

**CLARKSVILLE-MONTGOMERY COUNTY**  
**REGIONAL AIRPORT AUTHORITY**  
**AUDITED FINANCIAL STATEMENTS**  
**AND OTHER INFORMATION**  
**JUNE 30, 2010**

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**THURMAN CAMPBELL GROUP, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Clarksville-Montgomery County Regional Airport Authority  
Clarksville, Tennessee

We have audited the accompanying financial statements of the Clarksville-Montgomery County Regional Airport Authority (Airport Authority) as of and for the year ended June 30, 2010. These financial statements are the responsibility of Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and requirements proscribed by the Comptroller of the Treasury, State of Tennessee. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority, as of June 30, 2010, and the changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2010, on our consideration of the Airport 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Airport Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Comptroller of the Treasury, State of Tennessee, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Thurman Campbell Group, PLLC*

Hopkinsville, KY  
August 15, 2010

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2010

The following Management's Discussion and Analysis (MD&A) of the Clarksville-Montgomery County Regional Airport Authority's (Authority) financial performance provides an introduction to the financial statements for the year ended June 30, 2010. The information contained in this MD&A should be used in conjunction with the information contained in the Authority's financial statements for the period.

Background

In 1997 the Clarksville Airport Joint Committee (CAJC) approached the mayors of the City of Clarksville and Montgomery County with the idea of creating a regional airport authority. Subsequently, both municipalities passed resolutions authorizing the Clarksville-Montgomery County Regional Airport Authority (CMCRAA) and provided it with all the rights, privileges, and authority of the CAJC. The CMCRAA then petitioned the State of Tennessee and received its state charter.

In 1998, the Authority purchased a mobile home park adjacent to the airport which included twelve mobile homes that were subsequently sold. The lot rents from that mobile home park continue to be a significant source of revenue for the Authority. In late 2009, the infrastructure experienced major failures and upon further investigation, the Authority determined that major capital expenditures on collections declined to an unprofitable level as well. Due to these factors, the Authority entered into consultation with both the City of Clarksville and Montgomery County and concluded the park was no longer a viable business. The Authority decided to cease operations and decommissioned the park in the first quarter of the fiscal year ending June 30, 2010.

Overview of the Financial Statements

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The fiscal year accounting period runs from July 1, 2009 to June 30, 2010.

Following this MD&A are the basic financial statements of the Authority together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's finances.

The Statement of Net Assets shows all assets of the Authority less liabilities. Buildings and properties are recorded at cost. Over time, increases or decreases in net assets will serve as a useful indicator of the Authority's financial position.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)(CONT'D)  
JUNE 30, 2010

The Airport Authority *Statements of Net Assets* are presented in Table 1. The Airport Authority had a decrease in current assets of \$53,260 in 2010. Total liabilities decreased from \$789,882 to \$671,036.

<b>Table 1</b>				
<b>Clarksville-Montgomery County Regional Airport Authority</b>				
<b>Condensed Statement of Net Assets</b>				
<b>June 30, 2010</b>				
<b>ASSETS</b>	<b>2010</b>	<b>2009</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Current Assets	\$ 158,609	\$ 211,869	\$ (53,260)	-25%
Restricted Assets	391,000	89,255	301,745	338%
Capital Assets, net	<u>6,690,720</u>	<u>6,042,031</u>	<u>648,689</u>	11%
<b>Total Assets</b>	<u><b>7,240,329</b></u>	<u><b>6,343,155</b></u>	<u><b>897,174</b></u>	<b>14%</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities	70,984	228,727	(157,743)	-69%
Long-term Liabilities	<u>600,052</u>	<u>561,155</u>	<u>38,897</u>	7%
<b>Total Liabilities</b>	<u><b>671,036</b></u>	<u><b>789,882</b></u>	<u><b>(118,846)</b></u>	<b>-15%</b>
Invesed in Capital	6,528,807	5,965,808	562,999	9%
Restricted	391,000	89,255	301,745	338%
Unrestricted	<u>(350,514)</u>	<u>(501,790)</u>	<u>151,276</u>	-30%
<b>Total Net Assets</b>	<u><b>6,569,293</b></u>	<u><b>5,553,273</b></u>	<u><b>1,016,020</b></u>	<b>18%</b>
<b>Total Liabilities and Net Assets</b>	<u><b>\$ 7,240,329</b></u>	<u><b>\$ 6,343,155</b></u>	<u><b>\$ 897,174</b></u>	<b>14%</b>

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)(CONT'D)  
JUNE 30, 2010

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year.

Summaries of the Statements of Revenue, Expenses, and Changes in Net Assets for the Airport Authority are detailed below in Table 2. Revenue for the Airport Authority is generated from monthly building rental and monthly allocations from both the City of Clarksville and Montgomery County. As shown in Table 2, the Airport Authority had operating revenues in the amount of \$401,122 for 2010. Operating expenses increase from \$455,427 to \$670,908 in 2010.

<b>Table 2</b>				
<b>Clarksville-Montgomery County Regional Airport Authority</b>				
<b>Condensed Statement of Revenues, Expenses</b>				
<b>And Changes in Net Assets</b>				
<b>June 30, 2010</b>				
	<b>2010</b>	<b>2009</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Operating Revenue	\$ 401,122	\$ 335,786	\$ 65,336	19.5%
Operating Expense	<u>670,908</u>	<u>455,427</u>	<u>215,481</u>	47.3%
Operating Income (Loss)	(269,786)	(119,641)	(150,145)	125.5%
Nonoperating Income (Expense)	<u>(95,246)</u>	<u>(19,841)</u>	<u>(75,405)</u>	380.0%
Income (Loss) Befor Contributions	(365,032)	(139,482)	(225,550)	161.7%
Contributions	<u>624,395</u>	<u>367,631</u>	<u>256,764</u>	69.8%
Change in Net Assets	259,363	228,149	31,214	13.7%
Net Assets - Beginning	<u>6,309,930</u>	<u>6,087,900</u>	<u>222,030</u>	3.6%
Net Assets - Ending	<u>\$ 6,569,293</u>	<u>\$ 6,316,049</u>	<u>\$ 253,244</u>	4.0%

**CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)**

The Statement of Cash Flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

<b>Table 3</b>		
<b>Clarksville-Montgomery County Regional Airport Authority</b>		
<b>Condensed Statement of Cash Flows</b>		
<b>June 30, 2010 and 2009</b>		
	<b>2010</b>	<b>2009</b>
Cash Flows from Operating Activities	\$ 113,026	\$ 53,025
Cash Flows from Noncapital Financing Activities	(31,728)	10,000
Cash Flows from Capital and Related Financing Activities	306,417	(333,392)
Cash Flows from Investing Activities	-	189
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 387,715</u>	<u>\$ (270,178)</u>
Cash and Cash Equivalents - Beginning	<u>\$ 138,254</u>	<u>\$ 408,432</u>
Cash and Cash Equivalents - Ending	<u>\$ 525,969</u>	<u>\$ 138,254</u>

The Notes To Financial Statements represent explanatory information to the various reports and specific details regarding additions and deletions from operations during the year. In addition, summary explanations are provided regarding various leases and notes payable of the Authority.

The Directory of Officials represents the members of the Clarksville-Montgomery County Regional Airport Authority as it existed as of June 30, 2010

The Schedule of Expenditures of Federal and State Awards disclose various state and federal grants obtained during the year and their resulting account balances.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

Capital Assets and Debt Administration

At June 30, 2010, the Authority had \$6,690,720 invested in capital assets. An Airport Improvement Project primarily funded by government grants has caused significant increases in the Authority's Buildings and Airport Facilities over the past three years.

<b>Table 4</b>				
<b>Clarks ville-Montgomery County Regional Airport Authority</b>				
<b>Capital Assets</b>				
<b>June 30, 2010 and 2009</b>				
	<b>2010</b>	<b>2009</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Buildings and Airport Facilities	\$ 9,824,536	\$ 9,727,337	\$ 97,199	1.0%
Vehicles and Equipment	195,161	98,167	96,994	98.8%
Land and Land Improvements	1,739,326	1,836,643	(97,317)	-5.3%
Construction in Progress	-	51,322	(51,322)	-100.0%
Less: Accumulated Depreciation	<u>(5,068,303)</u>	<u>(4,813,354)</u>	<u>(254,949)</u>	5.3%
Net Capital Assets	<u>\$ 6,690,720</u>	<u>\$ 6,900,115</u>	<u>\$ (209,395)</u>	-3.0%

Long-Term Debt

At June 30, 2010, the Authority had a note payable outstanding to the City with a balance of \$103,110 and a note payable outstanding to Legends Bank with a balance of \$58,802. The City of Clarksville has a debt forgiveness scheduled for July 2, 2010 for \$24,000 and the Authority pays \$1,645 a month to Legends Bank.

Analysis of Financial Position

The Authority has renegotiated or entered into beneficial lease contracts for hangar space, and office space. An increase in funding was also provided by the City and County governments.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report, or need additional information, contact the Authority's office at 200 Airport Road, Clarksville, Tennessee 37042.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2010

**ASSETS**

**CURRENT ASSETS**

Cash & Cash Equivalents	\$	134,969
Accounts Receivable		3,216
Matching Funds on Deposit		10,424
Grants Receivable		10,000
<b>Total Current Assets</b>		158,609

**CAPITAL ASSETS**

Buildings and Airport Facilities		9,824,536
Vehicles and Equipment		195,161
Land and Land Improvements		1,739,326
<b>Total Capital Assets</b>		11,759,023
Less: Accumulated Depreciation		(5,068,303)
<b>Net Capital Assets</b>		6,690,720

**OTHER ASSETS**

Cash Restricted to Purchase of Equipment		391,000
<b>Total Other Assets</b>		391,000

<b>TOTAL ASSETS</b>	\$	7,240,329
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable	\$	648
Current Portion of Notes Payable		41,527
Accrued Payroll		7,382
Current Portion of Unearned Lease Revenue (Related Party)		21,427
<b>Total Current Liabilities</b>		70,984

**LONG-TERM LIABILITIES**

Unearned Lease Revenue - less Current Portion (Related Party)		479,666
Notes Payable - less Current Portion		120,386
<b>Total Long-Term Liabilities</b>		600,052

<b>TOTAL LIABILITIES</b>		671,036
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**NET ASSETS (DEFICIT)**

Invested in Capital Assets		6,528,807
Restricted Net Assets		391,000
Unrestricted Net Assets		(350,514)
<b>TOTAL NET ASSETS</b>		6,569,293

<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$	7,240,329
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See Notes to Financial Statements

**CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>OPERATING REVENUES</b>	
City and County Funding	\$ 307,692
Lease Income:	
Terminal Facilities	39,763
Hangar Facilities, Net of Bad Debts	34,792
Fuel Flowage Fees	4,631
Farm Land	6,250
Miscellaneous	6,675
AVMHP Revenue	1,319
<b>Total Operating Revenues</b>	<u>401,122</u>
 <b>OPERATING EXPENSES</b>	
Cleaning and Pest Control	100,068
Depreciation	326,075
Dues and Fees	416
Facilities Maintenance	47,916
Insurance	13,357
Miscellaneous	925
Office Supplies and Postage	5,038
Payroll Taxes	11,956
Professional Fees	52,106
Salaries and Personnel Services	75,258
AVMHP Expenses	3,393
Utilities	34,400
<b>Total Operating Expenses</b>	<u>670,908</u>
 <b>OPERATING INCOME (LOSS)</b>	 <u>(269,786)</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Theft	(37,628)
Interest Expenses	(2,324)
Debt Forgiveness	24,000
Gain (Loss) on Disposal of Assets	(79,294)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(95,246)</u>
 <b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	 <u>(365,032)</u>
Contributions:	
State Grants	122,205
Federal Grants	3,969
Local Grants	498,221
<b>Total Contributions</b>	<u>624,395</u>
 <b>CHANGE IN NET ASSETS</b>	 259,363
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>6,309,930</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 6,569,293</u>

See Notes to Financial Statements

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
**STATEMENT OF CASH FLOWS**  
 FOR THE YEAR ENDED JUNE 30, 2010

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Customers and Governments	\$ 377,748
Cash Paid to Employees	(74,441)
Cash Paid to Suppliers	(190,281)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>113,026</b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Operating Grants	5,900
Theft	(37,628)
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<b>(31,728)</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Grants	163,949
Local Capital Grants	498,221
Federal Capital Grants	3,969
Payments on Long-Term Debt	(17,421)
Payments for Improvements	(339,977)
Interest on Capital Related Debt	(2,324)
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<b>306,417</b>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 387,715

**CASH AND CASH EQUIVALENTS - BEGINNING** 138,254

**CASH AND CASH EQUIVALENTS - ENDING** **\$ 525,969**

See Notes to Financial Statements

**CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (269,786)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	326,075
Loss on Disposal of Assets	79,294
Changes in Current and Deferred Items:	
(Increase) Decrease in Accounts Receivables	(1,947)
Increase (Decrease) in Accrued Expenses	817
Increase (Decrease) in Unearned Lease Revenue	(21,427)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 113,026</u>

**SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES**

Lease Transactions	
Hanger Lease Revenue from constructed buildings (Note 6)	\$ 21,427
Debt forgiveness	
Portion of Debt forgiven by City of Clarksville (Note 7)	<u>24,000</u>
Total Non-Cash Investing and Financing Activities	<u>\$ 45,427</u>

See Notes to Financial Statements

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Clarksville-Montgomery County Regional Airport Authority (Airport Authority) relating to the accounts in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments in the United States of America.

The following significant accounting policies were applied in the preparation of the accompanying financial statements:

A. Reporting Entity

The Airport Authority, a joint venture of Montgomery County and the City of Clarksville, provides airport facilities to the Clarksville-Montgomery County area. The Clarksville City Council and the Montgomery County Commission each appoint two of the five members of the Airport Authority's governing board. All real properties of the Airport Authority are deeded to the Clarksville-Montgomery County Regional Airport Authority. These financial statements include only the assets, liabilities, operations and cash flows of the Airport Authority, and do not include any other fund, organization, agency or department of Montgomery County or the City of Clarksville. The Airport Authority applies all Governmental Accounting Standard Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements issued on or before November, 30, 1989, unless those pronouncements conflict with GASB pronouncements.

B. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Airport Authority operations are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

C. Funding

The major sources of revenue are lease of facilities, operation subsidies, and grants as listed below:

(1) Lease of Facilities

The Airport Authority leases the airport facilities primarily to two other corporations. These leases are discussed further in Note 5.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

C. Funding (Cont'd)

(2) Operations Subsidies

The Airport Authority receives monthly funding for operating expenses from the City of Clarksville and Montgomery County, Tennessee.

(3) Grants

The Airport Authority receives federal, state, and local grants for maintenance of the airport, improvements and expansion projects.

The future operations of the Airport Authority may be significantly impacted if a major reduction of funds by these supporting organizations should occur.

D. Capital Assets and Depreciation

Capital expenditures for airport equipment, vehicles, buildings and facilities are recorded at cost of acquisition. Some airport buildings have been constructed by the lessees in exchange for renewable leases of the buildings. These buildings have been recorded at the estimated construction cost of the lessee. Depreciation of buildings is recorded on a straight-line basis over an estimated life of 30-40 years. Airport runways, taxiways and aprons are depreciated on a straight-line basis over an estimated life of 12 or 20 years. A fire truck, airport lighting and fencing are depreciated on a straight-line basis over 15 or 20 years. Many renovation projects to the airport facilities have occurred over the past 40 years. At the time of the renovations, any remaining undepreciated cost of the facility was added to the renovation cost and a new estimated life assigned for future depreciation calculations. All assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are capitalized. Depreciation is calculated after allowing for 10% salvage value for most assets. Minor repairs and maintenance costs are charged to expense.

E. Cash and Cash Equivalents

Cash and cash equivalents include all cash in bank accounts and on hand. The Airport Authority considers all highly-liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents. When an expense is incurred for which both restricted and unrestricted resources are available, the Airport Authority first applies restricted resources to these expenses.

F. Use of Estimates

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

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

G. Operating Revenues and Expenses

Operating revenues and expenses of the Airport Authority are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

H. Concentrations of Credit Risk

Financial instruments that potentially subject the Airport Authority to significant concentrations of credit risk consist principally of cash and accounts receivable. The Airport Authority is exposed to concentration of credit risk by placing its deposits in financial institutions. The Airport Authority has mitigated this risk because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool. With respect to accounts receivable, credit risk is dispersed across a small number of businesses and individuals which are geographically concentrated in Montgomery County and no collateral is required.

2. Cash and Cash Equivalents

The Airport Authority maintains checking and liquid investment accounts for the Airport Authority. Credit risk is managed by restricting cash and cash equivalents to deposits with federally insured institutions which must be approved by the board of commissioners. Investments and other deposits are restricted by state law to deposits with financial institutions and certain obligations guaranteed by the United States government. At June 30, 2010, cash and cash equivalents included bank balances of \$555,217, which does not include any deposits in transit or outstanding checks. All of the Authority's cash and cash equivalents were insured by the FDIC or the State of Tennessee Collateral Pool. Both cash and cash equivalents are carried at cost which approximated fair value at June 30, 2010. At June 30, 2010, restricted cash included \$391,000 received from grantors for capital projects.

3. Receivables

Receivables for the Airport Authority consist primarily of amounts due from the Tennessee Department of Transportation for completed grant contracts. Bad debts are recorded by the direct write-off method and reported as a reduction of the related revenue account in the year losses are recognized.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Receivables (Cont'd)

Following is a schedule of receivables at June 30, 2010:

<u>Accounts Receivable</u>	
Rental	<u>\$ 3,216</u>
<u>Grants Receivable</u>	
Tennessee Department of Transportation TAD Project #99-55-1186-04	<u>\$ 10,000</u>

4. Capital Assets

A summary of changes in capital assets and accumulated depreciation follows:

	Balance 6/30/09	Transfer from Mobile Home Park	New Additions	Disposals and Transfers	Balance 6/30/10
Capital Assets Not Depreciated:					
Airport Land	\$ 870,355	\$ 966,288	\$ 50,900	\$ 148,217	\$ 1,739,326
Total Capital Assets Not Depreciated	870,355	966,288	50,900	148,217	1,739,326
Capital Assets Depreciated:					
Buildings and Airport Facilities	9,727,337	-	97,199	-	9,824,536
Vehicles and Equipment	92,547	5,620	99,197	2,203	195,161
Construction in Progress	51,322	-	(51,322)	-	-
Total Capital Assets Depreciated	9,871,206	5,620	145,074	2,203	10,019,697
Total Capital Assets	<u>10,741,561</u>	<u>971,908</u>	<u>195,974</u>	<u>150,420</u>	<u>11,759,023</u>
Accumulated Depreciation:					
Buildings and Airport Facilities	4,620,592	109,906	311,950	68,923	4,973,525
Vehicles and Equipment	78,938	3,918	14,125	2,203	94,778
Total Accumulated Depreciation	<u>4,699,530</u>	<u>\$ 113,824</u>	<u>\$ 326,075</u>	<u>\$ 71,126</u>	<u>5,068,303</u>
Total Airport Assets, Net of Depreciation	<u>\$ 6,042,031</u>				<u>\$ 6,690,720</u>

Depreciation expense for the year totaled \$326,075. Fuel farm equipment totaling \$166,482 was pledged as collateral for debt at June 30, 2010. Land and land improvements and construction in progress are not depreciated or amortized. No capital assets were idle or considered to be impaired.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

5. Lease Contracts

The Clarksville-Montgomery County Regional Airport Authority has entered into various lease contracts for the operation and maintenance of the airport facility as follows:

- A. On September 15, 2008, the Airport Authority entered a fixed base operator lease contract with Montgomery County Aero, Inc. for use of the hangar facilities, office space, and unimproved land of the airport. The Lessee has constructed two buildings on the land, one with an estimated cost of \$60,000 and the other \$40,000. The annual rent at June 30, 2010, was \$46,446, or \$3,871 per month. The Lessee also pays a monthly fuel flow fee in the amount of six cents for every gallon of aviation gasoline and jet fuel sold. This lease expires on February 10, 2011, with one option to extend the lease for five years. Land with improvements will be surrendered to the Airport Authority at termination of the contract.
- B. Effective July 1, 2010 the Airport Authority entered into a lease contract with Gilliam Farms for maintaining 90 acres of real estate adjoining the Airport. The rent for tract #1 is \$9,375 per year and for tract #2 is \$1,875 per year. The term of this lease is good through December 31, 2011.
- C. Effective January 26, 2006, the Airport Authority entered into a lease contract with Bi-County Solid Waste Management System for use of airport property for the location of a convenience drop station for waste. The rent is \$200 per month. The term of this lease is five years.
- D. Effective September 20, 2006, the Airport Authority entered into a lease contract with Dr. Ronald Whitford for certain unimproved land on the airport. The Lessee pays an annual rent of \$1,050 and has constructed a building on the land with an estimated cost of \$140,000. The term of the contract is for 18 years, and the contract is subject to renewal for two additional periods of five years and seven years. Land with improvements will be surrendered to the Airport Authority at termination of the contract.
- E. Effective July 1, 2010, the Airport Authority entered into a lease contract with Sid Johnson Jr. for an building #8. The rent for this space is \$1,000 per month. The term of this lease is one year.
- F. Effective May 28, 2008, the Airport Authority entered into a lease contract with CAMB, LLC, for certain unimproved land on the airport. The Lessee pays an annual rent of \$2,280, subject to changes in inflation every five years, and has constructed a building on the land with an estimated cost of \$400,000. The term of the contract is for 35 years after the occupancy date, ending on March 31, 2044, and the contract is subject to renewal for an additional period of five years. Land with improvements will be surrendered to the Airport Authority at termination of the contract.
- G. Effective September 1, 2008, the Airport Authority began leasing hangars on a newly-constructed 10-unit hangar. All lease contracts are on a month-to-month basis for \$225 per month. As of June 30, 2010, there were nine current tenants.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

5. Lease Contracts (Cont'd)

The future cash flows from all lease contracts are expected to be as follows:

Year Ending June 30,	
2011	\$ 77,058
2012	8,955
2013	3,330
2014	3,330
2015	3,330
2016 and Beyond	76,693
Total	<u>\$ 172,696</u>

6. Unearned Revenue

Unearned revenues represent future lease payments whereby the lessee has constructed a building for the Airport Authority in exchange for future use as explained under Lease Contracts in Note 5. Changes in unearned revenue for the current year were as follows:

Leases described in Note 5:	Beginning <u>Balance</u>	Revenue <u>Recognized</u>	Ending <u>Balance</u>
Robert O. Wyatt	\$ 7,409	\$ 2,222	\$ 5,187
Dr. Ronald E. Whitford	117,968	7,776	110,192
CAMB, LLC	397,143	11,429	385,714
	<u>\$ 522,520</u>	<u>\$ 21,427</u>	<u>501,093</u>
Less: portion to be recognized as lease income next year			<u>21,427</u>
Long-term unearned lease revenue			<u>\$ 479,666</u>

7. Notes Payable

On September 22, 1998, the Airport Authority borrowed a total of \$800,000 from the City of Clarksville for the purchase of the mobile home park. One note for \$80,000 bears an interest rate equal to the rate paid by the Tennessee Local Government Investment Pool and matured on September 22, 1999. The other note for \$720,000 bears no interest and was due December 22, 1998.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

7. Notes Payable (Cont.)

This note anticipated 90% state funding for purchase of the mobile home park. However, the grant from the State of Tennessee totaled only \$522,218 and when paid to the City of Clarksville on June 29, 1999, left a note balance of \$197,782. The two notes were a combined liability of \$277,782. During 2003, the City retained appropriations in the amount of \$33,333 as payment of principal and interest due on the combined notes. In a resolution dated July 20, 2005, the Airport Authority resolved to repay this debt to the City in increments of \$20,000 - \$24,000 per year. The balance remaining on the note at June 30, 2010 was \$103,110. This balance is being reduced by principal forgiveness and is scheduled for a reduction of principal on July 2, 2010 in the amount of \$24,000.

On September 5, 2003, a note with Legends Bank in the amount of \$150,000 secured by fuel farm equipment was executed for a term of 60 months with an interest rate of 5.25% and payments of \$1,617 per month. On September 15, 2008, this note was refinanced for a term of 60 months with an interest rate of 5.25% and payments of \$1,645. The balance at June 30, 2010 was \$58,802.

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	Estimated Amount Due <u>June 30, 2011</u>
City of Clarksville	120,992	6,118	24,000	103,110	24,000
Legends Bank	76,223	-	17,421	58,802	17,527
Total Notes Payable	<u>\$ 197,215</u>	<u>\$ 6,118</u>	<u>\$ 41,421</u>	<u>161,912</u>	<u>\$ 41,527</u>

\*See Note 14 for prior period adjustment increase .

Cash payments for interest totaled \$2,323.73 during the year ended June 30, 2010.

Following is the debt maturity schedule:

Due through <u>June 30,</u>	Principal <u>Payments</u>	Remaining <u>Principal</u>	Interest <u>Payments</u>
2011	\$ 41,527	\$ 120,386	2,669
2012	42,469	77,917	1,727
2013	43,462	34,455	733
2014	27,344	7,111	22
2015	7,111	-	-
Total	161,913		<u>\$ 5,151</u>
Current Portion	41,527		
Long-term Portion	<u>\$ 120,386</u>		

8. Contributed Capital

Many of the capital construction or acquisition projects of the Airport Authority were funded substantially by government grants. Contributed capital has been estimated for some of these prior-year amounts.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. Related Party Transactions

Dr. Ronald Whitford was appointed to the Airport Authority's board of commissioners in July 2007, and was subsequently elected its chairman. He also leases land from the Airport Authority pursuant to an agreement dated September 20, 2006 (see Note 5).

Mr. Charles Hand and Mr. Gary Mathews were appointed to the Airport Authority's board of commissioners in July 2007. Those individuals are members of CAMB, LLC, which leases land from the Airport Authority pursuant to an agreement dated May 28, 2008 (see Note 5).

10. Contingencies

The Airport Authority's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

A portion of the real estate occupied by the former mobile home park was purchased using government funding. If sold, reimbursement to certain grantor agencies will be required unless the income is reinvested in the Airport Authority.

11. Mobile Home Park

Operation of the Mobile Home Park was discontinued on August 21, 2009. All improvements were abandoned and disposed of during the fiscal year ending June 30, 2010. The net book value of the abandoned improvements totaling approximately \$107,000 was recognized as a charge to earnings.

12. Subsequent Events

Subsequent events have been evaluated through August 15, 2010, which is the date the financial statements were available to be issued.

13. Theft

The State of Tennessee authorized an investigation into alleged theft that occurred during the fiscal year ending June 30, 2010 and prior years. Results of the investigation are included on Page 26 of this report (see finding 2010-05).

14. Prior Period Adjustment

Unrestricted net assets at July 1, 2010 have been adjusted for debt forgiveness recognized in error in the prior year. The correction has no effect on the results of the current year's activities; however, the cumulative effect decreases beginning unrestricted net assets at July 1, 2010 by \$6,118.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
DIRECTORY OF OFFICIALS (UNAUDITED)  
JUNE 30, 2010

Board of Commissioners

Dr. Ronald Whitford	Chairman
Gary Mathews	Secretary/Treasurer
Jerry Clark	Vice-Chairman
James Halford	Authority Member
Charles Hand	Authority Member

**CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Program Title	Tennessee Aeronautics Division Project Number	Grant Number Or Pass Through Grantor's Contract Number	Federal CFDA Number	Accrued Receivable July 1, 2009	Receipts	Expenditures	Accrued Receivable June 30, 2010
<u>Tennessee Department of Transportation</u>							
Passed Through State of Tennessee Department of Transportation							
Maintenance	99-555-1186-04	Z-09-21-3364-00	-	\$ 10,000	\$ -	\$ -	\$ 10,000
Auto Access	63-555-0429-04	Z-07-03-7637-00	20.106	12,064	12,408	344	-
Eng Rehab Runway	63-555-0727-04	Z-07-03-7638-00	20.106	-	4,995	4,995	-
Utilities Extension	63-555-0434-04	Z-08-20-0800-00	20.106	35,580	35,853	273	-
Tobacco Rd Purchase	63-555-0735-04	Z-09-21-3997-00	20.106	-	52,875	52,875	-
New Tractor	63-555-0337-04	AERO-10-138-00	20.106	-	60,000	60,000	-
Total Tennessee Department of Transportation				57,644	166,131	118,487	10,000
<u>Federal Aviation Administration</u>							
Passed Through State of Tennessee Department of Transportation							
10 Unit T-Fanger Runway Lights Ext	63-555-0120-04	Z-06-02-9424-00	20.106	-	1,032	1,032	-
	63-555-0124-04	Z-07-03-7555-00	20.106	-	2,822	2,822	-
Total Federal Aviation Administration				-	3,855	3,855	-
Total Federal and State Awards				\$ 57,644	\$ 169,986	\$ 122,342	\$ 10,000

NOTE - Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance summarizes the expenditures under the programs of the federal and state governments for the year ended June 30, 2010. The schedule is presented using accrual basis of accounting.

Differences due to the reporting of only the amounts from the federal agency/TDOT. Most projects require the Airport to send TDOT the 10%, 20%, or 50% portion prior to beginning the project and TDOT remits the full amounts of the invoices back to the Airport. Therefore, most reimbursements comprise a portion of the funds from TDOT and the remainder simply being an return of Airport funds previously sent to TDOT prior to beginning the project.



**THURMAN CAMPBELL GROUP, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Members:

American Institute of  
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Kentucky Society of  
Certified Public Accountants

Tennessee Society of  
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Clarksville-Montgomery County Regional Airport Authority  
Clarksville, Tennessee

We have audited the financial statements of the Clarksville-Montgomery County Regional Airport Authority (Airport Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated August 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and requirements prescribed by the Comptroller of the Treasury, State of Tennessee.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 Airport Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, 2010-2, 2010-3, and 2010-5.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompany schedule of findings and responses to be significant deficiencies, 2010-1 and 2010-4.

### **Compliance and Other Matters**

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

We noted certain other matters that we reported to management of Airport Authority in a separate letter dated August 15, 2010..

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

This report is intended solely for the information and use of management, Board of Commissioners, the Montgomery County Commission, the Clarksville City Council, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Thurman Campbell Group, PLLC*

Hopkinsville, KY 42240  
August 15, 2010

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2010

A. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2010-01      (Recurring finding) Segregation of Duties: The Airport Authority lacks proper segregation of duties within its accounting department. The same personnel who receive and deposit checks or cash also reconcile the bank account. In addition, personnel performing the bank reconciliations are also authorized to sign checks.

Recommendation: We recommend that the Airport Authority designate another individual to receive checks and/or cash and to prepare a daily log-in sheet for all incoming funds, and that the duties of performing the bank reconciliation and signing checks be strictly segregated from receiving funds or writing checks.

Management Response: Separation of duties is difficult to achieve with our limited personnel resources. However, in August 2010, the Authority hired a new Airport Manager and an Accountant. This management team is currently building a written internal control manual that is concentrating on segregation of duties. As a consequence, the Accountant no longer has the ability to sign checks, the Manager approves all receipts for deposit and the Manager approves all disbursements. The Manager does not have general ledger access or related duties.

2010-02      (Recurring finding) Management Oversight of Financial Reporting: We noted a lack of management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). Twenty four adjusting journal entries were required for the financial statements to be presented in conformity with GAAP.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Management Response: The Authority has hired a new management team to implement better internal controls over financial reporting. This approach includes review procedures and oversight over accrual based financial statements on a monthly basis. The management team is documenting these procedures in a new Authority Internal Control Manual.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
JUNE 30, 2010

2010-03 (Recurring finding) Control Operating Effectiveness Deficiencies: We noted operating effectiveness deficiencies in the following controls:

1. None of the debit card transactions had documentation of board member approval.
2. Review of the bank reconciliations was not documented.
3. Review of the monthly financial statements by the manager was not documented.

Recommendation: We recommend that management implement procedures to ensure that each control is operating with sufficient effectiveness by:

1. Documenting the board member's approval of all transactions.
2. Documenting the review of the bank reconciliations.
3. Documenting the review of the monthly financial statements.

Management Response: The Authority's new management team has implemented procedures that document the Authority's approval of financial activity including bank reconciliations, cash receipts and disbursements, and the issuance of monthly financial statements. The new Internal Control Manual documents these procedures.

2010-04 (Recurring finding) Financial Policies and Procedures: The Airport Authority operates under various financial policies and procedures which have evolved over the years in response to changes in management and the board of commissioners. Many of these policies and procedures are unwritten and documentation of formal approval by the board is lacking.

Recommendation: We recommend that the board of commissioners formulate and formally adopt a comprehensive set of written financial policies and procedures for use by management.

Management Response: The Authority has tasked its new management team to provide written internal controls over all aspects of financial activity and reporting. In addition, the existing bylaws are to be reviewed and edited to better mirror the unique requirements of an Airport Authority. These editions will include input from both City and County officials associated with the funding of the Authority.

CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
 JUNE 30, 2010

2010-05

Theft/Fraud: The Authority does not have adequate segregation of duties over financial resources including, but not limited to, access to cash. The State of Tennessee Comptroller's office authorized an investigation into theft that was allegedly perpetrated by Authority employee, Rachael Nelson. Allegedly, Ms. Nelson used the Authority's debit card, access to online banking and lack of management oversight to pay personal debts with Authority cash. Airport Authority records related to the alleged theft were adulterated or missing. The investigation included fiscal years ending June 30, 2005 through June 30, 2010. Findings are as follows:

<u>Year-end</u>	<u>Alleged Theft/Fraud</u>
2005	\$ 1,850
2006	\$12,369
2007	\$19,255
2008	\$18,349
2009	\$14,564
2010	\$37,628

Recommendation: The Airport Authority should implement internal controls designed around adequate segregation of duties and limit access to cash to top management personnel and board members. The use of debit cards should be eliminated and access to the Authority credit card should be restricted to top management. Employee travel reimbursements and related documentation should include time and destination of travel and should be recorded uniformly by all Authority personnel. Bank statements and reconciliation of cash should be monitored by top management. A written internal control policy manual should be maintained by the Authority.

Management Response: The Authority has accepted the resignation of Ms. Nelson. A new Airport Manager and an accountant have been hired to replace Ms. Nelson. We have instructed our new employees to initiate the preparation of a written internal control manual. The manual will concentrate on proper segregation of duties and access to cash, including management's observation of monthly bank statement reconciliations. The Authority no longer uses debit cards and travel reimbursements have become uniform and include all appropriate information.

Management is working closely with City and County governmental officials to make sure that all audit findings are addressed and resolved.