

Smyrna/Rutherford County Airport Authority

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

June 30, 2010 and 2009

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Smyrna/Rutherford County Airport Authority

ROSTER OF OFFICIALS

June 30, 2010

Board of Commissioners

J. Michael Woods
Helene Colvin
Don Alexander
Graeme Coates
Clyde Jones

Chairman
Vice Chairperson
Commissioner
Commissioner
Commissioner

Executive Staff

John R. Black
Lois Vallance

Executive Director
Airport Manager

Independent Auditors' Report

To the Board of Directors of the Smyrna/Rutherford County Airport Authority

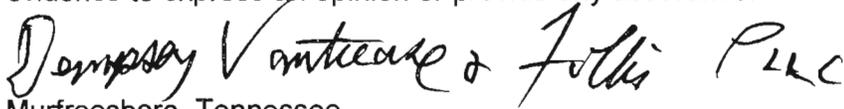
We have audited the accompanying financial statements of Smyrna/Rutherford County Airport Authority as of June 30, 2010 and 2009 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Smyrna/Rutherford County Airport Authority management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smyrna/Rutherford County Airport Authority as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years 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 November 8, 2010 on our consideration of Smyrna/Rutherford County Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering 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 5-8 and the schedule of funding progress on page 20 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.


Murfreesboro, Tennessee
November 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD & A) of the Smyrna/ Rutherford County Airport Authority's (Authority) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Authority for the year ended June 30, 2010. This information should be considered within the context of the accompanying financial statements and note disclosures.

FINANCIAL OPERATIONS HIGHLIGHTS

Net assets decreased \$1,479,910 in 2010 as compared to a decrease of \$1,074,636 in 2009. Depreciation contributed primarily to this decrease. Depreciation was \$1,692,925 in 2010 and \$1,679,578 in 2009.

Authority lease revenue for the year ended June 30, 2010 totaled \$1,288,328 as compared to \$1,357,688 in 2009. This decrease is attributable directly to the current economy. Aircraft operations totaled more than 76,000 for the 2010 calendar year and fuel flowage totaled 1,502,697 gallons resulting in \$84,750 in fuel flowage fees. The nationwide general aviation trend continues downward. Smyrna Airport's operations and fuel flowage reflect that same trend, although somewhat better than the national average. The majority of the Authority's revenue continues to be from facility and land leases.

Operating expenses decreased slightly to \$1,104,333 from \$1,110,280. Operating expenses were very consistent comparing the current to the prior year. Non-operating income includes a maintenance grant from the TN Aeronautics Division. Interest expense was \$63,372 compared to \$67,240 for the previous year. The Authority continues its repayment of a loan from the Town of Smyrna and Rutherford County for infrastructure improvements in the Airport Business Park (Park).

OVERVIEW OF THE FINANCIAL STATEMENTS

MD&A introduces the Authority's basic financial statements. The basic financial statements include the balance sheet, statement of revenues, expenses, and changes in net assets, the statement of cash flows and the notes to the financial statements.

The balance sheet reports all the Authority's assets and liabilities, with the difference being reported as net assets. Over time increases or decreases typically give some indication of whether the financial position of the Authority is improving or deteriorating. However, overall evaluation of the financial health of the Authority should include non-financial factors such as the physical condition of the airport. The majority of the Authority's net assets are invested in capital assets (e.g., land, buildings, improvements and equipment). These assets are used to provide airport services to the general public and commercial users and are not available for future spending. The unrestricted net assets give a good indication of the earnings, exclusive of depreciation, that have been accumulated since inception. These assets are available for airport operations, future capital additions, and current debt obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The statement of revenues, expenses, and changes in net assets reports all revenues and expenses for the year, regardless of whether cash has been received or paid. An important purpose of the statement is to show whether the Authority's revenues and operations are sufficient to support continued operations. The Authority showed positive earnings from operations before depreciation and positive cash flow for each year.

The statement of cash flows converts the operations of the Authority to a cash basis and shows how those cash flows were spent during the year, for example, purchases of fixed assets, debt reduction, etc.

CONDENSED FINANCIAL INFORMATION

A condensed summary of the Authority's operations follows:

	Year Ended June 30,	
	2010	2009
Operating revenues	\$ 1,331,877	\$ 1,390,651
Operating expenses	<u>1,104,333</u>	<u>1,110,280</u>
Operating income	227,544	280,371
Depreciation	<u>1,692,925</u>	<u>1,679,578</u>
Loss before non-operating income(expense)	(1,465,381)	(1,399,207)
Non operating income	68,906	393,611
Non operating expense	<u>(83,435)</u>	<u>(69,040)</u>
Net decrease in net assets	<u>\$ (1,479,910)</u>	<u>\$ (1,074,636)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

A condensed summary of the Authority's financial position follows:

	June 30,	
	2010	2009
ASSETS		
Current assets	\$ 883,680	\$ 791,435
Property and equipment	29,118,059	30,753,612
Total assets	\$ 30,001,739	\$ 31,545,047
LIABILITIES		
Current and other liabilities	380,087	370,625
Long term debt	943,916	1,016,776
Total liabilities	1,324,003	1,387,401
NET ASSETS		
Invested in capital assets, net of related debt	28,101,283	29,668,208
Unrestricted	576,453	489,438
Total net assets	28,677,736	30,157,646
Total liabilities and net assets	\$ 30,001,739	\$ 31,545,047

CAPITAL IMPROVEMENTS

The majority of the Authority's construction activities are financed with federal and state grants. The Authority normally must match a portion of those grants with funds from operations. The Airport's Capital Improvement Plan, approved by the State of Tennessee Aeronautics Division, for the near future includes further development of landside and airside property in the Airport Business Park, repairs and improvements on existing hangars and buildings, strength testing of runways and taxiways as well as strengthening of the west side apron to accommodate larger aircraft.

The Authority determined that a cautious approach to capital expenditures would be prudent due to the state of the economy, therefore, projects in 2009-10 have been limited to completing any items already begun and moving proposed projects forward another year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CURRENT AIRPORT ACTIVITIES

Staffing levels are not expected to change over the next year, however, benefits costs are expected to increase. The Authority is planning another *Great Tennessee Airshow* in 2011. As directed by the Board, the airshow is contingent up securing a US military jet team. The Airport Authority has submitted the required documents and now await their response. *A Learn to Fly Day, Young Eagles Program, Challenge Air and the Smyrna Rotary Club's Wings of Freedom Fish Fry* are venues to bring visitors to the airport in large numbers and instill a love of aviation in youngsters.

The Airport Authority strives to fill hangar and office space as vacancies arise, however in the current market retaining customers continues to be a challenge. We see that trend continuing to follow the national economic trends. The Authority will price the lease space competitively to attract viable lease customers. New sources of income for airport operations and further development are critical to self-sustainment in the future. The Airport Authority continues to market further development of the Airport Business Park. Working closely with the Chamber of Commerce and Tennessee's Department of Economic and Community Development, the outreach is nationwide. Both the Town of Smyrna and Rutherford County will benefit from maximizing the Park's availability for new business.

The Airport Authority has received approval for a new grant to rehabilitate a taxiway. This project is expected to cost around \$1.3 million. The Airport Authority share of the cost is expected to be about \$130,000. This project is expected to be completed by June 30, 2011.

Smyrna/Rutherford County Airport Authority

BALANCE SHEETS

	June 30,	
ASSETS	2010	2009
Current assets		
Cash and temporary investments	\$ 834,881	\$ 774,943
Accounts receivable (no allowance for doubtful accounts considered necessary)	48,799	16,492
Total current assets	<u>883,680</u>	<u>791,435</u>
Capital assets		
Land	18,149,969	18,149,969
Other capital assets, net of depreciation	10,968,090	12,603,643
	<u>29,118,059</u>	<u>30,753,612</u>
	<u>\$ 30,001,739</u>	<u>\$ 31,545,047</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 72,860	\$ 68,628
Accounts payable	5,553	15,144
Accrued payroll and related liabilities	63,319	46,426
Total current liabilities	<u>141,732</u>	<u>130,198</u>
Long-term debt, less current portion	943,916	1,016,776
Other liabilities		
Deferred income and tenants' deposits	<u>238,355</u>	<u>240,427</u>
Total liabilities	1,324,003	1,387,401
Net assets		
Invested in capital assets, net of related debt	28,101,283	29,668,208
Unrestricted	576,453	489,438
	<u>28,677,736</u>	<u>30,157,646</u>
	<u>\$ 30,001,739</u>	<u>\$ 31,545,047</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Year Ended June 30,	
	2010	2009
Revenue		
Lease income	\$ 1,288,328	\$ 1,357,688
Other income	43,549	32,963
	1,331,877	1,390,651
Operating expenses	1,104,333	1,110,280
Operating income before depreciation	227,544	280,371
Provision for depreciation	1,692,925	1,679,578
Operating loss	(1,465,381)	(1,399,207)
Other non operating revenue and (expenses)		
Operating grants	23,400	23,400
Master plan update	-	(1,800)
Flood damage expenses	(20,063)	-
Gain on sale of vehicles	-	35,519
Interest income	13,156	17,956
Interest expense	(63,372)	(67,240)
	(46,879)	7,835
Loss before capital contributions	(1,512,260)	(1,391,372)
Capital grants	32,350	316,736
Decrease in net assets	(1,479,910)	(1,074,636)
Net assets, beginning of year	30,157,646	31,232,282
Net assets, end of year	\$ 28,677,736	\$ 30,157,646

Smyrna/Rutherford County Airport Authority

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from tenants	\$ 1,271,498	\$ 1,375,521
Cash paid to suppliers	(602,569)	(637,768)
Cash paid to employees	(468,462)	(466,562)
Net cash provided by operating activities	<u>200,467</u>	<u>271,191</u>
Cash flows from non-capital financing activities		
Proceeds from operating grants	23,400	23,400
Other non operational expenditures	(20,063)	(1,800)
Net cash provided by non-capital financing activities	<u>3,337</u>	<u>21,600</u>
Cash flows from capital and related financing activities		
Additions to property and equipment	(57,372)	(791,188)
Proceeds from sale of vehicles	-	35,519
Proceeds from capital grants	32,350	621,686
Principal payments on long-term debt	(68,628)	(64,668)
Interest paid	(63,372)	(67,240)
Net cash used by capital and related financing activities	<u>(157,022)</u>	<u>(265,891)</u>
Cash flows from investing activities		
Interest received	13,156	17,956
Net cash provided by investing activities	<u>13,156</u>	<u>17,956</u>
Net increase in cash and cash equivalents	59,938	44,856
Cash and cash equivalents, beginning of year	<u>774,943</u>	<u>730,087</u>
Cash and cash equivalents, end of year	<u>\$ 834,881</u>	<u>\$ 774,943</u>
Non cash activities:		
Accounts payable paid on fixed assets additions	<u>\$ -</u>	<u>\$ 349,677</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF CASH FLOWS (Continued)

	For the Year Ended June 30,	
	2010	2009
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (1,465,381)	\$ (1,399,207)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	1,692,925	1,679,578
Increase in accounts receivable	(32,307)	(536)
Decrease in prepaid expenses	-	30,475
Decrease in accounts payable	(9,591)	(5,928)
Increase(decrease) in accrued payroll and related liabilities	16,893	(18,597)
Decrease in deferred income/tenants deposit	(2,072)	(14,594)
Total adjustments	1,665,848	1,670,398
Net cash provided by operating activities	\$ 200,467	\$ 271,191

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES

The creation of the Smyrna/Rutherford County Airport Authority (the "Authority") was authorized by the Rutherford County Board of Commissioners pursuant to the provision of T.C.A. 42-3-103. The airport is operated through a joint operations agreement between Rutherford County, Tennessee and the City of Smyrna, Tennessee. The agreement created a joint board of directors to manage the airport who are appointed by the City of Smyrna and Rutherford County. The airport serves as a general aviation airport. The airport generates substantially all its revenue through leases of its facilities.

The Smyrna airport was transferred to the Authority by the Metropolitan Nashville Airport Authority on May 15, 1991.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting

In accordance with GASB 20 issued by the Governmental Accounting Standards Board (GASB), the Authority has elected to apply only statements and accounting principles issued by the Financial Accounting Standards Board prior to November 30, 1989 unless they conflict with GASB statements.

2. Revenue Recognition

The financial statements have been prepared using the accrual basis of accounting which recognizes revenues in the period they are earned and become measurable and expenses in the period they are incurred, if measurable. Non operating revenues generally include transactions reported as capital and non capital financing and investing activities for purposes of the cash flow statement.

3. Cash and cash equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments purchased with an original maturity of three months or less.

As of June 30, 2010, all cash deposits were fully insured by the financial institution through participation in the State Bank Collateral Pool. State and local statutes limit the Authority's authorized deposits and investments to time deposits, demand deposits, and money market accounts in addition to the state investment pool.

4. Capital contributions

Capital contributions received under the terms of grants or contracts are accrued and recorded as revenue as the related costs are incurred.

5. Property and equipment

Property and equipment is stated at cost, except for contributions of property received from governmental agencies which are recorded at fair market value.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Property and equipment (continued)

Repairs and maintenance are charged to expense as incurred. Capital assets purchased in the amount of \$500 or more are capitalized. Provision for depreciation of property and equipment is made on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives and is computed on the straight-line method. Asset lives used in the calculation of depreciation are generally as follows:

Runways, taxiways, and ramps	10 - 15 years
Buildings and building improvements	20 - 50 years
Equipment and furniture	5 - 10 years
Vehicles	5 years

7. Use of estimates.

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

NOTE C - ACQUISITION OF AIRPORT

The Authority acquired the airport from the Metropolitan Nashville Airport Authority ("Nashville") on May 15, 1991 under an Airport Purchase Agreement ("Agreement"). All assets including cash, accounts receivable, and property and equipment were transferred under the agreement. The airport was acquired subject to existing leases, contracts and tenants' deposits. The assets and their related estimated fair market values transferred were as follows:

Real and tangible personal property	\$ 49,407,346
Cash and accounts receivable	530,229
	<u>\$ 49,937,575</u>

In consideration of the transfer, the Authority agreed to undertake steps to environmentally clean-up the airport at its sole expense and agreed to indemnify Nashville from any costs related to the clean-up. The clean-up relates primarily to the removal and disposal of underground fuel storage tanks.

To secure the Authority's obligation to undertake the clean-up, the Authority granted Nashville a lien on substantially all assets of the Authority including assignment of rents. The clean-up has been completed and the Authority received a partial release of the lien during 1999. The Authority received a complete release in 2002.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

NOTE D – CAPITAL ASSETS

Changes in capital assets are as follows:

	Capital assets, not depreciated		Capital assets, depreciated			Totals
	Land	Construction in process	Buildings and improvements	Taxiways, runways, ramps	Furniture, Equipment, and vehicles	
Balance, June 30, 2009	\$ 18,149,969	\$ -	\$ 22,767,380	\$ 26,415,379	\$ 1,550,647	\$ 68,883,375
Additions	-	-	8,273	33,120	15,979	57,372
Retires	-	-	-	-	-	-
Balance, June 30, 2010	18,149,969	-	22,775,653	26,448,499	1,566,626	68,940,747
Accumulated depreciation						
Balance, June 30, 2009	-	-	14,694,946	22,654,553	780,264	38,129,763
Additions	-	-	970,279	580,920	141,726	1,692,925
Retires	-	-	-	-	-	-
Balance, June 30, 2010	-	-	15,665,225	23,235,473	921,990	39,822,688
Net assets	\$ 18,149,969	\$ -	\$ 7,110,428	\$ 3,213,026	\$ 644,636	\$ 29,118,059

NOTE E - LONG-TERM DEBT

During 1999 and 1998, the Authority incurred capital outlay notes payable with the City of Smyrna and Rutherford County. The notes are related to the west side development of the airport. The original draws on the Smyrna note and the Rutherford County note were \$497,784 and \$652,209, respectively. Monthly principal and interest payments of \$4,400 and \$6,600 are required to be made to the City of Smyrna and Rutherford County, respectively. The notes bear interest at 6%. These notes were refinanced in August of 2006 and additional proceeds of \$268,138 were received from the City of Smyrna and \$402,207 was received from Rutherford County. The monthly payments remained unchanged. Maturity dates for the City of Smyrna and Rutherford County notes are September, 2023 and February, 2019, respectively. The notes bear interest at a fixed rate of 6%. Maturities of long term debt are as follows:

Year ended June 30,		Principal	Interest
2011		\$ 72,860	\$ 56,587
2012		77,354	53,563
2013		82,125	50,354
2014		57,864	21,336
2015-2019		489,842	146,800
2020-2024		236,731	40,263
		<u>\$ 1,016,776</u>	<u>\$ 368,903</u>

Changes in long term debt for the year are as follows:

	Balance June 30, 2009	Additions	Retires	Balance June 30, 2010
Capital outlay notes	\$ 1,085,404	-	(68,628)	\$ 1,016,776

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010 and 2009

NOTE F - LEASE AGREEMENTS

The Authority's primary source of revenue is from leasing buildings and hangars. With the exception of the Authority's administrative offices, substantially all buildings and hangars are available for or subject to leases. Lease terms generally provide the tenant bear costs of utilities, insurance, maintenance, and taxes.

Future minimum rentals under non-cancelable operating leases is estimated as follows:

Year ended June 30,	2011	\$ 1,001,429
	2012	893,729
	2013	742,381
	2014	722,570
	2015	602,882
	Thereafter	12,815,590
		<u>\$ 16,778,581</u>

Not included in the above totals are certain fuel flowage fees received from two tenants in 2010 and 2009; these fees amounted to approximately \$84,750 in 2010 and \$84,343 in 2009.

NOTE G - MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Two tenants account for approximately 68% and 67% of lease revenue and other income for the year ended June 30, 2010 and for 2009, respectively. In addition one of these tenants accounted for 92% of accounts receivable at June 30, 2010. Substantially all major tenants are in the aviation industry.

NOTE H - PENSION PLAN

Plan Description

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). 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 the 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. Political subdivisions such as the Authority participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

NOTE H – PENSION PLAN (CONTINUED)

improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us

Funding Policy

The Authority's Plan is noncontributory and has assumed employee contributions up to 5.0 percent of annual covered payroll.

The Authority is required to contribute at an actuarially determined rate; the rate for the fiscal years ending June 30, 2010 was 15.42% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for the Authority are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the years ending June 30, 2010 and 2009 the Authority's annual pension cost of \$67,903 and \$67,237, respectively, to TCRS was equal to the Authority's required and actual contributions.

The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 17 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
Ending 6/30/10	\$67,903	100.00%	\$ 0.00
6/30/09	\$67,237	100.00%	\$ 0.00
6/30/08	\$82,971	100.00%	\$ 0.00

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

NOTE H – PENSION PLAN (CONTINUED)

Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 73.26% funded. The actuarial accrued liability (AAL) for benefits was \$928,000 and the actuarial value of assets was \$680,000 resulting in a unfunded actuarial accrued liability (UAAL) of \$248,000. The covered payroll (annual payroll of active employees covered by the plan) was \$440,000, and the ratio of the UAAL to the covered payroll was 56.48%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1-Jul-09	\$680	\$928	\$248	73.26%	\$440	56.48%
1-Jul-07	\$535	\$722	\$187	74.05%	\$415	45.06%

NOTE I - FEDERAL AND STATE GRANTS

The Authority periodically has various construction projects in progress involving improvements to the airport that are funded primarily through federal and state grants. Receipts and disbursements of project funds are monitored by the Tennessee Office of Aeronautics (TOA). The grant agreements generally require various levels of matching contributions by the Authority.

NOTE J - FINANCIAL INSTRUMENTS

The carrying values of the Authority's financial instruments (cash and cash equivalents, receivables, notes, accounts payable, and accrued expenses) approximate fair value due to their current availability, relatively short maturities and/or current market interest rates.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

NOTE K – CAPITAL CONTRIBUTIONS

As disclosed in Note I, the Authority receives federal and state funds to help finance its airport improvement activities. The Authority also has received financial assistance from Rutherford County and the City of Smyrna. Capital contributions are as follows:

	Year Ended June 30, 2010	From Inception
Federal grants	\$ -	\$ 11,167,349
State grants	32,350	5,144,374
City of Smyrna	-	160,000
Rutherford County	-	437,215
	\$ 32,350	\$ 16,908,938

NOTE L - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, natural disasters, injuries to employees, etc. The Authority carries commercial insurance to cover significant losses. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the last three fiscal years.

NOTE M – COMMITMENTS AND CONTINGENCIES

The Authority is named as a co-defendant in litigation regarding the actions of a former employee. The plaintiff alleges the Authority did not adequately supervise this employee who obtained private and privileged information that the plaintiffs contend caused them harm. Since there is a criminal matter pending against this former employee, this case is not yet set for trial and the case is not active at this time. Management and legal counsel intend to vigorously defend this matter and believe they will ultimately reach a favorable outcome. However, as of November 8, 2010, given the status of the case, any potential outcome of the matter and the possibility of any financial impact to the Authority cannot be determined at this time.

For the year ending June 30, 2011, the Authority has been awarded a grant to rehabilitate a taxiway. The Authority share of the cost for this project is estimated at \$130,000.

Smyrna/Rutherford County Airport Authority

SCHEDULE OF FUNDING PROGRESS

(pension plan)

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL (UAAL) 1.00	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1-Jul-09	\$680	\$928	\$248	73.26%	\$440	56.48%
1-Jul-07	\$535	\$722	\$187	74.10%	\$415	45.06%

The Governmental Accounting Standards Board(GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method was a change made during the year and therefore only the tow most most recent valuations are presented.

SUPPLEMENTARY INFORMATION

Auditors' Report on Supplemental Information

To the Board of Directors
Smyrna/Rutherford County Airport Authority

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Smyrna/Rutherford County Airport Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee

November 8, 2010

Smyrna/Rutherford County Airport Authority
OPERATING EXPENSES

	For the Year Ended June 30,	
	2010	2009
Administrative salaries	\$ 171,317	\$ 159,087
Office supplies and expense	8,137	10,095
Maintenance, building and grounds	60,138	34,668
Accounting and legal fees	32,900	44,900
Telephone	10,459	11,392
Printing and postage	294	529
Travel	70	525
Marketing	5,917	19,010
Utilities	96,726	100,595
Insurance	103,288	114,623
Payroll taxes	35,130	35,611
Employee benefits	107,725	115,709
Retirement benefit plan	67,903	67,238
Maintenance salaries	145,483	142,110
Airfield maintenance expenses	53,300	78,018
Commissioner fees	20,044	20,085
Safety services salaries	148,511	146,768
Dues and subscriptions	1,871	1,017
Bad debt expense	26,000	-
Safety expenses	7,745	7,464
Conferences, education and training	1,375	836
	<u>\$ 1,104,333</u>	<u>\$ 1,110,280</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority
 Schedule of State Financial Assistance
 Year Ended June 30, 2010

Grantor	CFDA#	Contract #	Grant Receivable June 30, 2009	Receipts	Expenditures	Local Match	Grant Receivable June 30, 2010
TN Dept of Transportation	N/A	Z-09-21-4043-00	-	29,808	33,120	3,312	-
TN Dept of Transportation	N/A	Z-10-22-0240-00	-	23,400	49,257	25,857	-
Total federal and state awards			\$ -	\$ 53,208	\$ 82,377	\$ 29,169	\$ -

Basis of Presentation:

This schedule is prepared on the accrual basis of accounting.

**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
Smyrna/Rutherford County Airport Authority

We have audited the financial statements of Smyrna/Rutherford County Airport Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated November 8, 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 Smyrna/Rutherford County Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Smyrna/Rutherford County Airport Authority's control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Smyrna/Rutherford County Airport Authority'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 the 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. 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 findings that we consider to be significant deficiencies in internal control over financial reporting. Finding 2010-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smyrna/Rutherford County Airport Authority'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 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*.

The Smyrna/Rutherford County Airport Authority's response to our finding is identified in the accompany schedule of findings. We did not audit the response, and accordingly, do not express any opinion on it.

This report is intended for the information of the board of directors, management and applicable federal, state and local authorities and is not intended to be and should not be used by anyone other than these specified parties.


Murfreesboro, Tennessee

November 8, 2010

Smyrna/Rutherford County Airport Authority
SCHEDULE OF FINDINGS AND RESPONSES
For the Year ended June 30, 2010

Section I – Summary of Auditor Results

Type of report issued: unqualified

Internal control over financial reporting:

- Material weakness identified? **No**
- Significant deficiencies identified that are not considered material weaknesses **Yes**

Noncompliance material to financial statements noted: **No**

Section II – Financial Statement Finding

Finding #2010-1

Criteria- Management of the Airport should consistently prepare financial statements in accordance with U. S. GAAP.

Condition- Management lacks the expertise required to prepare complete financial statements.

Cause- Management lacks resources and necessary educational background.

Effect- Auditor recommended and posted several adjustments to the general ledger and had to assist in preparation of draft financial statements.

Recommendation- Management should consider implementing policies to allow the Airport to prepare and review statements for consistent application of U.S. GAAP in financial reporting.

Managements Response- We have a very small staff and do not believe the cost of preparing GAAP financial statements will be beneficial to management or the board of directors. Our operations are fairly simple and we believe our monthly financial statements meet our needs.

Smyrna/Rutherford County Airport Authority
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year ended June 30, 2010

Comments of Prior Audit Findings and Related Resolution

Finding #2009-1

Condition- Management lacks the expertise required to prepare complete financial statements.

Recommendation- Management should consider implementing policies to allow the Airport to prepare and review statements for consistent application of U.S. GAAP in financial reporting.

Current year update- No changes were noted during the current year audit.

Finding #2009-2

Condition- Several lease files did not contain current executed contracts or documentation to support current lease rates.

Recommendation- Management should more closely monitor the current document retention policy.

Current year update- Management has renewed many of the expired leases and has implemented procedures to track lease changes. They should continue to refine this process and related documentation.