Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements and Supplemental Information
Independent Auditor's Report on Compliance and Internal Control
Schedule of Findings

June 30, 2012

Contents

	Page
Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements	
Statement of Net Assets - Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	11
Statement of Cash Flows - Proprietary Fund	12
Statement of Fiduciary Net Assets	13
Statement of Changes in Fiduciary Net Assets	14
Notes to Financial Statements	15 - 24
Supplemental Information	
Schedule of Revenues and Expenses	25
Schedule of Expenditures of Federal Awards	26
Schedule of Passenger Facility Charges Collected and Expended	27
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*	28 - 29
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	30 - 31
Independent Auditor's Report on Compliance With Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance	32 - 33
Schedule of Findings	34 - 35

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Officials
June 30, 2012

Name	Representing
Charles E. Walsh	City of Burlington
Dennis Krieger	City of West Burlington
Dan Wiedemeier	Des Moines County
Kurt Bangert	City of Burlington
Jerry Sherwood	City of Burlington

Mary Beaird, Airport Director

CPA ASSOCIATES PC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Burlington, Iowa

We have audited the accompanying financial statements of the business type activities and fiduciary fund of Southeast Iowa Regional Airport Authority (Authority), A Component Unit of the City of Burlington, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the Authority did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the OPEB net liability obligation as required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

In our opinion, except for the omission of the information described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and fiduciary fund of Southeast Iowa Regional Airport Authority, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be present to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information included on pages 25 - 27, including the accompanying Schedule of Expenditures of Federal Awards required by United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the accompanying schedule of Passenger Facility Charges Collected and Expended as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

CPA Associates PC

October 24, 2012

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Management's Discussion and Analysis

Southeast Iowa Regional Airport Authority (Authority) provides this Management's Discussion and Analysis (MD&A) of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Authority's basic financial statements.

Following this MD&A are the basic financial statements of the Authority together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

Financial and Operating Highlights

- The Authority's operating revenues increased 6%, or $24,153, from fiscal year 2011 to fiscal year 2012. Rent income decreased; however fuel flowage fees, contributions from member governments and grant reimbursements related to operations increased attributing to the overall increase in operating revenues.
- The Authority's operating expenses, before depreciation, were 3%, or $9,930, less in fiscal year 2012 than in fiscal year 2011. The decrease in operating expenses is primarily due to a decrease in operating costs related to advertising and contract work, utilities, repairs and maintenance.
- The Authority's grant revenues and capital contributions increased 124%, or $552,611, from fiscal year 2011 to fiscal year 2012. The increase is primarily the result of timing of Airport Improvement Project reimbursements from the Federal Aviation Administration and capital contributions from member governments for taxiway rehabilitation.
- Net assets for 2012 were $13.4 million, an increase of $0.27 million from 2011.

Southeast Iowa Regional Airport, which is operated by the Authority, is an Essential Air Service airport. During the fiscal year ended June 30, 2012, commercial air service was provided by Air Choice One. Air Choice One provided two daily round trip flights to St. Louis, Missouri and Chicago, Illinois during the fiscal year.

The economic downturn and the rise in fuel prices continues to provide challenges for general and commercial aviation as well as overall airport operations.

Using This Annual Report

The Authority is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

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

The Statement of Net Assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Authority's operating revenues and expenses, nonoperating revenues and expenses, and whether the Authority's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Authority's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Authority financed its activities and how it met its cash requirements.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Authority

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. The Authority's net assets at the end of fiscal 2012 totaled approximately $13.4 million, compared to approximately $13.1 million at the end of fiscal year 2011. A summary of the Authority's net assets at June 30, 2012 and 2011 is shown below:

Net Assets

	2012	2011
Assets:		
Current and other assets	$ 441,725	$ 206,733
Capital assets	13,459,121	13,264,340
Total assets	13,900,846	13,471,073
Liabilities:		
Current liabilities	315,200	101,082
Noncurrent liabilities	193,038	246,461
Total liabilities	508,238	347,543
Net Assets:		
Invested in capital assets, net of related debt	13,209,773	12,962,190
Unrestricted	182,835	161,340
Total net assets	$ 13,392,608	$ 13,123,530

The largest portion of the Authority's net assets each year represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Authority used these capital assets to provide services to its passengers and visitors to the airport; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in net assets at the end of the fiscal year. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011 is presented below:

Revenues, Expenses and Changes in Net Assets

	2012	2011
Operating revenues	$ 455,880	$ 431,727
Operating expenses	(284,064)	(293,994)
Operating income before depreciation	171,816	137,733
Depreciation	(936,831)	(914,204)
Operating loss	(765,015)	(776,471)
Nonoperating income (expenses), net	35,275	39,300
Loss before capital contributions	(729,740)	(737,171)
Grant revenues and capital contributions	998,818	446,207
Increase (decrease) in net assets	269,078	(290,964)
Net assets, beginning of year	13,123,530	13,414,494
Net assets, end of year	$ 13,392,608	$ 13,123,530

Revenues

A summary of revenues for the year ended June 30, 2012 and the amount and percentage of change in relation to prior year amounts is presented below:

	Amount	% of Total	Increase (Decrease) From Prior Year	% Increase (Decrease)
Operating:				
Terminal	$ 53,755	3.58 %	$ 4,330	8.76 %
Airfield/Runways	45,562	3.04	2,012	4.62
General Aviation/Hangars	99,827	6.65	(9,841)	(8.97)
Landside/Parking	34,440	2.30	273	0.80
Fuel Farm	15,132	1.01	9,914	190.00
Grant revenues	34,121	2.27	16,299	91.45
Contributions from member governments	173,043	11.53	1,166	0.68
Total operating	455,880	30.38	24,153	5.59
Nonoperating:				
Passenger facility charges	35,647	2.38	12,811	56.10
Interest and investment revenue	133	0.01	16	13.68
Other income	9,957	0.66	(18,962)	(65.57)
Total nonoperating	45,737	3.05	(6,135)	(11.83)
Grant revenues and capital contributions	998,818	66.57	552,611	123.85
Total revenues	$ 1,500,435	100.00 %	$ 570,629	61.37 %

Expenses

A summary of expenses for the year ended June 30, 2012, and the amount and percentage change in relation to prior year amounts is presented below:

	Amount	% of Total	Increase (Decrease) From Prior Year	% Increase (Decrease)
Operating:				
Personal services	$ 137,325	11.15 %	$ 553	0.40 %
Advertising	32,450	2.64	8,037	32.92
Consulting and professional fees	12,177	0.99	(6,383)	(34.39)
Dues and memberships	1,936	0.16	382	24.58
Liability insurance	8,675	0.70	(2,973)	(25.52)
Utilities	40,361	3.28	(5,865)	(12.69)
Contract work	22,384	1.82	10,233	84.22
Office supplies	801	0.06	191	31.31
Postage	322	0.03	(310)	(49.05)
Telephone	2,187	0.18	168	8.32
Travel and training	3,730	0.30	(354)	(8.67)
Botanicals	1,043	0.08	(2,123)	(67.06)
Fuel and oil	5,232	0.42	(4,319)	(45.22)
Janitorial supplies	1,237	0.10	(814)	(39.69)
Small equipment	578	0.05	192	49.74
Repairs and maintenance	13,626	1.11	(6,545)	(32.45)
Total operating	284,064	23.07	(9,930)	(3.38)
Depreciation	936,831	76.08	22,627	2.48
Nonoperating:				
Interest expense	10,462	0.85	(2,110)	(16.78)
Total nonoperating	10,462	0.85	(2,110)	(16.78)
Total expenses	$ 1,231,357	100.00 %	$ 10,587	0.87 %

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing, and investing activities. Cash provided by operating activities includes rent income, landing fees, concession and fixed-based operator fees, operating grants from federal and state agencies, and member government contributions. Cash used from capital and related financing activities includes capital grants received as well as disbursements for the purchase of capital assets and the payment of debt principal and interest obligations.

Capital Acquisitions and Construction Activities

During 2012, the Authority expended $1,132,167 on capital activities. These activities included taxiway rehabilitation and the hangar door project.

Long-term Debt

During the year ended June 30, 2002, the City of Burlington issued $540,000 in general obligation bonds to be loaned to the Authority to fund its share of the cost of Federal Aviation Administration (FAA) funded airport improvement projects. During year ended June 30, 2009, the City of Burlington refunded their general obligation bonds and extended the terms of the principal and interest payments due from the Authority to the City. The City's new loan terms require annual principal payments of $27,000 on June 1 and semi-annual interest payments on December 1 and June 1. The loan bears an incrementally increasing interest rate ranging from 3.5% to 4.5%.

During the year ended June 30, 2006, the Authority borrowed $274,000 from F&M Bank to finance the local share of an FAA funded airport improvement project and to purchase equipment. On December 18, 2009, the loan was refinanced, with interest bearing at 5.25% payable annually on December 31 and maturing on December 31, 2014.

Additional information about the Authority's long-term debt is included in the notes to the Authority's financial statements.

Passenger Facility Charge (PFC)

The Authority received approval from the FAA to impose a PFC of $3.00 per enplaned passenger beginning July 1, 1997, not to exceed $460,000, to finance airport capital improvements. An amendment was received effective September 1, 2001 to increase the charge to $4.50 with a total collection authority of $521,299. Through June 30, 2012, the Authority has collected PFCs, including interest earnings thereon, totaling $461,974. For further details, see the Schedule of Passenger Facility Charges Collected and Expended in the Compliance Section included as supplementary information to the financial statements.

Economic Factors

The Authority continues to be challenged to increase passenger enplanements and commercial air service marketing efforts.

As the economic downturn continues to challenge airport operations and general and commercial aviation, the Authority will continue to strive to provide a safe and efficiently operated airport.

Contacting the Authority's Financial Management

This financial report is designed to provide Authority members' citizens and taxpayers and the Authority's customers and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Mary Beaird, Airport Manager, Southeast Iowa Regional Airport Authority, 2515 Summer Street, Burlington, IA 52601-3330 or by e-mail to director@brlairport.com.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Statement of Net Assets - Proprietary Fund
June 30, 2012

Assets	
Current Assets	
Cash and cash equivalents	$ 164,417
Receivables	210,864
Related party receivable	61,561
Prepaid expenses	4,883
Total current assets	441,725
Noncurrent Assets	
Capital assets:	
Land	1,786,905
Land improvements	16,892,290
Building and improvements	2,707,583
Furniture and equipment	1,538,432
Less accumulated depreciation	(9,468,861)
Total capital assets	13,456,349
Prepaid debt issuance costs, net of accumulated amortization	2,772
Total noncurrent assets	13,459,121
Total assets	13,900,846
Liabilities	
Current Liabilities	
Accounts payable	234,498
Accrued expenses	15,174
Current portion of long-term debt	26,538
Deferred revenue	11,990
Due to City of Burlington	27,000
Total current liabilities	315,200
Long-term Liabilities	
Due to City of Burlington	135,695
Long-term debt, net of current portion	57,343
Total noncurrent liabilities	193,038
Total liabilities	508,238
Net Assets	
Invested in capital assets, net of related debt	13,209,773
Unrestricted	182,835
Total net assets	$ 13,392,608

See notes to financial statements.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund
Year Ended June 30, 2012

Operating Revenues	
State grants	$ 34,121
Rent income	186,754
Charges for services	61,962
Contributions from member governments	173,043
Total operating revenues	455,880
Operating Expenses	
Personal services	137,325
Advertising	32,450
Consulting and professional fees	12,177
Dues and memberships	1,936
Liability insurance	8,675
Utilities	40,361
Contract work	22,384
Office supplies	801
Postage	322
Telephone	2,187
Travel and training	3,730
Botanical	1,043
Fuel and oil	5,232
Janitorial supplies	1,237
Small equipment	578
Repairs and maintenance	13,626
Total operating expenses	284,064
Operating income before depreciation	171,816
Depreciation	936,831
Operating loss	(765,015)
Nonoperating Income (Expense)	
Passenger facility charges	35,647
Interest and investment revenue	133
Gain on sale of fixed assets	9,957
Interest expense	(10,462)
Total nonoperating income (expense)	35,275
Loss before capital contributions	(729,740)
Capital contributions - Member governments	53,000
Other contributions	1,600
Capital contributions - Federal and state grant revenues	944,218
Increase in net assets	269,078
Net assets, beginning of year	13,123,530
Net assets, end of year	$ 13,392,608

See notes to financial statements.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2012

Cash Flows From Operating Activities	
Receipts from customers	$ 250,009
Receipts from federal and state agencies	41,375
Receipts from member governments	174,054
Payments to suppliers	65,268
Prepaid expenses	(2,315)
Payments to employees	(136,716)
Net cash provided by operating activities	391,675
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	9,957
Passenger facility charges	34,848
Capital grants received	826,428
Purchase of capital assets	(1,132,167)
Principal paid on capital debt	(52,247)
Interest paid on capital debt	(10,700)
Net cash used by capital and related financing activities	(323,881)
Cash Flows From Investing Activities	
Interest	133
Net cash provided by investing activities	133
Net increase in cash and cash equivalents	67,927
Cash and cash equivalents, beginning of year	96,490
Cash and cash equivalents, end of year	$ 164,417

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	$ (765,015)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	936,831
Changes in assets and liabilities:	
Receivables	8,439
Prepaid expenses	(2,315)
Accounts payable and accrued expenses	212,616
Deferred revenue	1,119
Net cash provided by operating activities	$ 391,675

Cash and cash equivalents consists of cash on hand and in checking accounts.

See notes to financial statements.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Statement of Fiduciary Net Assets
June 30, 2012

	Fiduciary Fund Employee Retirement Plan Trust
Assets	
Investments at fair value	$ 48,623
Net Assets	
Held in trust for pension benefits	$ 48,623

See notes to financial statements.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2012

	Fiduciary Fund Employee Retirement Plan Trust
Additions	
Contributions:	
Plan members	$ 10,846
Investment earnings:	
Net increase in fair value of investments	665
Total additions	11,511
Deductions	
Net participant withdrawals	-
Total deductions	-
Increase in net assets	11,511
Net assets, beginning of year	37,112
Net assets, end of year	$ 48,623

See notes to financial statements.

Note 1. Nature of the Authority

The Southeast Iowa Regional Airport Authority (Authority) was created July 1, 1996 under the statutory rule of Iowa Code Chapter 330A. The Authority is a public body created by a charter agreement of the member governments. The purpose of the Authority is to operate and maintain a viable commercial air service airport certified under 14 Code of Federal Regulations (CFR) Part 139, to encourage economic growth and orderly development of general aviation, and to provide adequate commercial services and facilities for airport users. The agreement was amended effective July 1, 2005 to include Des Moines County.

The governing body of the Authority is a Board of Directors consisting of five representatives of the member governments. The Board of Directors is composed of three representatives from the City of Burlington, one representative from the City of West Burlington, and one representative from Des Moines County.

Note 2. Summary of Significant Accounting Policies

Reporting Entity

For financial reporting purposes, the Authority has included all funds, organizations, account groups, 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 (GASB) 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 entity 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 entity.

Based on the above criteria, there are no agencies or entities that should be combined with the financial statements of the Authority. However, based on these criteria, the Authority is a component unit of the City of Burlington for financial reporting purposes. The City of Burlington has financial accountability for the Authority because it appoints a voting majority of the Authority's Board of Directors and provides financial benefits to the Authority.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority's reporting entity applies all relevant GASB pronouncements, except for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which has not been implemented. The proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Note 2. Summary of Significant Accounting Policies (continued)

The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The transactions of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses.

The accounts of the Authority are primarily organized as an enterprise fund, which is a proprietary fund type. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that 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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The activities in proprietary funds are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets, liabilities, net assets, revenues and expenses are accounted for under a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Transactions that are capital, financing or investing are reported as nonoperating revenues. All expenses related to operating the airport are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

The Authority also has a pension trust fund, which is a fiduciary fund type. This fund is used to account for deferred compensation plan assets, which are being held by the Authority in a trustee capacity. The Authority reports resources held in trust and the receipt, investment, and distribution of retirement contributions and benefits.

Cash and Cash Equivalents

The Authority considers all short term investments with an original maturity of three months or less to be cash equivalents. The Authority had no short term investments or certificates of deposit during the year ended June 30, 2012.

Capital Assets

Capital assets are stated at original cost. Capital assets acquired from the City of Burlington are stated at the City's cost, net of its accumulated depreciation at the time of acquisition by the Authority.

Note 2. Summary of Significant Accounting Policies (continued)

Depreciation of capital assets is computed using the straight-line method at rates based on the following estimated useful lives:

Land improvements	5-38 years
Building and improvements	5-40 years
Furniture and equipment	5-10 years

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

During the year ended June 30, 2012, no interest costs were capitalized since there were no qualifying assets.

Deferred Revenue

The Authority has recorded a liability for deferred (unearned) rent revenue for 2013 hangar and farm rent received during the year ended June 30, 2012.

Designated Net Assets

The Board of Directors has designated all passenger facility charges for capital improvements. Designated net assets totaled $91,026 for the year ended June 30, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Authority performed an evaluation of subsequent events through October 24, 2012, which is the date the financial statements were available to be issued. There are no subsequent events that require disclosure or recognition in the financial statements as of June 30, 2012.

Note 3. Cash and Investments

The Authority's deposits at June 30, 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.

Note 3. Cash and Investments (continued)

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 and the Treasurer of the State of Iowa; 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.

Note 4. Capital Assets

A summary of capital assets at June 30, 2012 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,686,781	$ 100,124	$ -	$ 1,786,905
Capital assets being depreciated:				
Land improvements	15,971,696	920,594	-	16,892,290
Building and improvements	2,622,075	85,508	-	2,707,583
Furniture and equipment	1,547,726	25,941	35,235	1,538,432
Total capital assets being depreciated	20,141,497	1,032,043	35,235	21,138,305
Less accumulated depreciation for:				
Land improvements	6,485,803	777,861	-	7,263,664
Building and improvements	1,085,980	85,290	-	1,171,270
Furniture and equipment	995,482	73,680	35,235	1,033,927
Total accumulated depreciation	8,567,265	936,831	35,235	9,468,861
Total capital assets being depreciated, net	11,574,232	95,212	-	11,669,444
Capital assets, net	$ 13,261,013	$ 195,336	$ -	$ 13,456,349

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
F&M Bank, municipal loan	$ 109,128	$ -	$ 25,247	$ 83,881	$ 26,538
City of Burlington	189,695	-	27,000	162,695	27,000
	$ 298,823	$ -	$ 52,247	$ 246,576	$ 53,538

Note 5. Long-Term Liabilities (continued)

F&M Bank

During the year ended June 30, 2006, the Authority borrowed funds from F&M Bank to finance its share of a Federal Aviation Administration (FAA) funded airport improvement project and to purchase equipment. A municipal loan of $250,000 was used to finance the Authority's share of an FAA funded airport improvement project. On December 18, 2009, the loan was refinanced with interest bearing at 5.25% payable annually on December 31 and matures on December 31, 2014. The loan is secured by substantially all assets of the Authority.

City of Burlington

During the year ended June 30, 2002, the City of Burlington (City) issued general obligation bonds to be loaned to the Authority to fund its share of the cost of FAA funded airport improvement projects. During year ended June 30, 2009, the City refunded its general obligation bonds and extended the terms of the principal and interest payments due from the Authority to the City. The City's new loan terms require annual principal payments of $27,000 on June 1 and semi-annual interest payments on December 1 and June 1 through June 30, 2018. The loan bears an incrementally increasing interest rate ranging from 3.5% to 4.5%.

Bond issue costs of $15,000 have been deferred and are being amortized by the Authority as interest expense over the life of the bond issue. During the year ended June 30, 2012, the Authority amortized $554 of bond issue costs, leaving remaining prepaid debt issuance costs of $2,772.

As of June 30, 2012, the current portion of bond principal and accrued interest due to the City totaled $27,348. These balances are included as current liabilities in the Statement of Net Assets.

Details of the Authority's repayment schedule for long-term debt principal and interest is as follows:

	City of Burlington		
Year Ending	Principal	Interest	Interest Rate
June 30, 2013	$ 27,000	$ 4,170	4.00%
June 30, 2014	27,000	3,402	4.00%
June 30, 2015	27,000	2,619	4.00%
June 30, 2016	27,000	1,820	4.00%
June 30, 2017	27,000	1,162	4.00%
June 30, 2018	27,695	441	4.50%
	162,695	$ 13,614	
Less current portion	(27,000)		
Long-term liability	$ 135,695		

Note 5. Long-Term Liabilities (continued)

	F&M Bank	
	Municipal loan 5.25% Interest Rate	
Year Ending	Principal	Interest
June 30, 2013	$ 26,538	$ 4,404
June 30, 2014	28,076	3,010
June 30, 2015	29,267	1,537
	83,881	$ 8,951
Less current portion	(26,538)	
Long-term liability	$ 57,343	

Note 6. 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.

Plan participants are required to contribute 5.38% of their annual salary and the Authority is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Authority's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 was $7,294, $6,272, and $6,285, respectively, equal to the required contributions for each year.

Note 7. Employee Retirement Plan Trust

The Authority offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair value of the deferred account for each participant.

Note 7. Employee Retirement Plan Trust (continued)

The financial position and changes in financial position of the deferred compensation plan are presented in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. The plan assets are invested in mutual funds and are recorded at fair value. The fair value consists of the net asset value of mutual fund investments determined using market prices as of the close of regular trading on the New York Stock Exchange. The net asset value as of June 30, 2012 is $48,623. Plan contributions for the year ended June 30, 2012 were $10,846. Plan contributions and deductions are recorded on the cash basis of accounting.

Note 8. Related Organization

Based on criteria set by the GASB, the Authority is a component unit of the City of Burlington (City) for financial reporting purposes. The City has financial accountability for the Authority under these criteria because it appoints a voting majority of the Authority's Board of Directors and provides financial benefits to the Authority.

Intergovernmental Agreement

The Authority has an agreement with the City pursuant to Chapters 28E, 28F, 28G and 445B of the Code of Iowa to provide for shared services between the City and the Authority for the continued operation and maintenance of an airport facility through June 30, 2011. The agreement outlines services provided to the Authority by the City, which include Aircraft Rescue and Fire Fighting (ARFF) services as outlined below, airport security in accordance with FAA directives, snow removal, equipment use, miscellaneous repair work as mutually agreed, and pavement preventive maintenance and minor repair projects whose costs do not exceed $10,000 per year. The agreement also recognizes the Authority's participation in the City's All Lines Aggregate Insurance Program and Loss Fund, and requires the Authority to provide audited, accrual basis financial statements to the City each year for inclusion in the City's Comprehensive Annual Financial Report.

ARFF Services - Joint Use Fire Station

The Charter agreement of the members calls for the joint construction and use of a fire station by the Authority and the City. Title to the fire station, which is located on Authority land, vests in the Authority. An intergovernmental agreement calls for specific ARFF services, in accordance with FAA regulations, to be provided to the Authority by the City. The Authority is required to reimburse the City a scheduled amount for these services, with incremental annual increases of $100. The amount paid to the City for ARFF services provided during the fiscal year ended June 30, 2012 was $9,200. The Authority is also required to maintain an account of $2,000 each year to be utilized by the City for the ARFF Capital Improvement Program.

Note 9. Related Party Transactions

The Authority received the following payments from the City of West Burlington for the year ended June 30, 2012:

Member contribution	$ 22,540
Contribution for capital improvements	9,000
	$ 31,540

There are no amounts due from the City of West Burlington as of June 30, 2012.

The Authority received the following payments from Des Moines County for the year ended June 30, 2012:

Member contribution	$ 23,770
Contribution for capital improvements	16,230
Contribution for equipment purchase	10,500
	$ 50,500

There are no amounts due from Des Moines County as of June 30, 2012.

The Authority received the following payments from the City of Burlington during the year ended June 30, 2012:

Rent and lease payments	$ 2,000
Member contribution	127,744
Contribution for capital improvements	17,270
	$ 147,014

The following payments are due from the City of Burlington as of June 30, 2012:

Member contribution	$ 61,561

During the year ended June 30, 2012, the Authority paid the City of Burlington (City) $9,200 for ARFF services provided during the year ended June 30, 2012.

During the fiscal year ended June 30, 2012, the Authority paid the City principal of $27,000 and interest of $4,860 on outstanding long-term liabilities described in Note 5.

One of the Authority's directors is an officer with a local bank. At June 30, 2012, the Authority has balances with the bank as follows:

Checking accounts	$ 168,167
Loans and accrued interest	86,222

The Authority paid the bank $5,840 in loan interest during the year ended June 30, 2012.

Note 10. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the City of Burlington's commercial insurance, and by the purchase of commercial airport liability insurance from an independent third party. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Note 11. Operating Leases - Lessor

The Authority rents property used for equipment storage to individuals and to the City of Burlington on a month-to-month basis. The Authority rents a building to the Civil Air Patrol under an annually renewable lease calling for $1 a year rent. Rental income for the year ended June 30, 2012 was $8,814.

The Authority rents terminal, office space, and parking space to commercial airlines, the Federal Aviation Administration, the Transportation Security Agency, a private air transportation operator and auto rental concessionaires on a month-to-month basis. Rental income for the year ended June 30, 2012 was $57,730.

The Authority rents hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2012 totaled $91,013.

The Authority leases farm ground to individuals under leases which terminate March 31, 2013. The leases are revocable for cause by the Authority and may be terminated by the lessees with 10 day notice. Rental income for the year ended June 30, 2012 was $29,197.

Property held for leasing is summarized as follows:

	Cost	Accumulated Depreciation
Building and improvements	$ 1,058,701	$ 455,666
Land	531,210	-

Note 12. Passenger Facility Charges

The Authority has been authorized by the FAA to collect Passenger Facility Charges for project activities completed in previous years. The total collection authority approved by the FAA is $521,299.

Passenger Facility Charges received - year ended June 30, 2012	$ 34,848
Change in Passenger Facility Charges receivable	799
	$ 35,647
Total collection authority remaining	$ 65,269

Note 13. Commitments and Contingencies

The Authority has outstanding commitments on contracts related to various airport improvement projects totaling $48,000. The projects are being implemented through FAA Airport Improvement Program grants, which reimburse the Authority for 95% of the total cost.

Note 14. Prospective Accounting Change

GASB has issued two Statements not yet implemented by the Authority. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the Authority for the fiscal year ending June 30, 2013. This Statement redefines the components of the statement of net assets. In the year that Statement No. 63 is implemented, the prior year financial statements will be retroactively restated for comparison perspective. Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the Authority for the fiscal year ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In the year that Statement No. 65 is implemented, the beginning net assets will be retroactively restated for prior periods presented. The Authority's management has not yet determined the effect these Statements will have on the Authority's financial statements.

Southeast Iowa Regional Airport Authority, A Component Unit of the City of Burlington
Schedule of Revenues and Expenses
Year Ended June 30, 2012

	Total	Terminal	Airfield/ Runways	General Aviation/ Hangars	ARFF	Landside/ Parking	Fuel Farm	Administration
Operating Revenues								
State grants	$ 34,121	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,121
Rent income	186,754	46,613	38,197	99,827	-	2,117	-	-
Charges for services	61,962	7,142	7,365	-	-	32,323	15,132	-
Contributions from member governments	173,043	-	-	-	-	-	-	173,043
Total operating revenues	455,880	53,755	45,562	99,827	-	34,440	15,132	207,164
Operating Expenses								
Personal services	137,325	6,568	45,912	3,860	81	2,971	363	77,570
Advertising	32,450	-	-	-	-	-	-	32,450
Consulting and professional fees	12,177	-	-	-	-	-	-	12,177
Dues and memberships	1,936	-	-	-	-	-	-	1,936
Liability insurance	8,675	-	-	-	-	-	-	8,675
Utilities	40,361	15,704	11,103	2,250	-	2,192	466	8,646
Contract work	22,384	12,146	-	-	9,200	1,038	-	-
Office supplies	801	-	-	-	-	-	-	801
Postage	322	-	-	-	-	-	-	322
Telephone	2,187	-	-	-	-	-	-	2,187
Travel and training	3,730	-	-	-	-	-	-	3,730
Botanical	1,043	-	1,043	-	-	-	-	-
Fuel and oil	5,232	629	3,876	379	8	310	30	-
Janitorial supplies	1,237	1,237	-	-	-	-	-	-
Small equipment	578	-	-	-	-	289	-	289
Repairs and maintenance	13,626	1,710	8,332	297	-	1,098	539	1,650
Total operating expenses	284,064	37,994	70,266	6,786	9,289	7,898	1,398	150,433
Operating income (loss) before depreciation	171,816	15,761	(24,704)	93,041	(9,289)	26,542	13,734	56,731
Depreciation	936,831	6,933	783,759	34,426	92,743	523	7,652	10,795
Operating income (loss) before nonoperating income (expenses)	(765,015)	8,828	(808,463)	58,615	(102,032)	26,019	6,082	45,936
Nonoperating Income (Expense)								
Passenger facility charges	35,647	-	35,647	-	-	-	-	-
Interest and investment revenue	133	-	-	-	-	-	-	133
Gain on sale of fixed assets	9,957	-	-	-	-	-	9,957	-
Interest expense	(10,462)	-	-	-	-	-	-	(10,462)
Total nonoperating income (expense)	35,275	-	35,647	-	-	-	9,957	(10,329)
Income (loss) before capital contributions	(729,740)	8,828	(772,816)	58,615	(102,032)	26,019	16,039	35,607
Capital contribution - Member governments	53,000	-	-	-	-	-	-	53,000
Other contributions	1,600	-	-	-	-	-	-	1,600
Capital contributions - Federal and state grant revenues	944,218	-	-	-	-	-	-	998,818
Increase (decrease) in net assets	$ 269,078	$ 8,828	$ (772,816)	$ 58,615	$ (102,032)	$ 26,019	$ 16,039	$ 1,034,425

See accompanying independent auditor's report.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grant Project Title	CFDA Number	Agency Number	Program Expenditures
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	# 3-19-0010-25	$ 8,550
Airport Improvement Program	20.106	# 3-19-0010-29	38,737
Airport Improvement Program	20.106	# 3-19-0010-29	806,446
Total			$ 853,733

Note - Basis of Presentation
The Schedule of Expenditures of Federal Awards includes the federal grant activity of Southeast Iowa Regional Airport Authority and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

See accompanying independent auditor's report.

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Schedule of Passenger Facility Charges Collected and Expended
June 30, 2012

	PFC Receipts	Interest Earned	Expenditures	Unliquidated PFC Revenue
Balance at July 1, 2011	$ 420,383	$ 5,940	$ (420,397)	$ 5,926
Quarter ending September 30, 2011	9,096	1	(9,082)	15
Balance at September 30, 2011				5,941
Quarter ending December 31, 2011	8,833	1	(8,833)	1
Balance at December 31, 2011				5,942
Quarter ending March 31, 2012	8,644	1	(8,644)	1
Balance at March 31, 2012				5,943
Quarter ending June 30, 2012	9,074	1	(9,074)	1
Balance at June 30, 2012				$ 5,944
Cumulative	$ 456,030	$ 5,944	$ (456,030)	

See accompanying independent auditor's report.

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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*

Board of Directors
Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Burlington, Iowa

We have audited the accompanying financial statements of the business type activities and fiduciary fund of Southeast Iowa Regional Airport Authority (Authority), A Component Unit of the City of Burlington, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies over financial reporting we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

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 Part II of the accompanying Schedule of Findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Authority. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Authority's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Authority's responses, we did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Southeast Iowa Regional Airport Authority and other parties to whom the Authority may report, including federal and state awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southeast Iowa Regional 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.

CPA Associates PC

October 24, 2012

CPA ASSOCIATES PC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Authority Board Members
Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Burlington, Iowa

Compliance

We have audited Southeast Iowa Regional Airport Authority's (Authority), A Component Unit of the City of Burlington, compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2012. The Authority's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 Authority'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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Southeast Iowa Regional Airport Authority and other parties to whom the Authority may report, including federal and state awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

October 24, 2012

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Independent Auditor's Report on Compliance With Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance

Board of Directors
Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Burlington, Iowa

Compliance

We have audited the compliance of Southeast Iowa Regional Airport Authority (Authority), A Component Unit of the City of Burlington, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 the Guide. Those standards and the Guide 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 the passenger facility charge program, occurred. An audit includes examining, on a test basis, evidence about the Authority'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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority, a component unit of the City of Burlington, complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Authority's internal control over compliance.

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 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.

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

This report, a public record by law, is intended solely for the information and use of the Board of Directors, management, and the Federal Aviation Administration. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

October 24, 2012

Southeast Iowa Regional Airport Authority,
A Component Unit of the City of Burlington
Schedule of Findings
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

a) A qualified opinion was issued on the financial statements.

b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.

c) The audit did not disclose any noncompliance that is material to the financial statements.

d) No material weaknesses in internal control over the major program were noted.

e) An unqualified opinion was issued on compliance with requirements applicable to its major program.

f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

g) Major program was as follows:
CFDA Number 20.106 - U.S. Department of Transportation, Federal Aviation Administration

h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

i) Southeast Iowa Regional Airport Authority did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Significant Deficiencies

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Authority should continue to provide oversight and direction based upon their direct knowledge of the Authority's operations to control and safeguard assets.

Response - We will continue to review our operating procedures to obtain the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

Part II: Findings Related to the Financial Statements (continued)

II-B-12 Financial Reporting - The Authority does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in size to the Authority. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Authority's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - The Authority will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance:

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting

12-1 Deposits and Investments - The Authority has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

12-2 Travel Expense - No expenditures of Authority money for travel expenses of spouses of Authority members or employees were noted.

12-3 Board Minutes - No transactions were found that we believe should have been approved in the Authority minutes but were not.

12-4 Questionable Disbursements - No disbursements were found that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.