

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
Elizabethton, Tennessee

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2012

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
Elizabethton, Tennessee  
For the Fiscal Year Ended June 30, 2012

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CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
AIRPORT COMMISSION MEMBERS  
JUNE 30, 2012

William B. Greene, Jr. - Chairman

John E. Seward, Jr. - Vice-Chairman

Lanny R. Norris - Secretary/Treasurer

Sam LaPorte - Commissioner

Richard Tetrick - Commissioner

Daniel R. Cogan - Chief Operating Officer

September 21, 2012

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, a component unit of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Elizabethton, Tennessee. 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, 2012, 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, 2012, 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 September 21, 2012, 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.

To the City Council & Airport Commission  
City of Elizabethton Tennessee  
Elizabethton Municipal Airport  
September 21, 2012  
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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 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.

Management has omitted the budgetary comparison information that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basis financial statements is not affected by this missing information.



Fortner Smalley, PLLC  
Kingsport, Tennessee

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

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 remains stable. In fiscal year 2011-2012, the airport experienced a 4% decrease in total revenue and a 3% increase in total operating expenses. Transient traffic, especially during the summer season, remains the area with the greatest growth. The Airport continues to develop new revenue streams by increasing the volume of ancillary aviation services to existing customers, such as aircraft detailing and lavatory service. Grant money has been secured for several short term improvements, including hangar door replacement and tree clearing on the approach end of runways. In addition, the main terminal ramp rehabilitation project has been funded with work slated to begin next fiscal year. The Airport has several important capital improvement projects planned which will greatly expand revenue to include runway extension, t-hangar construction, and relocation of automated weather station (AWOS). The addition of grounds maintenance equipment is also planned for the next fiscal year. Federal funding will be used for all of these projects.

- The Airport received and expended \$158,000 from the State of Tennessee and the City of Elizabethton in operating grants.
- Total assets at year-end were \$5,910,542, with net capital assets comprising \$5,633,923 of that amount, compared to total assets of \$6,089,447 and net capital assets of \$5,776,058 at the end of last fiscal year.
- Total liabilities at year-end were \$734,793, with long-term liabilities comprising \$528,415 of that amount, compared to total liabilities of \$821,468 and long-term liabilities of \$728,940 at the end of last fiscal year.
- Total net assets decreased by \$92,230 to a balance of \$5,175,749 at year-end, with \$5,018,956 of that invested in capital assets, net of related liabilities, and \$156,793 classified as unrestricted net assets, compared to total net assets of \$5,267,979 at the end of last fiscal year, with \$5,055,979 of that invested in capital assets, net of related liabilities, and \$212,000 classified as unrestricted net assets.
- Operating revenues for the year were \$983,398, a decrease of \$39,601 (3.87%) from last fiscal year's operating revenues of \$1,022,999.
- Operating expenses before depreciation were \$882,603, an increase of \$6,488 (0.74%) from last fiscal year's operating expenses of \$876,115.
- Ratios of net operating income to total operating revenues were 0.07% for FY 2011 and (6.29%) for FY 2012.

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.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

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, 2012.

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 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 six 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.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

Financial Condition

The Airport's financial condition is strong at period end with adequate liquid assets. In the last few years, major improvement projects have been completed including terminal relocation, construction of heated corporate hangar, Pierce Street Relocation, and commissioning of GPS approach. These efforts have led to a significant growth in airport business which has doubled in the last decade in spite of the economic downturn. The current financial condition, staff capabilities, and operating 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, 2012:

Total assets decreased by \$178,905. Total liabilities decreased by \$86,675, with the payment of Notes Payable being responsible for the majority of the decrease. Net assets decreased by \$92,230, attributable entirely to the results of operations.

Results of Operations

Operating Revenues: Current revenues 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 \$39,601 (3.87%) from last year, which can be attributed mainly to a decrease in transient traffic.

Expenses: Operating expenses (before depreciation of \$162,643) of the Airport increased by \$6,488 (0.74%) from last year, which is due in large part to an increase in fuel costs and flight school expenses. However, management has continued to closely monitor and review all operating expenses and activities, striving to minimize operating costs while continuing to provide quality service to customers.

Final Comments

The Airport continues to strive to provide adequate and efficient aviation services to its customers. The stability in operating revenue this year is an indicator of the viability and strength of the operation. Furthermore, the operating efficiencies developed during this economic recession will provide for rapid fiscal gains when the aviation industry begins its economic recovery.

Daniel R. Cogan, Airport Manager



CITY OF ELIZABETHTON, TENNESSEE  
 ELIZABETHTON MUNICIPAL AIRPORT  
 STATEMENT OF NET ASSETS  
 June 30, 2012

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$	48,698
Accounts Receivable		46,913
Inventory of Fuel, Oil and Supplies		32,054
Operating Grants Receivable		<u>148,699</u>

TOTAL CURRENT ASSETS		<u>276,364</u>
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CAPITAL ASSETS:

Land and Land Improvements		4,531,198
Hangars and Terminal Building		2,681,267
Major Movable Equipment		<u>427,150</u>
Total Capital Assets		7,639,615
Less: Accumulated Depreciation		<u>(2,015,692)</u>
		5,623,923
Construction in Progress		<u>10,000</u>
NET VALUE OF CAPITAL ASSETS		<u>5,633,923</u>

OTHER ASSETS:

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

TOTAL ASSETS	\$	<u><u>5,910,542</u></u>
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See accompanying notes and independent accountants' audit report.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF NET ASSETS  
June 30, 2012

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts Payable	\$ 41,562
Sales and Use Tax Payable	2,293
Accrued Payroll Taxes	3,585
Unearned Bulk Fuel and Rental Revenue	54,566
Notes Payable - Current Portion	104,247
T-Hangar Deposits	<u>125</u>
TOTAL CURRENT LIABILITIES	<u>206,378</u>

LONG-TERM LIABILITIES:

Notes Payable, Net of Current Portion	510,721
Compensated Absences	<u>17,694</u>
TOTAL LONG-TERM LIABILITIES	<u>528,415</u>

TOTAL LIABILITIES 734,793

NET ASSETS:

Invested in Capital Assets, Net of Related Liabilities	5,018,956
Unrestricted Net Assets	<u>156,793</u>
TOTAL NET ASSETS	<u>5,175,749</u>

TOTAL LIABILITIES AND  
NET ASSETS \$ 5,910,542

See accompanying notes and independent accountants' audit report.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2012

OPERATING REVENUE

Sales of Jet-A Fuel	\$ 380,531
Sales of Aviation Gasoline	132,787
Hangar Rental	146,780
Facility Rental	37,705
Vehicle Storage	6,150
Tie-Down Fees	9,112
Flight School - Plane Rental	80,251
Flight School - Instruction	12,690
Oil Products Income	1,047
Rental Car Income	3,339
Sale of Pilot Supplies	3,581
Fly-In Events and Catering	7,431
Airport User Fees	1,725
Miscellaneous Income	2,269
Maintenance Grant - Tennessee Division of Aeronautics	13,000
Operating Transfer - City of Elizabethton	<u>145,000</u>
 Total Operating Revenue	 <u>983,398</u>

OPERATING EXPENSES:

Purchase of Jet-A Fuel	259,028
Purchase of Aviation Gasoline	112,276
Purchase of Aviation Gasoline - Flight School	36,886
Purchases for Resale	3,722
Flight School - Plane Rental	25,899
Flight School - Insurance	10,757
Flight School - Instruction	2,785
Flight School - Plane Maintenance	21,073
Flight School - Operating Expenses	2,221
Fly-In Events and Catering	4,440
Salaries and Wages	227,370
Payroll Taxes	17,125
Employee Benefits	30,024
Depreciation	162,643
Insurance	22,515
Repairs and Maintenance	23,266
Utilities	43,080

See accompanying notes and independent accountants' audit report.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2012

Supplies	\$	5,860
Telephone and Communications		5,351
Uniforms		560
Postage		834
Credit Card Fees		10,034
Travel and Entertainment		705
Licenses and Permits		17
Dues and Subscriptions		5,774
Professional Services		8,606
Miscellaneous Expense		1,111
Rental Car Expense		529
Advertising		<u>755</u>
 Total Operating Expenses		 <u>1,045,246</u>
 Operating (Loss)		 <u>(61,848)</u>
 Other Income (Expenses):		
Interest Income		106
Interest Expense		<u>(30,488)</u>
 Total Other Income (Expenses)		 <u>(30,382)</u>
 Decrease in Net Assets		 (92,230)
 NET ASSETS, July 1, 2011		 <u>5,267,979</u>
 NET ASSETS, June 30, 2012		 <u><u>\$ 5,175,749</u></u>

See accompanying notes and independent accountants' audit report.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 826,196
Cash Received from State and Local Governments	158,252
Cash Paid for Goods and Services	(622,647)
Cash Paid to Employees	<u>(227,370)</u>
Net Cash Provided by Operating Activities	<u>134,431</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal Paid on Notes	(104,084)
Interest Paid on Debt Service	<u>(30,487)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(134,571)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Construction of Capital Assets in Progress	(10,000)
Purchase of Capital Assets	(3,308)
Interest Income	<u>106</u>
Net Cash (Used) by Investing Activities	<u>(13,202)</u>
Net Decrease in Cash and Cash Equivalents	(13,342)
Cash and Cash Equivalents, July 1, 2011	<u>62,040</u>
Cash and Cash Equivalents, June 30, 2012	<u><u>\$ 48,698</u></u>

See accompanying notes and independent accountants' audit report.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2012

RECONCILIATION OF OPERATING (LOSS) TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:

Operating (Loss)	\$ (61,848)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	162,643
Non-cash Revenue	(7,200)
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(7,929)
Decrease in Inventory of Fuel, Oil and Supplies	31,105
Increase in Operating Grants Receivable	(775)
Decrease in Accounts Payable	(489)
Decrease in Sales and Use Tax Payable	(977)
Increase in Accrued Payroll Taxes	264
Increase in Unearned Revenue	15,927
Increase in Compensated Absences	<u>3,710</u>
Total Adjustments	<u>196,279</u>
Net Cash Provided by Operating Activities	<u><u>\$ 134,431</u></u>

See accompanying notes and independent accountants' audit report.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

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 component 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.

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.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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.

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.

Capital Assets

Capital 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:



CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

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.

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.

CITY OF ELIZABETHTON, TENNESSEE  
 ELIZABETHTON MUNICIPAL AIRPORT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through September 21, 2012, 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 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 \$8,227, respectively, as of June 30, 2012. The carrying amount of cash in bank accounts was \$40,271 as of June 30, 2012. 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, 2012 is as follows:

<u>Obligation</u>	<u>Principal Balance 6-30-11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 6-30-12</u>
(1) Simulator Loan - 2004	23,552	- 0 -	(4,084)	19,468
(2) Expansion Loan - 2007	<u>695,500</u>	<u>- 0 -</u>	<u>(100,000)</u>	<u>595,500</u>
	<u>719,052</u>	<u>- 0 -</u>	<u>(104,084)</u>	<u>614,968</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 \$25,545 dated December 28, 2010. This loan is secured with the Frasca Flight Simulator II and bears

CITY OF ELIZABETHTON, TENNESSEE  
 ELIZABETHTON MUNICIPAL AIRPORT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

NOTE 4 – LONG-TERM DEBT (Continued)

interest at the rate of 3.25%. 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, 2011, with a balloon payment due on December 28, 2013 for the outstanding balance.

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 \$695,500 dated May 30, 2011. Payments consisting of interest only at the fixed rate of 4.8% are to be made every three months beginning August 30, 2011. This loan is required to be repaid in full by the maturity date of August 31, 2012. As of September 21, 2012, it is expected that this loan will be renewed for 36 months with annual principal payments of \$100,000 at an interest rate of 4.25%.

The estimated debt service requirements for the life of the debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Payment</u>
2013	104,084	21,629	125,713
2014	104,247	17,042	121,289
2015	<u>406,637</u>	<u>12,559</u>	<u>419,196</u>
Totals	<u>614,968</u>	<u>51,230</u>	<u>666,198</u>

NOTE 5 – 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, 2012, five customers were utilizing the bulk fuel program.

NOTE 6 - INSURANCE COVERAGE

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 five 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.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

NOTE 6 - INSURANCE COVERAGE (Continued)

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 (premiums) from members are used in part to purchase reinsurance to cover losses that exceed the Pool's loss fund.

NOTE 7 – PENSION CONTRIBUTIONS

During the fiscal year ended June 30, 2012, the Airport management was covered through the Tennessee Consolidated Retirement System. Total employer contributions during the fiscal year were \$15,863. 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 8 – 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, 2012, the Airport received \$9,301 of these grant funds, with the remaining \$3,699 being approved and receivable as of June 30, 2012.

CITY OF ELIZABETHTON, TENNESSEE  
ELIZABETHTON MUNICIPAL AIRPORT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

NOTE 9 – MAJOR CUSTOMERS

Seven customers comprised approximately 26.07% of total sales with 8.47% being derived from a medical transportation company. These sales were derived from a select number of customers with above average consumption who frequently use 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 generally poor economy.

NOTE 10 – LITIGATION

At June 30, 2012, the Airport had no attorney on retainer nor had an attorney been consulted during the year regarding any pending or threatened litigation.

NOTE 11 – CAPITAL ASSETS

Capital asset activity during the year was as follows:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance 6/30/12</u>
Capital Assets Not Being Depreciated:				
Land	2,428,170	-0-	-0-	2,428,170
Construction in Progress	<u>-0-</u>	<u>10,000</u>	<u>-0-</u>	<u>10,000</u>
Total Capital Assets Not Being Depreciated	<u>2,428,170</u>	<u>10,000</u>	<u>-0-</u>	<u>2,438,170</u>
Capital Assets Being Depreciated:				
Land Improvement	2,103,028	-0-	-0-	2,103,028
Hangars and Terminal Building	2,681,267	-0-	-0-	2,681,267
Major Moveable Equipment	<u>416,642</u>	<u>10,507</u>	<u>-0-</u>	<u>427,149</u>
Total Capital Assets Being Depreciated	<u>5,200,937</u>	<u>10,507</u>	<u>-0-</u>	<u>5,211,444</u>
Accumulated Depreciation:				
Land Improvements	(870,260)	(47,472)	- 0 -	(917,732)
Hangars and Terminal Building	(648,390)	(92,557)	-0-	(740,947)
Major Moveable Equipment	<u>(334,399)</u>	<u>(22,614)</u>	<u>-0-</u>	<u>(357,013)</u>
Total Accumulated Depreciation	<u>(1,853,049)</u>	<u>(162,643)</u>	<u>-0-</u>	<u>(2,015,692)</u>
Net Capital Assets Being Depreciated	<u>3,347,888</u>	<u>(152,136)</u>	<u>-0-</u>	<u>3,195,752</u>
Net Capital Assets	<u>5,776,058</u>	<u>(142,136)</u>	<u>-0-</u>	<u>5,633,923</u>

September 21, 2012

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 ("the Airport") as of and for the year ended June 30, 2012 and have issued our report thereon dated September 21, 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

Management of Elizabethton Municipal Airport of the City of Elizabethton, Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Elizabethton Municipal Airport'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 an opinion on the effectiveness of Elizabethton Municipal Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Elizabethton Municipal 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.

To the City Council & Airport Commission  
City of Elizabethton Tennessee  
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport'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 that are required to be reported under *Government Auditing Standards*.

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



Fortner Smalley, PLLC  
Kingsport, Tennessee