

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY

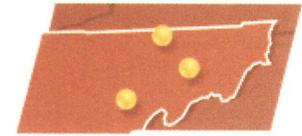
FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2009

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
TABLE OF CONTENTS
June 30, 2009

| | <u>PAGE NUMBER</u> |
|---|------------------------|
| I. FINANCIAL SECTION | |
| Independent Auditors' Report | 1 |
| FINANCIAL STATEMENTS | |
| Statement of Net Assets | 3 |
| Statement of Activities | 4 |
| Governmental Fund Balance Sheet | 5 |
| Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances | 6 |
| Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 7 |
| Notes to the Financial Statements | 8 |
| II. SUPPLEMENTARY INFORMATION SECTION | |
| Schedule of Grant Activity | 17 |
| III. INTERNAL CONTROL AND COMPLIANCE SECTION | |
| 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 <i>Government Auditing Standards</i> | 18 |
| Schedule of Findings and Responses | 20 |



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Greenville - Greene County Airport Authority
Greenville, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Greenville - Greene County Airport Authority (the "Authority") as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2009, and the changes in financial position 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 February 5, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary section is presented on page 17 for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

February 5, 2010

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2009

| | Total Governmental Activities |
|---|-------------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 448,171 |
| Accounts Receivable | 4,922 |
| Grants Receivable | 311,009 |
| Prepaid Expenses | 2,990 |
| Bond Issue Costs | 13,248 |
| Capital Assets | |
| Land | 1,038,791 |
| Construction in Progress | 637,422 |
| Buildings and Improvements | 3,935,897 |
| Other Fixed Assets | 252,400 |
| Less: Accumulated Depreciation | (1,742,374) |
| TOTAL ASSETS | 4,902,476 |
| LIABILITIES | |
| Accounts Payable | 315,920 |
| Accrued Interest | 16,187 |
| Accrued Liabilities | 8,794 |
| Long-Term Liabilities | |
| Due within one year | 73,000 |
| Due within more than one year | 1,000,000 |
| TOTAL LIABILITIES | 1,413,901 |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 3,062,384 |
| Unrestricted | 426,191 |
| TOTAL NET ASSETS | \$ 3,488,575 |

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

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2009

| | Total General Fund |
|--|-----------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 448,171 |
| Accounts Receivable | 4,922 |
| Grants Receivable | 311,009 |
| Prepaid Expenses | 2,990 |
| TOTAL ASSETS | \$ 767,092 |
| LIABILITIES AND FUND BALANCES | |
| LIABILITIES | |
| Accounts Payable | \$ 315,920 |
| Deferred Revenue | 317,601 |
| TOTAL LIABILITIES | 633,521 |
| FUND BALANCES | |
| Unreserved | 133,571 |
| TOTAL FUND BALANCES | 133,571 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p> | |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$5,864,510 and the accumulated depreciation is \$1,742,374.</p> | 4,122,136 |
| <p>Bond issue costs are treated as an expenditure when paid in governmental funds. They are considered an asset for full accrual purposes and amortized over the life of the debt.</p> | 13,248 |
| <p>Accrued interest is not due and payable in the current period and, therefore, is not reported as a liability in the funds.</p> | (16,187) |
| <p>Long-term liabilities, including both bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.</p> | (1,073,000) |
| <p>Revenue, for amounts not received during the period of availability, is not considered "available" and has been deferred in the funds.</p> | 308,807 |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ 3,488,575 |

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

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND

For the Fiscal Year Ended June 30, 2009

| | Total General Fund |
|--------------------------------|-----------------------|
| REVENUES | |
| Charges for Sales and Services | \$ 261,048 |
| Intergovernmental Revenues | 62,000 |
| Grants and Contributions | 15,566 |
| Flow Tax on Fuel | 14,024 |
| TOTAL REVENUES | 352,638 |
| EXPENDITURES | |
| Airport Operations | 81,661 |
| Debt Service | 133,691 |
| Capital Projects | 410,038 |
| TOTAL EXPENDITURES | 625,390 |
| NET CHANGE IN FUND BALANCE | (272,752) |
| FUND BALANCE, JULY 1, 2008 | 406,323 |
| FUND BALANCE, JUNE 30, 2009 | \$ 133,571 |

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

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

| | |
|--|--------------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ (272,752) |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$410,038 exceeded depreciation of \$111,984 in the current period.</p> | |
| | 298,054 |
| <p>Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount reflects the change in amortization expense for the year.</p> | |
| | (883) |
| <p>Interest expense reported in the Statement of Activities does not require the use of current financial resources. Therefore it is not reported as an expenditure in the governmental funds. This amount reflects the change in interest expense for the year.</p> | |
| | 881 |
| <p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p> | |
| | 82,000 |
| <p>Certain intergovernmental grants will not be collected until several months after the Authority's fiscal year end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds. This amount reflects the change in these grant revenues for the year.</p> | |
| | <u>308,807</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 416,107</u></u> |

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

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Greeneville - Greene County Airport Authority (the "Authority") is a joint venture of the Town of Greeneville, Tennessee (the "Town") and Greene County, Tennessee (the "County"). The Authority was chartered in 1980 to develop and operate aviation facilities to service the Town and the County and is dependent upon ongoing funding from them.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable. Exceptions to this general rule included: (1) accumulated unpaid sick pay, which is not accrued; (2) principal and interest on general obligation long-term debt, which is recognized when due; and (3) early retirement and post-employment healthcare benefits, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basic Financial Statements

The Authority's basic financial statements include both the government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's major fund). The Authority has only one fund, the General Fund.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements – Government-Wide Statements

In the government-wide Statement of Net Assets, the governmental activities are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets, as applicable. When both unrestricted and restricted fund resources are available for use, it is the Authority’s policy to use restricted resources first.

The government-wide Statement of Activities reports both the gross and net costs of the Authority’s function. The function is also supported by the general government revenues (use taxes, certain intergovernmental revenues, fees and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. Program revenues must be directly associated with the function. Program revenues include 1) charges to customers who use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions for operation or capital requirements of a particular function or program. Taxes and other items not identifiable with a program are reported as general revenues.

The net cost (by function) is normally covered by general revenue (use taxes, intergovernmental revenues, interest income, etc.)

This government-wide focus is more on the sustainability of the Authority as an entity and the changes in the Authority’s net assets resulting from the current year’s activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Authority are reported in the General Fund in the fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. The fund is reported by generic classification within the financial statements.

Governmental Fund

The Governmental Fund is used by the Authority. The focus of the governmental fund measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of the financial resources) rather than upon net income. The General Fund is the general operating fund of the Authority. All financial resources are accounted for in the General Fund.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

The Authority is not required to operate within an approved budget. However, budgets are used internally for managerial purposes.

Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets, which include land, land improvements, buildings and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, with expected useful lives of greater than one year. Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

| | |
|-------------------|---------------|
| Land Improvements | 30 – 40 years |
| Buildings | 40 years |
| Equipment | 5 – 25 years |

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS

The Town of Greeneville is responsible for receiving and disbursing funds of the Authority. Various restrictions on deposits and investments are imposed by state statutes. These restrictions are summarized as follows:

DEPOSITS: All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Town of Greeneville. Deposits with savings and loan associations must be collateralized by one of the following methods: 1) by an amount equal to 110% of the face amount of uninsured deposits if the collateral is of the same character as that required for other financial institutions; 2) by an irrevocable letter of credit issued by the Federal Home Loan Bank; or 3) by providing notes secured by first mortgages or first deeds of trust upon residential real property located in Tennessee. The promissory notes must be in an amount equal to 150% of the amount of uninsured deposits.

INVESTMENTS: State statutes authorize the Town to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; other evidence of deposit at State and Federal chartered banks and Savings and Loan Associations, obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; the State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority. Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as certificates of deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The TN LGIP has not been rated by a nationally recognized statistical rating organization.

The Authority does not have a policy for interest rate risk or other credit risk other than pledging securities for amounts in excess of FDIC coverage.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The Authority's deposits are held in the Town's general operating bank account. At June 30, 2009, the carrying amount of the Authority's deposits was \$448,171. The Authority's bank balance at June 30, 2009, was fully covered by FDIC insurance and through the bank's participation in the Tennessee Collateral Pool.

NOTE 3 - OPERATING LEASE REVENUES

A portion of the airport facilities was leased to a transportation company for a twenty-five year period ending July 27, 2006, which was then renewed for an additional ten year period, with monthly payments of \$9,020. The lessee has an exclusive option to renew this agreement for two consecutive periods. This lease is classified as an operating lease.

Another operating lease agreement was entered in January 2005 for a three year period and was renewed for another three years in January 2008, with the monthly payment of \$1,435. The following is a schedule of future minimum lease payments due to the Authority as of June 30, 2009:

| | |
|------------|-------------------|
| 2010 | \$ 125,462 |
| 2011 | 116,852 |
| 2012 | 108,242 |
| 2013 | 108,242 |
| 2014 | 108,242 |
| 2015- 2016 | <u>216,486</u> |
| | <u>\$ 783,526</u> |

NOTE 4 - LONG-TERM DEBT

The Town issued \$1,310,000 in General Obligation Bonds on September 1, 2003 for the purpose of providing funds to finance the acquisition, construction, equipping, installing and improvement of the airport facilities, and more particularly, the construction of additional aircraft hangar facilities at the Authority. Additionally the bonds were issued to refund on a current basis the Town's outstanding Airport Notes. The Town loaned the proceeds of the Bonds to the Authority. Through a long-term Note payable to the Town, the Authority will provide the Town with the funds required to retire the Bonds and pay interest from the proceeds of the lease on airport property.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Long-term debt at June 30, 2009, consisted of the following:

TOTAL LONG - TERM DEBT BALANCES

| | |
|--|----------------------------|
| \$1,310,000 General Obligation Note, Series 2003 (Airport Improvement Project) due in annual installments of \$50,000 to \$90,000 through September 1, 2023; interest variable from 2.5% to 5.1%, payable semi-annually. | \$ 1,000,000 |
| General Obligation Capital Outlay Note, series 2000, dated April 21, 2000, due in annual installments of \$13,000 to \$26,000 through April 1, 2012; interest at 5.65%, payable semi-annually. | <u>73,000</u> |
| | 1,073,000 |
| Less: Amounts due within one year | <u>(73,000)</u> |
| Total Long-Term Debt | <u><u>\$ 1,000,000</u></u> |

The following is a summary of changes in long-term debt for the year ended June 30, 2009:

| | Authority - Primary Government | | | | Amounts Due Within One Year |
|-------------------------|--------------------------------|-----------------|----------------------|-------------------------|-----------------------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | |
| Governmental Activities | | | | | |
| General Obligation Note | \$ 1,060,000 | - | 60,000 | 1,000,000 | 50,000 |
| Capital Outlay Note | <u>95,000</u> | <u>-</u> | <u>22,000</u> | <u>73,000</u> | <u>23,000</u> |
| Governmental Activities | | | | | |
| Long-Term Debt | <u><u>\$ 1,155,000</u></u> | <u><u>0</u></u> | <u><u>82,000</u></u> | <u><u>1,073,000</u></u> | <u><u>73,000</u></u> |

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Future maturities of long-term debt at June 30, 2009 are as follows:

| Year Ended June 30 | Governmental Activities | | | |
|-----------------------|-------------------------|----------------|----------------------|--------------|
| | General Obligation Note | | Capital Outlay Notes | |
| | Principal | Interest | Principal | Interest |
| 2010 | \$ 50,000 | 44,656 | 23,000 | 4,125 |
| 2011 | 50,000 | 42,944 | 24,000 | 2,825 |
| 2012 | 55,000 | 40,971 | 26,000 | 1,469 |
| 2013 | 55,000 | 38,771 | - | - |
| 2014 | 55,000 | 36,489 | - | - |
| 2015-2019 | 325,000 | 141,785 | - | - |
| 2020-2024 | 410,000 | 53,656 | - | - |
| | <u>\$ 1,000,000</u> | <u>399,272</u> | <u>73,000</u> | <u>8,419</u> |

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

| | Primary Government | | | Ending Balance |
|---|----------------------|------------------|-----------|--------------------|
| | Beginning Balance | Increases | Decreases | |
| Governmental Activities Capital Assets, Not being Depreciated: | | | | |
| Land | \$ 1,038,791 | - | - | 1,038,791 |
| Construction in Progress | 227,384 | 410,038 | - | 637,422 |
| Total Capital Assets, Not Being Depreciated | <u>1,266,175</u> | <u>410,038</u> | <u>0</u> | <u>1,676,213</u> |
| Capital Assets, Being Depreciated | | | | |
| Buildings and Improvements | 3,935,897 | - | - | 3,935,897 |
| Other Fixed Assets | 252,400 | - | - | 252,400 |
| Total Capital Assets, Being Depreciated | <u>4,188,297</u> | <u>0</u> | <u>0</u> | <u>4,188,297</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (1,416,944) | (106,013) | - | (1,522,957) |
| Other Fixed Assets | (213,446) | (5,971) | - | (219,417) |
| Total Accumulated Depreciation | <u>(1,630,390)</u> | <u>(111,984)</u> | <u>0</u> | <u>(1,742,374)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>2,557,907</u> | <u>(111,984)</u> | <u>0</u> | <u>2,445,923</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 3,824,082</u> | <u>298,054</u> | <u>0</u> | <u>4,122,136</u> |

Depreciation was Charged as Follows:

| | |
|--------------------|-------------------|
| General Government | <u>\$ 111,984</u> |
|--------------------|-------------------|

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6 - FIXED BASE OPERATIONS

Fixed base operations are conducted by an unrelated contractor under a written agreement with the Authority dated April 1, 1994, which provides, among other things, for the payment of royalties on aviation fuel sales and monthly rental payments by the contractor to the Authority. Total paid for the year was \$12,168.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

At June 30, 2009, the Authority has committed funds related to runway relocation and land acquisition contracts totaling approximately \$350,000.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority's risks of loss are covered by a commercial package insurance policy carried by the Town. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 9 - SUBSEQUENT EVENT

Subsequent to year-end, the Airport received \$4.5 million in funding specifically designated as American Recovery and Reinvestment Act (ARRA) funds. This grant is for airport improvements/rehabilitation in grading and drainage of runway extension and paving and lighting.

SECTION II
SUPPLEMENTARY INFORMATION

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF GRANT ACTIVITY
For the Fiscal Year Ended June 30, 2009

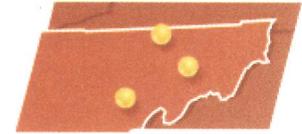
| Program Name | State Grant Number | Grantor Agency | Balance July 1, 2008 | Receipts | Expenditures | Balance June 30, 2009 |
|-----------------------------|--------------------|--|----------------------|---------------|------------------|-----------------------|
| Airport Maintenance Program | Z-07-03-7597-00 | State of Tennessee Department of Transportation | \$ (23,760) | 29,891 | (6,131) | - |
| Airport Maintenance Program | Z-08-20-0717-00 | State of Tennessee Department of Transportation | (20,824) | 20,824 | - | - |
| Airport Maintenance Program | Z-08-02-1581-00 | State of Tennessee Department of Transportation | - | 2,669 | (2,669) | - |
| Airport Maintenance Program | Z-09-21-3936-00 | State of Tennessee Department of Transportation | - | - | (308,807) | (308,807) * |
| Airport Maintenance Program | Z-09-21-3378-00 | State of Tennessee Department of Transportation | - | - | (2,202) | (2,202) * |
| Airport Maintenance Program | Z-09-21-3381-00 | State of Tennessee Department of Transportation | - | 4,564 | (4,564) | - |
| | | | <u>\$ (44,584)</u> | <u>57,948</u> | <u>(324,373)</u> | <u>(311,009)</u> |

* Receivable

** Deferred Revenue

See Independent Auditors' Report.

SECTION III
INTERNAL CONTROL AND COMPLIANCE



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

REGIONAL EXPERTISE - LOCAL SERVICE

American Institute of Certified Public Accountants

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

To the Board of Directors
Greenville - Greene County Airport Authority
Greenville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Greenville - Greene County Airport Authority (the "Authority") as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 5, 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency that we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. These include 2009-01, 2008-01, 2009-02 and 2008-02.

Table with 4 columns: Location (Johnson City, Kingsport, Greenville), Address, Phone Number, and Fax Number.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-02 and 2008-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 5, 2010.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority, management, Board, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

February 5, 2010

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2009

Current Year Findings & Prior Year Findings Not Implemented

2009-01: Significant Deficiency – Accounts Payable

Condition: Entries to close prior year accounts payable balances and to record current year accounts payable balances were not made correctly. Checks written after year-end were classified as disbursements in the current year rather than accounts payable.

Criteria: General ledger accounts should be timely reviewed, reconciled to the corresponding subsidiary reports and adjusted. Timely and accurate financial reports should be prepared and submitted to the Board for review and approval. In addition, checks written should be applied to the proper accounting periods.

Effect: The effect of this weakness creates the possibility that misstatements may not be timely noted or corrected.

Recommendation: A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items.

We recommend a procedure be in place for making routine, monthly and year-end adjustments. The procedures should require that supporting documentation be maintained for all entries and transfers including indication of appropriate review and approval. We also recommend that checks written are applied to the proper accounting period.

Management's Response: While general ledger accounts are timely reviewed and adjusted, the payable reports were not prepared correctly. Management agrees with the recommendation and will work toward the implementation of suggested procedures.

2008-01: Significant Deficiency – Agreement (Repeated from 6-30-08)

Condition: A written agreement was not located for the arrangement with the Town.

Criteria: To provide a more clear understanding of accounting functions, reporting requirements, policies and procedures that are to be followed, a detailed and written agreement with the Town should be developed. This agreement should designate what the Town's responsibilities are for reporting, what purchasing and bid procedures are to be followed and the timing of reporting should be defined.

Effect: The effect of this deficiency creates uncertainty as to the procedures that are to be followed.

Recommendation: We recommend the Town's attorney work in conjunction with the Town and the Authority to develop a detailed and written agreement. This agreement should designate what the Town's responsibilities are for reporting, what purchasing and bid procedures are to be followed and the timing of reporting should be defined.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2009

Current Year Findings & Prior Year Findings Not Implemented (Continued)

Management's Response: Greeneville and Greene County have operated joint agencies for many years based on written agreements, resolutions, and enabling state legislation without significant misunderstanding or conflict. The Airport Authority will continue to work with representatives of the Town and Greene County to further develop additional comprehensive operations guidelines, as priorities and funding permit.

2009-02: Material Weakness – Timely Supporting Documentation

Condition: As audit fieldwork for fiscal year 2009 was near completion, several material invoices relating to federally funded grants dating from March through June 2009 were submitted by the Authority's management to the Town for payment of Authority vendors, which resulted in adjustments to the fiscal year 2009 closed general ledger. The material adjustments included additional receivables, revenues / deferred revenues, payables, and capitalized construction assets.

Criteria: Invoices should be communicated with and submitted to the Town timely in order to provide accurate information to Board and Town's management in order to make decisions about cash flows, as well as to provide timely reports and payments to third parties, as applicable.

Effect: The effect of this deficiency creates the possibility that financial reports presented to the Board and grantors may be incomplete or materially misstated. In addition, this deficiency could create challenges for management to control and make decisions based on cash flows.

Recommendation: We recommend that purchase orders, invoice requests, grant reimbursement requests, and supporting documentation be communicated and submitted to the Town in a timely manner.

Management's Response: Management agrees with the recommendation and will endeavor to submit in a timely manner all invoices, purchase orders, grant reimbursement requests and any other related documentation to the Town.

2008-02: Material Weakness – Audit Adjustments (Repeated from 6-30-08)

Condition: As part of the audit, we prepared the financial statements, including the government-wide presentation and related notes, from information provided by the Town and the Authority. Under current professional standards, the Authority is responsible for the internal control process which includes the preparation of year-end financial statements in accordance with generally accepted accounting principles and the modified accrual basis of accounting. Several material audit adjustments were necessary to properly state account balances, including: Adjustments to accounts payable, fund balance, receivables, deferred revenue, capital outlay expenses, and charges for services revenue; Government-wide adjustments to debt, capital assets, depreciation, intergovernmental revenues, and net assets.

Criteria: General ledger accounts should be timely reviewed, reconciled to the corresponding subsidiary reports and adjusted. Timely and accurate financial reports should be prepared and submitted to the Board for review and approval.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2009

Current Year Findings & Prior Year Findings Not Implemented (Continued)

Effect: The effect of this weakness creates the possibility that misstatements may not be timely noted or corrected.

Recommendation: We recommend a procedure be in place to prepare routine, monthly and year-end reconciliations for general ledger accounts to the supporting documentation and subsidiary ledgers and to make related adjustments. The procedure should require retention of supporting documentation for all entries and transfers, including indication of appropriate review and approval. These routine reconciliations and adjustments will ensure meaningful and accurate financial statements. Reconciliation of Balance Sheet and other significant accounts quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be corrected before the books are closed for the month end. We acknowledge that management recognizes the issue and has employed Blackburn, Childers and Steagall, PLC to prepare the financial statements to conform to professional standards.

Management's Response: The Airport has previously relied on others to make adjusting entries of this type. The Airport Authority is committed to compliance with standards required by GASB. We appreciate your assistance in helping us achieve and maintain compliance.