -              |
| Lighting Note Principal Payment                       | -              | -              |
| Lighting Note Interest Payment                        | -              | -              |
| KDHE Water Pollution Revolving Loan Program Principal | 67,789.48      | 69,179.36      |
| KDHE Water Pollution Revolving Loan Program Interest  | 13,308.65      | 11,997.36      |
|                                                       | \$ 81,098.13   | \$ 81,176.72   |
| Total Expenditures                                    | \$ 81,098.13   | \$ 81,176.72   |
| Receipts Over (Under) Expenditures                    | \$ (75,416.70) | \$ (79,045.84) |
| Unencumbered Cash - Beginning                         | 630,960.38     | 555,543.68     |
| Unencumbered Cash - Ending                            | \$ 555,543.68  | \$ 476,497.84  |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

## Capital Projects Fund

## Schedule of Receipts and Expenditures

## Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                           | <u>2011</u>                 | <u>2012</u>                  |
|-------------------------------------------|-----------------------------|------------------------------|
| Receipts                                  |                             |                              |
| Lighting Note Proceeds                    | \$ -                        | \$ -                         |
| Refund of Deposit and Interest - ESI Land | -                           | -                            |
| KDHE Loan Reimbursement                   | 10,693.00                   | 104,839.68                   |
| Transfer from Enterprise Fund             | -                           | -                            |
| Other Receipts                            | -                           | -                            |
|                                           | <u>                    </u> | <u>                    </u>  |
| Total Receipts                            | <u>\$ 10,693.00</u>         | <u>\$ 104,839.68</u>         |
| Expenditures                              |                             |                              |
| Hanger Capital Outlay                     | \$ -                        | \$ -                         |
| Land-ESI Capital Outlay                   | -                           | -                            |
| Wastewater Facility Capital Outlay        | 2,008.24                    | -                            |
| Transfer to Enterprise Fund               | 8,684.76                    | 121,431.96                   |
|                                           | <u>                    </u> | <u>                    </u>  |
| Total Expenditures                        | <u>\$ 10,693.00</u>         | <u>\$ 121,431.96</u>         |
| Cash Receipts Over (Under) Expenditures   | \$ -                        | \$ (16,592.28)               |
| Unencumbered Cash - Beginning             | <u>-</u>                    | <u>-</u>                     |
| Unencumbered Cash - Ending                | <u><u>\$ -</u></u>          | <u><u>\$ (16,592.28)</u></u> |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

## Enterprise Fund

## Statement of Cash Receipts and Expenditures

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                         | <u>2011</u>            | <u>2012</u>          |
|-----------------------------------------|------------------------|----------------------|
| Receipts                                |                        |                      |
| Charges for Services:                   |                        |                      |
| Water Sales                             | \$ 80,595.90           | \$ 72,599.35         |
| Sewer Service                           | 140,480.68             | 132,240.73           |
| High Pressure                           | 70,206.96              | 41,840.31            |
| Other Sales of Service                  | 295.61                 | 325.97               |
| Other Revenue:                          |                        |                      |
| Rental Income                           | 194,892.04             | 194,447.80           |
| Farm Income                             | 28,735.29              | 37,366.99            |
| Interest Income                         | 11,410.91              | 10,688.43            |
| Gas and Oil Income                      | 574,493.37             | 218,365.64           |
| Flowage Fee Income                      | 491.88                 | 753.92               |
| Concession Sales Income                 | 4,891.28               | 2,763.15             |
| Strother Field Day                      | -                      | (4,500.00)           |
| Adjust Revenues to Cash Basis Beginning | (18,687.81)            | 41,873.05            |
| Transfer from Other Funds               | 8,684.76               | -                    |
|                                         | <u>\$ 1,096,490.87</u> | <u>\$ 748,765.34</u> |
| Total Receipts                          |                        |                      |
| Expenditures                            |                        |                      |
| Personnel                               |                        |                      |
| Salaries & Wages                        | \$ 163,386.96          | \$ 162,205.93        |
| Employee Benefits                       | 45,442.99              | 54,164.83            |
| Subtotal Personnel                      | <u>\$ 208,829.95</u>   | <u>\$ 216,370.76</u> |
| Contractual                             |                        |                      |
| Travel                                  | \$ 4,318.45            | \$ 965.03            |
| Legal & Professional                    | 5,287.00               | 15,500.19            |
| Dues & Licenses                         | 1,622.02               | 2,374.59             |
| Commission                              | 1,813.72               | 2,464.51             |
| Public Relations                        | 2,199.61               | 1,883.10             |
| Training & Education                    | 675.00                 | 1,852.83             |
| Property Taxes                          | 90.94                  | 591.03               |
| Insurance                               | 33,771.12              | 35,652.12            |
| Water System Maintenance                | 7,169.10               | 11,500.21            |
| Sewage Plant Maintenance                | 350.00                 | 1,322.93             |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

## Enterprise Fund

## Statement of Cash Receipts and Expenditures

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                 | <u>2011</u>          | <u>2012</u>          |
|---------------------------------|----------------------|----------------------|
| Expenditures continued          |                      |                      |
| Vehicle & Equipment Maintenance | \$ 3,040.20          | \$ 2,641.80          |
| Building & Grounds Maintenance  | 5,036.50             | 18,293.32            |
| Gas & Electric                  | 38,351.44            | 33,804.75            |
| Telephone                       | 7,682.62             | 8,670.18             |
| Office Expense                  | 1,524.57             | 2,068.76             |
| Promotional                     | -                    | 380.00               |
| Fixed Base Operator             | 5,644.61             | 2,171.28             |
| Wastewater Analysis             | 2,962.77             | 3,261.06             |
| Water Analysis                  | 250.84               | 1,425.91             |
| Clean Water Fee                 | 1,391.10             | 1,478.63             |
| Telemetry Contract              | 1,500.00             | 3,000.00             |
| Subtotal Contractual            | <u>\$ 124,681.61</u> | <u>\$ 151,302.23</u> |
| Commodities                     |                      |                      |
| Cleaning Supplies               | \$ 430.72            | \$ 460.17            |
| Office Supplies                 | 2,195.38             | 2,444.06             |
| Equipment Parts & Supplies      | 3,483.65             | 2,290.84             |
| Building Parts & Supplies       | 8,607.22             | 10,423.19            |
| Water System Parts & Supplies   | 6,575.92             | 7,550.62             |
| Sewage Plant Supplies           | 1,228.03             | 3,122.12             |
| Chemicals                       | 2,277.16             | 4,239.81             |
| Vehicle Parts & Fuel            | 19,618.13            | 22,634.49            |
| Small Tools                     | -                    | 903.76               |
| Printing                        | -                    | -                    |
| Postage                         | 461.17               | 331.38               |
| Subtotal Commodities            | <u>\$ 44,877.38</u>  | <u>\$ 54,400.44</u>  |
| Capital Outlays-Miscellaneous   |                      |                      |
| Office Equipment & Furniture    | \$ 499.07            | \$ -                 |
| Motor Vehicle & Equipment       | 6,937.36             | -                    |
| Streets (less Reimbursements)   | 74,583.26            | 18,077.42            |
| Sewage Treatment                | 2,595.79             | -                    |
| Water System                    | 7,954.26             | 5,332.00             |
| Nav aids                        | 18,887.65            | (14,717.01)          |
| Building Improvements           | 4,820.91             | 85,068.84            |
| Runway Upkeep                   | 2,651.54             | 821.35               |

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

## Enterprise Fund

## Statement of Cash Receipts and Expenditures

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

|                                         | <u>2011</u>                   | <u>2012</u>                   |
|-----------------------------------------|-------------------------------|-------------------------------|
| Expenditures continued                  |                               |                               |
| Strother Field Day                      | \$ 988.24                     | \$ 1,113.25                   |
| SRF Loan Reimbursement                  | -                             | -                             |
| Due to FAA                              | -                             | 6,911.51                      |
| Tax in lieu                             | -                             | -                             |
| Other                                   | 7,230.96                      | 6,359.43                      |
| Subtotal Capital Outlays-Miscellaneous  | <u>\$ 127,149.04</u>          | <u>\$ 108,966.79</u>          |
| Operating Transfers                     |                               |                               |
| Transfer to FAA Projects Fund           | \$ 3,425.04                   | \$ 132,557.11                 |
| Transfer to Capital Projects Fund       | -                             | -                             |
| Transfer to Debt Service Fund           | -                             | -                             |
| Subtotal Transfers                      | <u>\$ 3,425.04</u>            | <u>\$ 132,557.11</u>          |
| Total Expenditures                      | <u>\$ 508,963.02</u>          | <u>\$ 663,597.33</u>          |
| Cash Receipts Over (Under) Expenditures | \$ 587,527.85                 | \$ 85,168.01                  |
| Unencumbered Cash - Beginning           | <u>1,534,268.32</u>           | <u>2,121,796.17</u>           |
| Unencumbered Cash - Ending              | <u><u>\$ 2,121,796.17</u></u> | <u><u>\$ 2,206,964.18</u></u> |

## **FEDERAL COMPLIANCE SECTION**

**EDW. B  
STEPHENSON  
& CO., CPAs  
CHARTERED**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

EDW. B. STEPHENSON  
(1905-1985)

JAMES R. DOBBS  
(1927-1997)

HARRY L. SHETLAR, JR.  
(1931-2000)

MORRIS W. JARVIS  
(1935-1999)

N. DEAN BRADBURY  
(1936-2005)

LOREN L. PONTIOUS  
(Retired)

**SHAREHOLDERS**

AARON R. IVERSON, CPA

MICHAEL B. NORTON, CPA

MAURICE P. ROBERTS, CPA

To the Strother Field Commission of the  
Strother Field Airport-Industrial Park  
Arkansas City and Winfield, Kansas

We have audited the regulatory basis receipts, expenditures, and unencumbered cash balances of the Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, as of and for the year ended December 31, 2012, and the related notes to the financial statement, which collectively comprise Strother Field Airport Industrial Park's basic financial statement and have issued our report thereon dated August 2, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit and Accounting Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**ACCOUNTANTS**

SARAH M. KINDT

MELISSA J. SCHOOLEY

HEIDI M. HUENERGARDT, CPA

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the internal control of the Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Industrial Park's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Industrial Park's internal control over financial reporting.

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

1002 Main Street  
Winfield, Kansas 67156  
620-221-9320  
FAX 620-221-9325

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (2012-1)

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 and questioned costs to be significant deficiencies. (2012-2 and 2012-3)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, 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 the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item (2012-4 and 2012-5).

Additional matters were communicated to management in a separate letter.

### Strother Field Airport Industrial Park's Response to Findings

Strother Field Airport Industrial Park's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Strother Field Airport Industrial Park's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

Edw J. Stephenson - Esq. CPA, Chartered  
 Winfield, Kansas  
 August 2, 2013

**EDW. B  
STEPHENSON  
& CO., CPAs  
CHARTERED**

EDW. B. STEPHENSON  
(1905-1985)

JAMES R. DOBBS  
(1927-1997)

HARRY L. SHETLAR, JR.  
(1931-2000)

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**ACCOUNTANTS**

SARAH M. KINDT

MELISSA J. SCHOOLEY

HEIDI M. HUENERGARDT, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Strother Field Commission of the  
Strother Field Airport-Industrial Park  
Arkansas City and Winfield, Kansas

**Report on Compliance for Each Major Federal Program**

We have audited Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on the Industrial Park's major federal program for the year ended December 31, 2012. The Industrial Park's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Industrial Park's major federal program based on our audit of the types of compliance referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Industrial Park's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Industrial Park's compliance.

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FAX 620-221-9325

### **Basis for Qualified Opinion on Airport Improvement**

As described in Findings 2012-4 and 2012-5 in the accompanying schedule of findings and questioned costs, the Industrial Park did not comply with requirements regarding the following:

| <b>Finding #</b> | <b>CFDA #</b> | <b>Program (or Cluster) Name</b> | <b>Compliance Requirement</b> |
|------------------|---------------|----------------------------------|-------------------------------|
| 2012-4           | 20.106        | Airport Improvement              | Reporting                     |
| 2012-5           | 20.106        | Airport Improvement              | Reporting                     |

Compliance with such requirements is necessary, in our opinion, for the Industrial Park to comply with requirements applicable to that program.

### **Qualified Opinion on Airport Improvement**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Industrial Park, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Airport Improvement Program for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of the Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Industrial Park 's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas's, internal control over compliance.

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

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

with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-4 and 2012-5 to be material weaknesses

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we considered to be significant deficiencies.

Strother Field Airport-Industrial Park's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Strother Field Airport-Industrial Park's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Edward B. Stephens" followed by a stylized flourish.

Winfield, Kansas  
August 2, 2013

# STROTHER FIELD AIRPORT-INDUSTRIAL PARK

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2012

Appendix - C -

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity Identifying<br/>Number</u> | <u>Disbursements/<br/>Expenditures</u> |
|----------------------------------------------------------------------|------------------------------------|-------------------------------------------------------|----------------------------------------|
| Federal Funds Paid Direct to Strother Field Airport-Industrial Park: |                                    |                                                       |                                        |
| United States Department of Transportation                           |                                    |                                                       |                                        |
| Reconstruct and Improve Taxiway                                      | 20.106                             | N/A                                                   | <u>\$ 1,366,262.00</u>                 |
| Total of United States Department of Transportation                  |                                    |                                                       | <u>\$ 1,366,262.00</u>                 |
| Total Funds Paid Direct to Strother Field Airport-Industrial Park    |                                    |                                                       | <u>\$ 1,366,262.00</u>                 |
| Total Expenditures of Federal Awards                                 |                                    |                                                       | <u><u>\$ 1,366,262.00</u></u>          |

See accompanying notes to schedule of expenditures of federal awards.

# **STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Notes To Schedule of Expenditures of Federal Awards  
For The Year Ended December 31, 2012

## **NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of Strother Field Airport-Industrial Park under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Strother Field Airport-Industrial Park, it is not intended to and does not present the financial position, changes in net assets or cash flows of Strother Field Airport-Industrial Park.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the Cash Basis of Accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principle for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustment or credit made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Pass-through entity identifying numbers are presented where available.

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2012

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an adverse opinion on the financial statement of Strother Field Airport-Industrial Park.
2. Two significant deficiencies and one material weakness relating to the audit of the financial statement are reported in the "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with *Government Auditing Standards*."
3. No instance of noncompliance material to the financial statement of Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, was disclosed during the audit.
4. Two significant deficiencies and two material weaknesses relating to the audit of the major federal award program are reported in the "Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133."
5. The auditors' report on compliance for the major federal award program for Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, expresses a qualified opinion.
6. Four audit findings relative to the major federal award program for Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas, are to be reported in Part C of this schedule.
7. The programs tested as major programs include:  
  
FEDERAL FUNDS PAID DIRECT TO STROTHER FIELD AIRPORT-INDUSTRIAL PARK  
  
U. S. Department of Transportation  
  
Airport Improvement Program  
    Reconstruct and Improve Taxiway 20.106
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Strother Field Airport-Industrial Park, Arkansas City and Winfield, Kansas was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

FINDING 2012-1 Material Weakness in Internal Control

## **STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

### Schedule of Findings and Questioned Costs For the Year Ended December 31, 2012

*Condition:* Two months of utility services were not billed timely.

*Criteria:* Issue One - When utility services are billed on QuickBooks, statements should be mailed to customers. Issue Two – Aged Accounts Receivable on QuickBooks should be reviewed on a monthly basis.

*Effect:* No collection of cash receipts for utility services on a timely basis.

*Recommendation:* Manager should review the Aged Accounts Receivable report on a monthly basis.

*Views of Responsible Officials and Planned Corrective Actions:* Manager will review Aged Accounts Receivable on a monthly basis.

#### **FINDING 2012-2 Significant Deficiency in Internal Control**

*Condition:* During our consideration of internal control over the elements comprising the information for the preparation of financial statement for the purpose of planning our audit, management was unable to provide a complete documentation of the components of internal control. Thus, we believe that the Industrial Park has not adequately documented the internal control components, and this inadequacy is a deficiency.

*Criteria:* An adequately designed and effectively implemented internal control system being necessary to provide assurance of the prevention and detection of potential material misstatements of financial statements, therefore, adequate documentation of the components of internal control is essential for management to effect identification and operation of the internal control system.

*Effect:* The Industrial Park was not able to adequately identify the design and implementation of all the components of the Industrial Park's internal control system over financial statement reporting in order to effectively prevent or detect material misstatements.

*Recommendation:* The Industrial Park should perform a comprehensive formal written risk assessment for financial statement reporting in order to effectively undertake a program to produce a complete written document identifying the design and components of the Industrial Park's present internal control process.

*Views of Responsible Officials and Planned Corrective Actions:* The Industrial Park has begun to address this issue and is continuing to work on documentation of the internal controls necessary to adequately safeguard the Industrial Park. Upon completion of the document a plan will be implemented to verify the controls are being followed.

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2012

FINDING 2012-3 Significant Deficiency in Internal Control

*Condition:* Unauthorized signatures cleared bank account.

*Criteria:* Controls exist where only authorized expenditures are allowed.

*Effect:* Forged checks cleared the bank and were not detected.

*Recommendation:* Controls should be put in place to strengthen access and accounting over unissued checks, and controls should monitor as a detective control items that clear the monthly bank statements.

*Views of Responsible Officials and Planned Corrective Actions:* A check log was established last year. In the check log, the Manager initials for each check sequence

C. FINDINGS AND QUESTIONED COST - MAJOR FEDERAL AWARD PROGRAM  
AUDIT

FINDING 2012-4 Material Weakness in Internal Control

PROGRAM - CFDA No. 20-106 Airport Improvements US Department of  
Transportation Program Year 2012

*Condition:* Issue One - \$13,273.00 was the first reimbursement requested on DELPHI by Strother Field. This amount had already been submitted for reimbursement on the old system ECHO. This resulted in a duplication of reimbursement of \$13,273.00. Issue Two - Reimbursement number three on DELPHI was requested for \$606,978.00, and the correct total was \$609,978.00, which resulted in an under reimbursement of \$3,000.00.

*Criteria:* A recipient of the FAA Grant is required to submit reimbursement requests through ECHO (the old system) and DELPHI the new eInvoicing system.

*Cause:* It appeared there was a lack of internal controls. The individual responsible for entering the eInvoicing amount did not have it reviewed by a second individual for accuracy.

*Effect:* Requests for reimbursement may incorrectly request reimbursement for duplicate costs, or for wrong amounts. In addition, this may result in a material noncompliance with the grant award and affect the ability of the entity to obtain future federal funding.

*Recommendation:* A second individual, either commissioner or staff, should review the reimbursement requests prior to submission.

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2012

*Views of Responsible Officials and Planned Corrective Actions:* Office Manager or Chairman will review prior to submittal.

FINDING 2012-5 Material Weakness in Internal Control

PROGRAM – CFDA No. 20-106 Airport Improvements US Department of Transportation Program Year 2012

*Condition:* The financial report submitted to the federal agency submitted on 12/26/2012 did not correctly list the cash receipts, cash disbursements, unobligated fund balance and remaining recipient share. \$13,273.00 in cash receipts and \$13,273.00 in cash disbursements were not reported.

*Criteria:* A recipient of the FAA Grant is required to submit is to comply with the Federal Awards Compliance Audit Guide. *Federal Financial Report (SF-425)* must be submitted annually due 90 days after the end of the fiscal year.

*Cause:* It appeared there was a lack of internal controls. The individual responsible for completing the form did not have it reviewed by a second individual for accuracy.

*Effect:* An inaccurate status of reimbursements and expenses may be presented, which may present wrong tracking of the project. In addition, this may result in material noncompliance with the grant award and affect the ability of the entity to obtain future federal funding.

*Recommendation:* A second individual, either commissioner or staff, should review the report and applicable documentation prior to submission.

*Views of Responsible Officials and Planned Corrective Actions:* Office Manager or Chairman will review prior to submittal.

**STROTHER FIELD AIRPORT-INDUSTRIAL PARK**

Appendix – E –

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2012

There are no prior audit findings relative to federal awards.