

**CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
Elizabethton, Tennessee**

**AUDITED FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2010**

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
Elizabethton, Tennessee

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CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
AIRPORT COMMISSION MEMBERS  
JUNE 30, 2010

William B. Greene, Jr. - Chairman

John E. Seward, Jr. - Vice-Chairman

Lanny R. Norris - Secretary/Treasurer

Mark Musick - Commissioner

Richard Tetrick - Commissioner

Daniel R. Cogan - Chief Operating Officer



December 17, 2010

To the City Council & Airport Commission  
City of Elizabethton Tennessee  
Elizabethton Municipal Airport  
415 Highway 91  
Elizabethton, TN 37643

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Elizabethton Municipal Airport of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the City of Elizabethton, Tennessee's management. Our responsibility is to express an opinion 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Elizabethton Municipal Airport and do not purport to, and do not, present fairly the financial position of the City of Elizabethton, Tennessee as of June 30, 2010, and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elizabethton Municipal Airport of the City of Elizabethton, Tennessee, as of June 30, 2010, and the changes in financial position and cash flows thereof 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 December 17, 2010, on our consideration of Elizabethton Municipal Airport of the City of Elizabethton, Tennessee'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.

To the City Council & Airport Commission  
City of Elizabethton Tennessee  
Elizabethton Municipal Airport  
December 17, 2010  
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages four (4) through six (6) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Elizabethton Municipal Airport of the City of Elizabethton, Tennessee has not presented the budgetary comparison information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Kirk, Fortner, Smalley, & Associates, PLLC*

Kirk, Fortner, Smalley, & Associates, PLLC  
Certified Public Accountants  
Kingsport, Tennessee

ELIZABETHTON MUNICIPAL AIRPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

This section presents management's analysis of the Airport's financial condition and activities for the fiscal year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Airport's financial condition is strong. A major period of expansion is underway and highlighted by several significant events. With the establishment of the GPS approach, the airport has realized a marked increase in transient traffic, which continues to grow. The terminal building was relocated to the Moody Building and commercial space was leased to commercial aeronautic concerns and is being used by various community organizations for conferences and meetings. The Automated Weather Observation Service (AWOS) relocation project is currently on hold because its current location is not interfering with the Airport's current planned growth and expansion. Efforts to cure the displaced threshold status of the runway are still ongoing. The displaced threshold will be eliminated with the completion of the Pierce Street Relocation Project. The project could be done by December 31, 2010. The Airport's short-term expansion plans include hangar door improvements, runway extension, and the addition of another individual T-hangar unit.

- The Airport received \$175,080 from the State of Tennessee and the City of Elizabethton in operating grants.
- The Airport received \$496,106 from the State of Tennessee in capital grants.
- The total assets at year-end were \$5,639,989 and exceed the liabilities by \$4,696,276.
- Operating revenues decreased by \$228,283 (18.54%) from last year.
- Operating expenses before depreciation decreased by \$109,653 (12.00%) from last year.
- Ratios of net operating income to total operating revenues were 14.01% for FY 2009 and 7.93% for FY 2010.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Airport's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Airport's planning, budget, and other management tools were used for this analysis.

The financial statements report information about the Airport using full accrual accounting methods as utilized by similar business activities in the private sector.

Financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Airport on a full accrual historical basis as of the last day of the fiscal year. It provides balances for all assets, liabilities, and net assets of the Airport as of June 30, 2010.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the specified period and information as to how the net assets changed during that specified period. All changes in net

ELIZABETHTON MUNICIPAL AIRPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Airport's recovery of its costs.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operations and financing activities. This statement presents cash receipts and cash disbursements information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that is essential to fully understanding the material data provided in the statements. The notes present information about the Airport's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the Airport's staff from the detailed books and records of the Airport. The financial statements were audited and adjusted, if material, during the independent external audit process.

#### Summary of Organization and Business

Elizabethton Municipal Airport was created by Ordinance No. 864 for the City of Elizabethton, Carter County, Tennessee on September 1, 1965 under TCA Sect. 42-603 of the Tennessee Code. Operations began at that time. The Airport has five Commission members who are authorized to manage the Airport as authorized by the Charter of Incorporation. Each Commission member shall be entitled to one vote on matters arising for determination and a majority of the Commission members shall constitute a quorum for the purpose of conducting business affairs and exercising its powers for all other purposes.

The Airport's funding is from hangar rentals, fuel sales, and grants from the City of Elizabethton and State of Tennessee. The acquisition and construction of capital assets will be funded by grants and loans from the City and State governments.

#### Financial Condition

The Airport's financial condition is strong at period end with adequate liquid assets and completed construction of a 12,000 square foot heated hangar to accommodate additional types of customers. Construction is ongoing with the Pierce Street Relocation Project being approximately 85% complete. Coupled with the acquisition of new terminal facilities, additional land, full runway utilization, and the GPS approach system, more transient customers and business aviation are being realized. The current financial condition, staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

The following information summarizes the Airport's statement of net assets as of June 30, 2010:

Total assets increased by \$271,309 with Construction in Progress additions being the main reason for the increase. Total liabilities decreased by \$264,319 with the decrease in Construction Accounts Payable and Notes Payable being responsible for the majority of the decrease. Net

ELIZABETHTON MUNICIPAL AIRPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

assets increased by \$535,628, which is attributable to the results of operations and capital contributions from the State of Tennessee and the City of Elizabethton.

Results of Operations

**Operating Revenues:** Current revenue from operations fall into four general categories: Hangar rentals, fuel sales, operating support from State and Local governments, and flight school revenue. Operating revenues decreased by \$228,283 (18.54%) from last year which can be attributed to an overall downturn in the air travel industry and the economy in general.

**Capital Contributions:** Capital contributions from the State of Tennessee decreased by \$342,100 (40.81%) from last year. This decrease is attributable to the completion of several projects during the previous fiscal year. However, the Airport anticipates receiving grant funds from the State government to continue to fund maintenance operations and future expansion of the Airport.

**Expenses:** Operating expenses (before depreciation of \$119,119) of the Airport decreased by \$109,653 (12.00%) from last year which is due in large part to a very aggressive review of all operating expenses and activities by management, resulting in actions being taken to reduce overhead costs such as insurance, professional fees, office supplies, and telephone costs.

Final Comments

The Airport continues to strive to provide adequate and efficient aviation services to its customers. While operating revenues decreased this year, it is worthy to note that the industry overall experienced a decline of 40-60% nationwide. Thus, even though the Airport may have had a slightly down year when compared to the past, it still managed to do much better than most small airports of its kind in the nation. In addition, with the development of several new revenue streams by offering more aviation services such as airplane washing, airplane lavatory service, subcontracting pilots for temporary assignments, and, hopefully, the establishment of some broker services in the future, the outlook for the Airport appears to be one of continued growth and success.

Daniel R. Cogan, Airport Manager

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF NET ASSETS  
June 30, 2010

ASSETS

CURRENT ASSETS:

|   |    |               |
|---|----|---------------|
| Cash and Cash Equivalents   | \$ | 103,800       |
| Inventory of Fuel, Oil and Supplies   |    | 30,108        |
| Prepaid Insurance   |    | 5,751         |
| Prepaid Services  |    | 894           |
| Accounts Receivable<br>(Net of the Allowance for Doubtful Accounts in the<br>amount of \$0) |    | 39,144        |
| Operating Grant Receivable - City of Elizabethton   |    | 145,000       |
| Capital Grants Receivable - State of Tennessee  |    | <u>16,518</u> |

|                      |  |                |
|----------------------|--|----------------|
| TOTAL CURRENT ASSETS |  | <u>341,215</u> |
|----------------------|--|----------------|

FIXED ASSETS:

|                                |  |                    |
|--------------------------------|--|--------------------|
| Land and Land Improvements     |  | 2,479,965          |
| Hangars and Terminal Building  |  | 1,579,355          |
| Major Movable Equipment        |  | <u>416,642</u>     |
| Total Fixed Assets             |  | 4,475,962          |
| Less: Accumulated Depreciation |  | <u>(1,714,093)</u> |
|                                |  | 2,761,869          |
| Construction in Progress       |  | <u>2,536,650</u>   |
| NET VALUE OF FIXED ASSETS      |  | <u>5,298,519</u>   |

OTHER ASSETS:

|                    |  |            |
|--------------------|--|------------|
| Utility Deposits   |  | <u>255</u> |
| TOTAL OTHER ASSETS |  | <u>255</u> |

|              |  |                            |
|--------------|--|----------------------------|
| TOTAL ASSETS |  | <u><u>\$ 5,639,989</u></u> |
|--------------|--|----------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF NET ASSETS  
June 30, 2010

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

|  |    |         |
|--|----|---------|
| Accounts Payable                               | \$ | 45,087  |
| Construction Accounts Payable                  |    | 8,232   |
| Sales and Use Tax Payable                      |    | 3,022   |
| Accrued Payroll Taxes                          |    | 4,109   |
| Unearned Bulk Fuel and Aircraft Rental Revenue |    | 49,932  |
| Notes Payable - Current Portion                |    | 823,005 |
| T-Hangar Deposits                              |    | 125     |
| TOTAL CURRENT LIABILITIES                      |    | 933,512 |

LONG-TERM LIABILITIES:

|                             |  |        |
|-----------------------------|--|--------|
| Compensated Absences        |  | 10,201 |
| TOTAL LONG-TERM LIABILITIES |  | 10,201 |

|                   |  |         |
|-------------------|--|---------|
| TOTAL LIABILITIES |  | 943,713 |
|-------------------|--|---------|

NET ASSETS:

|  |  |           |
|--|--|-----------|
| Invested in Capital Assets, Net of Related Liabilities |  | 4,467,282 |
| Unrestricted Net Assets                                |  | 228,994   |
| TOTAL NET ASSETS                                       |  | 4,696,276 |

|                                     |  |              |
|-------------------------------------|--|--------------|
| TOTAL LIABILITIES AND<br>NET ASSETS |  | \$ 5,639,989 |
|-------------------------------------|--|--------------|

The accompanying notes are an integral part of these financial statements.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2010

OPERATING REVENUE

|  |                      |
|--|----------------------|
| Sales of Jet -A Fuel                                 | \$ 386,568           |
| Sales of Aviation Gasoline                           | 125,241              |
| Hangar Rental  | 151,462              |
| Facility Rental                                      | 46,080               |
| Vehicle Storage                                      | 7,575                |
| Tie-Down Fees  | 5,677                |
| Flight School - Plane Rental                         | 66,894               |
| Flight School - Instruction                          | 22,285               |
| Oil Products Income                                  | 2,359                |
| Rental Car Income                                    | 1,010                |
| Sale of Pilot Supplies                               | 4,384                |
| Fly-In Events and Catering                           | 2,127                |
| Miscellaneous Income                                 | 6,116                |
| Maintenance Grant -Tennessee Division of Aeronautics | 5,080                |
| Operating Transfer - City of Elizabethton            | <u>170,000</u>       |
| <br>Total Operating Revenue                          | <br><u>1,002,858</u> |

OPERATING EXPENSES:

|   |         |
|---|---------|
| Purchase of Jet Fuel                          | 236,820 |
| Purchase of Aviation Gasoline                 | 96,410  |
| Purchase of Aviation Gasoline - Flight School | 19,178  |
| Purchases for Resale                          | 4,906   |
| Flight School - Plane Rental                  | 24,064  |
| Flight School - Insurance                     | 17,008  |
| Flight School - Instruction                   | 446     |
| Flight School - Plane Maintenance             | 10,458  |
| Flight School - Operating Expenses            | 1,592   |
| Fly-In Events and Catering                    | 2,239   |
| Salaries and Wages                            | 215,860 |
| Payroll Taxes                                 | 16,726  |
| Employee Benefits                             | 29,061  |
| Depreciation                                  | 119,119 |
| Insurance                                     | 24,231  |
| Repairs and Maintenance                       | 10,654  |
| Utilities                                     | 45,056  |

The accompanying notes are an integral part of these financial statements

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2010

|  |                                |
|--|--------------------------------|
| Supplies   | 7,257                          |
| Telephone and Communications                             | 5,038                          |
| Aircraft Repair - Hangar Rash                            | 5,360                          |
| Postage  | 598                            |
| Credit Card Fees   | 9,232                          |
| Travel and Entertainment                                 | 2,460                          |
| Meetings and Conferences                                 | 519                            |
| Licenses and Permits                                     | 255                            |
| Dues and Subscriptions                                   | 8,621                          |
| Professional Services                                    | 4,725                          |
| Miscellaneous Expense                                    | 3,204                          |
| Advertising  | <u>2,261</u>                   |
| <br>Total Operating Expenses                             | <br><u>923,358</u>             |
| <br>Operating Income                                     | <br><u>79,500</u>              |
| <br>Other Income (Expenses):                             |                                |
| Interest Income  | 156                            |
| Interest Expense   | <u>(40,134)</u>                |
| Total Other Income (Expenses)                            | <u>(39,978)</u>                |
| <br>Increase in Net Assets, Before Capital Contributions | <br><u>39,522</u>              |
| <br>CAPITAL CONTRIBUTIONS:                               |                                |
| State of Tennessee                                       | <u>496,106</u>                 |
| Total Capital Contributions                              | <u>496,106</u>                 |
| <br>Increase in Net Assets                               | <br>535,628                    |
| <br>NET ASSETS, July 1, 2009                             | <br><u>4,160,648</u>           |
| <br>NET ASSETS, June 30, 2010                            | <br><u><u>\$ 4,696,276</u></u> |

The accompanying notes are an integral part of these financial statements

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2010

|   |                       |
|---|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                       |
| Cash Received from Customers  | \$ 827,520            |
| Cash Received from State and Local Governments  | 168,080               |
| Cash Paid for Goods and Services  | (571,159)             |
| Cash Paid to Employees  | <u>(215,860)</u>      |
| Net Cash Provided by Operating Activities   | <u>208,581</u>        |
| <br><b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                       |
| Acquisition of Capital Assets   | (19,437)              |
| Construction in Progress  | (630,746)             |
| Principal Paid on Notes   | (103,919)             |
| Interest Paid on Debt Service   | (40,134)              |
| Grant Proceeds - Tennessee Dept. of Aeronautics   | <u>603,670</u>        |
| Net Cash (Used) in Capital and Related Financing Activities                                 | <u>(190,566)</u>      |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                       |
| Interest Income   | <u>156</u>            |
| Net Cash Provided by Investing Activities   | <u>156</u>            |
| Net Increase in Cash and Cash Equivalents   | 18,171                |
| Cash and Cash Equivalents, July 1, 2009   | <u>85,629</u>         |
| Cash and Cash Equivalents, June 30, 2010  | <u><u>103,800</u></u> |
| <br><b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b> |                       |
| Operating Income  | <u>79,500</u>         |
| Depreciation  | 119,119               |
| Increase in Receivables   | (7,424)               |
| Decrease in Inventory and Other Assets  | 35,838                |
| Decrease in Accounts Payable and Accrued Expenses   | <u>(18,452)</u>       |
| Total Adjustments   | <u>129,081</u>        |
| Net Cash Provided by Operating Activities   | <u><u>208,581</u></u> |

The accompanying notes are an integral part of these financial statements

ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Elizabethton Municipal Airport is a general aviation facility providing aeronautic access to Carter County and the surrounding area. The airport is noted for providing full service including refueling, maintenance, storage, basic amenities, and comprehensive flight training.

The airport is a unit of the City of Elizabethton, Tennessee and reported as an enterprise fund in the comprehensive annual financial reports of the City of Elizabethton. These financial statements are limited to the Airport and not the City of Elizabethton, Tennessee as a whole.

1. Basis of Accounting

The financial statements of the Elizabethton Municipal Airport are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The airport applies all Government Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. GASB Statement No. 20 provides governments with the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The City of Elizabethton, Tennessee has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

All activities of the Airport are accounted for within a single proprietary fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Airport are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The accounting and financial reporting treatment applied to the Airport is determined by its measurement focus. The Airport's transactions are accounted for on a flow of economic resources measurement focus. Based on this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets are segregated into "invested in capital assets, net of related liabilities" and "unrestricted" components.

2. Budgetary Accounting

The Airport Board of Commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with the basis used in preparing the Airport's financial statements.

ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Definition of Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Airport considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents regardless of restrictions. Commercial bank certificates of deposits with initial maturities exceeding three months are not considered cash equivalents.

4. Accounts Receivable and Customer Revenues

Revenues are derived primarily from the aircraft storage charges, fuel sales, flight school operations, and generous support from the State of Tennessee and the City of Elizabethton, Tennessee. Accounts receivable are the result of ordinary transactions in the normal course of business. Based on prior experience, management believes that all customer accounts will be collectible.

5. Inventories

Inventories of fuels and supplies are valued at cost based on a weighted-average cost flow assumption. The inventory is maintained on a perpetual basis and physical counts are conducted at regular intervals.

6. Restricted Assets

When necessary, restricted assets are designated by the Commission and maintained for the purpose of funding planned improvements and expansion and/or debt covenants.

7. Fixed Assets

Fixed assets are stated at cost except for the Automated Weather Observation Service (AWOS) and the riding lawn mower donated by a commissioner. A representative of the Tennessee Department of Transportation, Office of Aeronautics, estimated the cost for the AWOS at \$50,000. The value of the lawn mower was based on estimated market value. Expenditures for general maintenance and repairs are charged to expense as incurred. Depreciation is recorded using the straight line method with the following useful lives:

|                   |         |       |
|-------------------|---------|-------|
| Land Improvements | 15      | years |
| Landscaping       | 20      | years |
| Hangar Buildings  | 30      | years |
| Hangar Contents   | 10 – 15 | years |
| Equipment         | 7 – 15  | years |
| Office Equipment  | 5       | years |
| Vehicles          | 3       | years |

ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Capital Contributions

Contributions, normally in the form of capital grants, are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets when earned.

9. Compensated Absences

As set forth by the policies of the City of Elizabethton, the Airport management accrues vacation and sick leave at a maximum rate of 10 hours per month and 8 hours per month, respectively. Accrued vacation leave is capped at a maximum of 360 hours and is payable upon resignation or retirement. Sick leave is not capped and is surrendered upon resignation or retirement.

10. Net Assets

Net asset classification is normally comprised of three components and is the result of accumulated net earnings from operations, other activities, and contributed capital. “Invested in capital assets, net of related liabilities” consists of all capital assets net of accumulated depreciation and reduced by debt outstanding that is directly related to the purchase, construction, and modifications of those capital assets. “Restricted for Capital Improvements” is comprised of net assets associated with legal or regulatory restrictions for use less any related liabilities. The “Unrestricted” component of net assets constitutes all other net assets not included in the aforementioned categories of net assets. When both restricted and unrestricted resources are available for use, it is the Airport’s policy to use restricted resources first, then unrestricted resources as they are needed.

11. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. Subsequent Events

Subsequent events have been evaluated through December 17, 2010, which is the date the financial statements were available to be issued.

NOTE 2 – RELATED PARTY TRANSACTIONS

Certain commissioners rent hangar space and purchase fuel at discounts from prevailing market rates through a bulk fuel prepayment program that is offered to all aircraft owners and operators. Two of the commissioners also serve on the board of the financial institution where the Airport maintains the operating payroll accounts and outstanding notes on a hangar building, a refueling truck, and the capital expansion notes. Interest rates paid on deposit

ELIZABETHTON MUNICIPAL AIRPORT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 2 – RELATED PARTY TRANSACTIONS (CONTINUED)

balances and the notes were the prevailing rates offered to the public. The bank also utilizes the bulk fuel prepayment program for their jet aircraft.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits on the balance sheet are comprised entirely of demand deposits, petty cash, and cash on hand to be deposited. Petty cash and cash on hand to be deposited were \$200 and \$12,624, respectively, as of June 30, 2010. The carrying amount of cash in bank accounts was \$90,976 as of June 30, 2010 and bank balances were \$101,546. All bank balances were covered throughout the year by federal depository insurance or the State of Tennessee Bank Collateral Pool. State statute requires all deposits with financial institutions to be insured or collateralized in an amount no less than 105% of the market value. At year-end, there were no investments. Established policies require the Airport to follow the investment policies utilized by the City of Elizabethton, Tennessee.

NOTE 4 – LONG-TERM DEBT

A summary of long term debt as of June 30, 2010 is as follows:

| <u>Obligation</u>         | <u>Principal<br/>Balance<br/>6-30-09</u> | <u>Additions</u> | <u>Retirements</u> | <u>Principal<br/>Balance<br/>6-30-10</u> |
|---------------------------|--|------------------|--------------------|--|
| (1) Simulator Loan - 2004 | 31,484                                   | - 0 -            | 3,979              | 27,505                                   |
| (2) Expansion Loan - 2007 | <u>895,500</u>                           | <u>- 0 -</u>     | <u>100,000</u>     | <u>795,500</u>                           |
|                           | <u>926,984</u>                           | <u>- 0 -</u>     | <u>103,979</u>     | <u>823,005</u>                           |

On August 27, 2004, management entered into a \$41,988 loan agreement with Carter County Bank to obtain funds to purchase a Security Frasca Flight Simulator II. This loan agreement was renewed with a new promissory note for the remaining principal balance of \$36,322 dated December 28, 2007, the maturity date of the original loan. This loan is secured with the Frasca Flight Simulator II and bears interest at the rate of 4.5%. The interest rate is a variable indexed rate linked to the prime rate published in the Wall Street Journal and is subject to change daily. Repayment is to be made in 35 monthly installments of \$400 (principal including interest) beginning January 28, 2008 with a balloon payment due on December 28, 2010.

On May 31, 2007, management entered into a \$1,350,000 loan agreement with Carter County Bank to obtain funds to purchase certain properties adjacent to the Airport including the Moody Aviation property. This loan agreement was renewed with a new promissory note for the remaining principal balance of \$795,500 dated May 30, 2010. Payments consisting of interest only at the fixed rate of 4.8% are to be made every three months beginning August

ELIZABETHTON MUNICIPAL AIRPORT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 4 – LONG-TERM DEBT (CONTINUED)

30, 2010. This note matures on May 30, 2011 with a mandatory principal reduction of \$100,000 due by that date and the option to renew the note at that time.

The estimated debt service requirements for the next five years and beyond are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual<br/>Payment</u> |
|--------------------|------------------|-----------------|---------------------------|
| 2011               | 823,005          | 38,796          | 861,801                   |
| 2012               | 0                | 0               | 0                         |
| 2013               | 0                | 0               | 0                         |
| 2014               | 0                | 0               | 0                         |
| 2015               | <u>0</u>         | <u>0</u>        | <u>0</u>                  |
| Years Thereafter   | <u>823,005</u>   | <u>38,796</u>   | <u>861,801</u>            |

NOTE 5 – CONSTRUCTION IN PROGRESS

Runway Extension

Expenditures to date of \$1,465,526 have been made for land acquisition, engineering services, site preparation, and paving as part of the Airport's ongoing runway extension project, including the Pierce Street relocation project. Costs incurred to date also include amounts paid for land appraisal, preliminary engineering services, presentation costs, property purchasing, and property owner relocations. The Airport has received partial funding for this project from the Tennessee Division of Aeronautics with an effort to be made in the next fiscal year to obtain further funding. Management anticipates completion of this project within the next operating period.

Hangar Construction and Improvements

Applications have been approved by the State of Tennessee's Division of Aeronautics for the construction and improvement of hangar structures on the Airport property. Nearing completion of the projects, costs incurred to date total \$1,071,124. Management anticipates completion of this project within the next operating period.

NOTE 6 – DEFERRED REVENUE

The Airport has instituted a bulk rate fuel program offering discounts to aircraft operators at a \$.20 rate for Jet-A fuel and 100LL aviation gas. The motivation for the bulk rate fuel program is to encourage operators to base at the Airport, attract more corporate users, provide cash flow for the Elizabethton Municipal Airport, and increase fuel sales. As of June 30, 2010, eight customers were utilizing the bulk fuel program.

ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 7 - INSURANCE COVERAGE

As disclosed in the schedule of insurance, the Elizabethton Municipal Airport purchases commercial insurance for the risks of losses to which it is exposed. These risks include general liability, premise liability, moving aircraft, commission indemnity, fueling excess liability, worker's compensation, and environmental. Settled claims have not exceeded this commercial coverage in the past four fiscal years. It is the policy of the Airport to pay directly for minor damage to aircraft caused during ground movement of aircraft by staff.

In addition, the City of Elizabethton, Tennessee is a member of the Tennessee Municipal League Risk Management Pool (TML Pool). Coverage for the Elizabethton Municipal Airport by the City includes property and casualty. The TML Pool is a non-profit, risk sharing organization of Tennessee municipalities and local public agencies. Tennessee Statute governing the formation of the pooling and risk sharing arrangement dictates that the pool has the ability to assess members. Contributions (premium) from members are used in part to purchase reinsurance to cover losses that exceed the Pool's loss fund.

NOTE 8 – PENSION CONTRIBUTIONS

During the fiscal year ending June 30, 2010, the Airport management was covered through the Tennessee Consolidated Retirement System. Total contributions during the fiscal year were \$14,806. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is a result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Pension contributions are determined as part of the July 1, 2003 actuarial valuation. Since the Elizabethton Municipal Airport is considered a department of the City by TCRS, no specific pension benefit obligation can be isolated for the Airport. Please refer to the City of Elizabethton as to aggregate funding status, progress, and net assets available for benefits.

NOTE 9 – DIVISION OF AERONAUTICS MAINTENANCE GRANT

During the fiscal period, the airport management applied for grant funds from the Tennessee Division of Aeronautics totaling \$13,000. The grant provides for a partial reimbursement of qualifying maintenance expenditures participating at a rate of fifty percent up to \$13,000. During the fiscal year ending June 30, 2010, the Airport received \$5,080 in grant funds. The

ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2009 TO JUNE 30, 2010

NOTE 9 – DIVISION OF AERONAUTICS MAINTENANCE GRANT (CONTINUED)

remaining \$7,920 in available funds was applied for but denied due to the Division implementing a much more stringent reimbursement policy.

NOTE 10 – MAJOR CUSTOMERS

Five customers comprise approximately 21.45% of total sales with 8.41% being derived from a medical transportation company. These sales are from a select number of customers with above average consumption and frequent or are based at the airport. However, the overall frequency of transactions is comprised of a broad base of Airport customers which remains strong in light of a slight decline in flight training.

NOTE 11 – LITIGATION

At June 30, 2010, the Airport had no attorney on retainer nor had an attorney been consulted during the year regarding any pending or threatened litigation.

NOTE 12 – CAPITAL ASSETS

Capital asset activity during the year was as follows:

|  | <u>Balance</u><br><u>6/30/09</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u><br><u>6/30/10</u> |
|--|----------------------------------|------------------|--------------------|----------------------------------|
| Capital Assets Not Being Depreciated:      |                                  |                  |                    |                                  |
| Land                                       | 1,148,950                        | -0-              | -0-                | 1,148,950                        |
| Construction in Progress                   | <u>2,047,851</u>                 | <u>488,799</u>   | <u>-0-</u>         | <u>2,536,650</u>                 |
| Total Capital Assets Not Being Depreciated | <u>3,196,801</u>                 | <u>488,799</u>   | <u>-0-</u>         | <u>3,685,600</u>                 |
| Capital Assets Being Depreciated:          |                                  |                  |                    |                                  |
| Land Improvement                           | 1,331,015                        | -0-              | -0-                | 1,331,015                        |
| Hangars and Terminal Building              | 1,575,925                        | 3,430            | -0-                | 1,579,355                        |
| Major Moveable Equipment                   | <u>400,635</u>                   | <u>16,007</u>    | <u>-0-</u>         | <u>416,642</u>                   |
| Total Capital Assets Being Depreciated     | <u>3,307,575</u>                 | <u>19,437</u>    | <u>-0-</u>         | <u>3,327,012</u>                 |
| Accumulated Depreciation:                  |                                  |                  |                    |                                  |
| Land Improvements                          | (800,971)                        | (32,343)         | - 0 -              | (833,314)                        |
| Hangars and Terminal Building              | (515,288)                        | (55,838)         | -0-                | (571,126)                        |
| Major Movable Equipment                    | <u>(278,715)</u>                 | <u>(30,938)</u>  | <u>-0-</u>         | <u>(309,653)</u>                 |
| Total Accumulated Depreciation             | <u>(1,594,974)</u>               | <u>(119,119)</u> | <u>-0-</u>         | <u>(1,714,093)</u>               |
| Net Capital Assets Being Depreciated       | <u>1,712,601</u>                 | <u>(99,682)</u>  | <u>-0-</u>         | <u>1,612,919</u>                 |
| Net Capital Assets                         | <u>4,909,402</u>                 | <u>389,117</u>   | <u>-0-</u>         | <u>5,298,519</u>                 |

**CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
SCHEDULE OF INSURANCE COVERAGE  
For the Year Ended June 30, 2010**

| <u>Insurance Company</u>           | <u>Policy Period</u>     | <u>Description of Coverage</u>  | <u>Amount of Coverage</u>           |
|------------------------------------|--------------------------|---|-------------------------------------|
| Old Republic<br>Insurance Company  | 8/01/10<br>to<br>8/01/11 | Airport Liability   | 10,000,000                          |
|                                    |                          | Premises Liability – Each Occurrence<br>Ground Hangar Liability – Each Occurrence | 2,000,000                           |
|                                    |                          | Flight School:<br>Aircraft  | 168,000                             |
|                                    |                          | Bodily Injury and Property Damage   | 1,000,000                           |
| Old Republic<br>Insurance Company  | 1/01/10<br>to<br>1/01/11 | Workers Compensation  | Statutory                           |
| TML Risk Management                | 7/01/09<br>to<br>7/01/10 | Property:   |                                     |
|                                    |                          | Hangar #1 N3  | Building 400,775<br>Contents 7,260  |
|                                    |                          | Hangar #2 N4  | Building 276,750<br>Contents 3,025  |
|                                    |                          | Hangar #3 N5  | Building 415,125<br>Contents 60,500 |
|                                    |                          | T-Hangar N1   | Building 206,025                    |
|                                    |                          | T-Hangar II N2  | Building 206,025                    |
|                                    |                          | Office/Hangar S1  | Building 1,321,000                  |
|                                    |                          | Hangar Annex S2   | Building 16,000                     |
|                                    |                          | T-Hangar S3   | Building 45,000                     |
|                                    |                          | T-Hangar S4   | Building 146,300                    |
|                                    |                          | Storage Garage S5   | Building 20,200                     |
|                                    |                          | Hangar N6   | Building                            |
|                                    |                          | Perimeter Fencing   | 36,600                              |
|                                    |                          | Avgas Fueling Station   | Building 7,700                      |
| Jet A Fueling Station              | Building 36,300          |   |                                     |
| The Travelers<br>Indemnity Company | 3/24/10<br>to<br>3/24/11 | Commercial Auto:  |                                     |
|                                    |                          | Liability   | 1,000,000                           |
|                                    |                          | Uninsured Motorists<br>(\$200 Deductible)   | 1,000,000                           |
|                                    |                          | Auto Medical Payments   | 5,000                               |
|                                    |                          | Business Personal Property Rider:<br>Business Personal Property                   | 25,000                              |
| New Construction – Each Building   | 2 Million                |   |                                     |
| Appurtenant Structures             | 100,000                  |   |                                     |
| Outdoor Property                   | 25,000                   |   |                                     |

CITY OF ELIZABETHTON, TENNESSEE  
 ELIZABETHTON MUNICIPAL AIRPORT  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 As of and For the Year Ended June 30, 2010

| State Grant<br>Number | Program Name                  | Grantor Agency                         | Balance<br>July 1, 2009<br>(Receivable) | Receipts         | Qualifying<br>Expenses | Balance<br>June 30, 2010<br>(Receivable) |
|-----------------------|-------------------------------|--|---|------------------|------------------------|--|
| Z0921337700           | Airport Maintenance           | Tennessee Department of Transportation | \$13,000                                | \$18,080         | \$5,080                | \$0                                      |
| Z0921393100           | Hangar Roof Repair            | Tennessee Department of Transportation | 0                                       | 5,500            | 5,500                  | 0  |
| Z0921405600           | Grounds Maintenance Equipment | Tennessee Department of Transportation | 0                                       | 12,000           | 12,000                 | 0  |
| Z0921405600           | Grounds Maintenance Equipment | Tennessee Department of Transportation | 0                                       | 13,657           | 13,657                 | 0  |
| Z0820067900           | Apron and Taxi Work           | Tennessee Department of Transportation | 2,097                                   | 63,782           | 61,685                 | 0  |
| Z0703768500           | Corporate Hangar              | Tennessee Department of Transportation | 121,985                                 | 470,182          | 362,892                | 14,695                                   |
| Z0703766500           | Pierce Street Relocation      | Tennessee Department of Transportation | 0                                       | 37,525           | 39,348                 | 1,823                                    |
|                       |                               | Total State Awards                     | <u>\$137,082</u>                        | <u>\$620,726</u> | <u>\$500,162</u>       | <u>\$16,518</u>                          |

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of state awards is prepared on the accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Awards

The Elizabethton Municipal Airport did not receive any noncash state awards during the year ended June 30, 2010.

The accompanying notes are an integral part of this exhibit.



December 17, 2010

To the City Council & Airport Commission
City of Elizabethton Tennessee
Elizabethton Municipal Airport
415 Highway 91
Elizabethton, TN 37643

INDEPENDENT AUDITORS' 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

We have audited the financial statements of Elizabethton Municipal Airport of the City of Elizabethton, Tennessee as of and for the year ended June 30, 2010 and have issued our report thereon dated December 17, 2010. 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

In planning and performing our audit, we considered the Airport's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings and responses as items 2010-01, 2010-02, 2010-03, and 2010-04, that we consider to be significant deficiencies in internal control over financial reporting. A

To the City Council & Airport Commission  
City of Elizabethton Tennessee  
Elizabethton Municipal Airport  
December 17, 2010  
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*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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elizabethton Municipal Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 the audit and, accordingly, we do not express such an opinion. In connection with our audit, nothing came to our attention that caused us to believe that the Organization failed to comply with any applicable laws, regulations, contracts, or grants, insofar as they relate to accounting matters.

This report is intended solely for the information and use of management of the City of Elizabethton, Tennessee and the Elizabethton Municipal Airport Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Kirk, Fortner, Smalley, & Associates, PLLC*  
Kirk, Fortner, Smalley & Associates, PLLC  
Certified Public Accountants  
Kingsport, Tennessee

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
For the Fiscal Year Ending June 30, 2010

**ITEM 2010-01**

Computer passwords are not changed on a regular basis but only as personnel changes are made.

**CRITERIA**

Computer passwords should be changed on a regular basis to help protect the integrity of financial information.

**CAUSE OF CONDITION**

The Airport's policy is to change computer passwords only when personnel changes occur instead of on a regular basis.

**EFFECT OF CONDITION**

Computer passwords not being changed at regular intervals can lead to an increased risk that the Organization's financial information could be compromised.

**RECOMMENDATION**

The Airport should adopt a new policy requiring that all computer passwords be changed on a regular basis, such as quarterly, and immediately upon dismissal or resignation of an employee having access to such passwords and financial information.

**ORGANIZATION'S RESPONSE**

The chief operating officer of the Airport, Dan Cogan, concurs with the auditor's recommendation and will establish the necessary processes along with a written policy to help ensure that all computer passwords are changed on a regular basis, as well as immediately following the dismissal or resignation of an employee having access to such passwords and financial information.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
For the Fiscal Year Ending June 30, 2010

**ITEM 2010-02**

A lack of segregation of financial duties exists within the Organization. A single employee is responsible for the majority of the financial duties performed with close oversight by a member of management. However, there needs to be more documented evidence of oversight controls being performed, such as initialing and dating documents upon review.

**CRITERIA**

Due to the small size of the Airport's accounting staff, there must be as much delegation and segregation of financial duties as possible, coupled with adequate management oversight and documentation of management review of documents/work performed in sensitive areas.

**CAUSE OF CONDITION**

Due to the small size of the Airport's accounting staff, it is mandatory that certain related duties be performed by the same employee that would otherwise be delegated among accounting staff members in a larger organization to ensure proper controls over financial activities and reporting.

**EFFECT OF CONDITION**

A lack of segregation of financial duties can result in an increased risk of fraud within the Organization. This condition may also result in an increased likelihood that material misstatements will not be detected in a timely manner by employees in the normal course of performing their duties.

**RECOMMENDATION**

To the greatest extent possible, related job duties of a financial nature should be delegated among accounting staff members. More importantly, since staff size limits the Organization's ability to delegate these duties sufficiently, management should review the work performed by the accounting staff and all reviewed documents/work should be adequately documented by initialing/signing and dating the documents reviewed.

**ORGANIZATION'S RESPONSE**

The chief operating officer of the Airport, Dan Cogan, concurs with the auditor's recommendation. Even though the financial duties are probably segregated as well as possible at this point, improvements will be made in the process of documenting the review of the work of the accounting staff and ensuring that all documents reviewed are initialed and dated as evidence of proper oversight controls being performed by management.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
For the Fiscal Year Ending June 30, 2010

**ITEM 2010-03**

Grant funds received from the Tennessee Department of Transportation, Division of Aeronautics, were posted to an equity account in the general ledger instead of being posted to the appropriate revenue account.

**CRITERIA**

All grant funds and other income of the Airport should be posted to an appropriate revenue account in the general ledger to ensure that the entity's financial activities and condition are accurately presented and not misleading to users of the financial information.

**CAUSE OF CONDITION**

The accounting staff, relying on the advice of the previous auditor of the Organization's financial records, incorrectly posted revenue transactions to an equity account instead of the proper revenue account.

**EFFECT OF CONDITION**

The posting of revenue transactions to an equity account in the general ledger results in an understatement of revenues and, thus, an understatement of net income of the entity. This condition could possibly lead to a user of the financial statements being misled as to the financial activities/condition of the Airport and, ultimately, errant decision-making by management and other users of the financial statements.

**RECOMMENDATION**

All grant funds and other income of the Airport need to be posted to the appropriate revenue account in the general ledger, with the monthly financial reports being reviewed and initialed by management to verify that all revenue is being recorded and equity accounts are not being used to record routine monthly transactions.

**ORGANIZATION'S RESPONSE**

The chief operating officer of the Airport, Dan Cogan, concurs with the auditor's recommendation. The accounting staff, as well as management, believed that they were properly recording the grant revenue transactions in the general ledger. All future revenue transactions will be posted to the proper revenue account in the general ledger and the monthly financial reports will be reviewed by management and initialed as evidence of the review process.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
For the Fiscal Year Ending June 30, 2010

**ITEM 2010-04**

The minutes of the Elizabethton Airport Commission meetings did not reflect the preparer's handwritten signature. In addition, the minutes of meetings did not indicate the dates of the meetings for which minutes were being approved by the Commission.

**CRITERIA**

The minutes of meetings should clearly state all Commission actions in as much detail as possible and should clearly indicate who prepared the minutes.

**CAUSE OF CONDITION**

The preparer of the minutes failed to sign the final approved copy of the minutes of each meeting and there is a lack of clarity and conciseness regarding certain actions taken by the Commission.

**EFFECT OF CONDITION**

Since the minutes are a formal written record of the actions of the Commission, unclear or incomplete minutes can lead to possible confusion about or misunderstanding of the Commission's actions. Minutes that lack an official signature give the appearance that they have not been approved by the Commission even if they have been approved and, thus, may indicate to the reader that the minutes could possibly contain inaccurate information.

**RECOMMENDATION**

The Commission meeting minutes need to be as clear and concise as possible. The date of the meetings for which minutes are being approved needs to be specified and the minutes need to be prepared in as much detail as possible, not to the point of being cumbersome to prepare or read but to the point that there is no question or confusion as to the Commission's actions. In order to verify that the minutes are final and officially approved by the Commission, they need to be manually signed as well as displaying the typewritten name of the person preparing the minutes.

**ORGANIZATION'S RESPONSE**

The chief operating officer of the Airport, Dan Cogan, concurs with the auditor's recommendation. A policy will be adopted requiring that the official approved minutes of all Airport Commission meetings be signed by the preparer and that the preparer's typewritten name be included on the document. Improvements will be made to ensure that all minutes are complete and include adequate descriptions of all actions taken by the Commission, including indicating the dates of all meetings for which minutes are being approved.