

MCNAIRY COUNTY AIRPORT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

**MCNAIRY COUNTY AIRPORT AUTHORITY
INDEPENDENT AUDITORS' REPORTS, FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

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**MCNAIRY COUNTY AIRPORT AUTHORITY
ROSTER OF BOARD OF DIRECTORS
JUNE 30, 2012**

Robert Sibley – Chairman

Maurice Hamm

Ted Moore

Troy Moore

Mike Smelser



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
McNairy County Airport Authority
Selmer, Tennessee

We have audited the accompanying financial statements of the McNairy County Airport Authority (the Authority), a component unit of McNairy County, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the 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. 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 Authority as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 4 through 5 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 an opinion on the financial statements taken as a whole. The introductory section and supplementary information on pages 1-2 and pages 13 and 14, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary 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 supplementary 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 taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

January 30, 2013

Godwin & Associates, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of McNairy County Airport Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2012.

USING THIS ANNUAL REPORT

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities. The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the Authority during the year.

Net assets are the difference between the Authority's assets and liabilities. Over time, increases or decreases in net assets provide one indicator of financial health.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes to the financial statements can be found on pages 9 – 12.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the Authority. This supplementary information can be found on pages 13 and 14 of this report.

Comparative Data

Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 139,481	\$ 93,093
Restricted assets	12,812	16,735
Capital assets	<u>2,462,843</u>	<u>2,613,659</u>
Total Assets	<u>2,615,136</u>	<u>2,723,487</u>
Long-term liabilities	161,515	171,825
Other liabilities	<u>58,296</u>	<u>59,229</u>
Total liabilities	<u>219,811</u>	<u>231,054</u>
Net Assets:		
Invested in capital assets, net of related debt	2,290,816	2,431,967
Restricted for construction	12,812	16,735
Unrestricted	<u>91,697</u>	<u>43,731</u>
Total Net Assets	<u>\$ 2,395,325</u>	<u>\$ 2,492,433</u>

The changes in the Authority's net assets are described below:

	<u>2012</u>	<u>2011</u>
Revenues:		
Charges for services	\$ 75,376	\$ 63,149
Rent	97,907	95,464
Miscellaneous	3,153	709
Miscellaneous	(149)	-
Total Revenues	<u>176,287</u>	<u>159,322</u>
Expenses:		
Airport	<u>332,174</u>	<u>311,162</u>
Operating income (loss)	(155,887)	(151,840)
Nonoperating revenue	<u>58,779</u>	<u>64,115</u>
Increase(Decrease) in net assets before capital contributions	<u>(97,108)</u>	<u>(87,725)</u>
Capital contributions	<u>-</u>	<u>350,710</u>
Change in net assets	<u>(97,108)</u>	<u>262,985</u>
Net assets at beginning of year, as originally reported	2,492,433	2,223,884
Prior period adjustment	<u>-</u>	<u>5,564</u>
Net assets at beginning of year, as restated	<u>2,492,433</u>	<u>2,229,448</u>
Net assets at end of year	<u>\$ 2,395,325</u>	<u>\$ 2,492,433</u>

- The Airport had an decrease in net assets of \$97,108 compared to an increase of \$262,985 in the prior year. This difference is primarily due to the decrease in capital contributions from one year to the next.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The airport had no capital asset purchases during the year and accumulated depreciation increased by \$150,816. See additional disclosures in Note 4.

At June 30, 2012, the Authority had \$172,027 in outstanding long-term debt compared to \$181,692 last year. See additional disclosures in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

We do not anticipate any economic factors which would have a material effect on operations for the next fiscal year.

CONTACTING THE AUTHORITY MANAGEMENT

This financial report is designed to provide citizens, taxpayers and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chris Tull at 2281 Airport Road, Selmer, Tennessee 38375.

Chris Tull
Airport Manager

**MCNAIRY COUNTY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS

CURRENT ASSETS

Cash	\$	104,233
Prepaid insurance		9,097
Inventory		26,151
TOTAL CURRENT ASSETS		139,481

RESTRICTED ASSETS

Cash		12,812
TOTAL RESTRICTED ASSETS		12,812

CAPITAL ASSETS

Land		91,331
Airport		3,520,826
Building		196,238
Equipment		223,672
		4,032,067
Construction in progress		-
Less: accumulated depreciation		(1,569,224)
NET CAPITAL ASSETS		2,462,843

TOTAL ASSETS

\$ 2,615,136

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	-
Accrued expenses		3,543
Deferred rent		44,241
Current portion of note payable		10,512
TOTAL CURRENT LIABILITIES		58,296

LONG-TERM LIABILITIES

Notes payable after one year		161,515
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TOTAL LIABILITIES

219,811

NET ASSETS

Invested in capital assets		2,290,816
Restricted for construction		12,812
Unrestricted		91,697
TOTAL NET ASSETS		2,395,325

TOTAL LIABILITIES AND NET ASSETS

\$ 2,615,136

**MCNAIRY COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

OPERATING REVENUES	
Fuel sales	\$ 75,376
Hangar and building rent	97,907
Miscellaneous income	3,153
Bad debt expense	(149)
	<u>176,287</u>
TOTAL OPERATING REVENUES	
 OPERATING EXPENSES	
Salaries	59,903
Payroll taxes	5,032
Employee insurance	5,528
Legal and accounting	5,625
Office expense	605
Credit card processing fees	2,355
Maintenance	8,408
Inspections	725
Utilities	8,965
Insurance	9,321
Depreciation	150,816
Telephone	4,381
Purchased fuel	63,598
Supplies	3,695
Taxes and licenses	417
Dues and subscriptions	466
Meetings and conferences	801
Advertising	1,160
Security	373
Miscellaneous	-
	<u>332,174</u>
TOTAL OPERATING EXPENSES	
OPERATING INCOME (LOSS)	
	<u>(155,887)</u>
NONOPERATING REVENUES (EXPENSES)	
Appropriations from McNairy County	64,000
State of Tennessee - Department of Transportation	6,302
Interest income	27
Interest expense	(11,550)
	<u>58,779</u>
TOTAL NONOPERATING REVENUE	
INCOME (LOSS) BEFORE CONTRIBUTIONS	
	<u>(97,108)</u>
CAPITAL CONTRIBUTIONS	
	<u>-</u>
CHANGE IN NET ASSETS	
	<u>(97,108)</u>
NET ASSETS - BEGINNING OF YEAR	
	<u>2,492,433</u>
NET ASSETS - END OF YEAR	
	<u>\$ 2,395,325</u>

**MCNAIRY COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 174,589
Cash payments to suppliers for goods and services	(125,505)
Cash payments to employees for services	<u>(70,343)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(21,259)</u>
 CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES:	
Intergovernmental operating grants	<u>70,302</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments on long-term debt	(9,665)
Interest payments	<u>(11,550)</u>
 NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(21,215)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	<u>27</u>
 NET INCREASE IN CASH	 27,855
 CASH - BEGINNING OF YEAR	 <u>89,190</u>
 CASH - END OF YEAR	 <u><u>\$ 117,045</u></u>
 RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (155,887)
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation and amortization	150,816
Changes in Assets and Liabilities:	
(Increase) decrease in inventories	(9,471)
(Increase) decrease in prepaid insurance	(5,139)
Increase (decrease) in accrued expenses	120
Increase (decrease) in deferred rent	<u>(1,698)</u>
NET CASH (USED FOR) OPERATING ACTIVITIES	<u><u>\$ (21,259)</u></u>

**MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. GENERAL INFORMATION

A. GASB Conformity

The financial statements included herein are prepared in conformity with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement 20 - "Election of a Reporting Method" - required the Authority to elect either (1) all provisions of the Financial Accounting Standards Board (FASB) issued prior to 1989 for proprietary type funds, or (2) all of the provisions of the FASB regardless of the issue date for proprietary type funds. The Authority elected to adopt only the provisions of the FASB prior to 1989.

B. Financial Reporting Entity

The McNairy County Airport Authority (the Authority) is a component unit of McNairy County, Tennessee, and is governed by a board of directors appointed by the county government. The Authority is responsible for financing, developing, and operating McNairy County's public airport. The County approves the operating budget of the Authority and has provided regular operating subsidies to the Authority in the past.

C. Fund Accounting

The accounts of the Authority are organized on the basis of funds. The operations of funds are accounted for with a separate set of self-balancing accounts that comprise their assets, liabilities, fund equity, revenues, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts in the financial statements in this report fall under one broad fund category as follows:

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Authority has defined non-operating revenues to be revenues that are not generated from the daily operations. Capital contributions are non-operating revenues.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

B. Capital Assets

All capital assets of the Authority are recorded at original cost. Expenses that materially increase values or capacities, or extend useful lives of these assets are capitalized while expenses for maintenance and repairs are charged to operations as incurred. Gains and losses from the sale of capital assets are reflected in operations and the asset accounts and related allowances for depreciation are reduced. These depreciable capital assets are being depreciated over various estimated useful lives on a straight-line basis. Any interest incurred in preparing or acquiring a capital asset for use is included in its cost.

C. Cash Equivalents

Cash and cash equivalents include demand deposit accounts. Restricted cash consists of deposits held in an escrow account to fund the Authority's local matching requirement for the ongoing authority grant projects and deposits in other local bank accounts for the retainage due on several projects.

D. Inventory

Inventory consists of fuel. Cost is determined using the first-in first-out method.

3. CASH AND INVESTMENTS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Authority must have a written collateral agreement approved by the board of directors or loan committee.

The Authority's investment policies are governed by State statute. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts. Collateral is required for demand deposits, certificates of deposits and repurchase agreements at 105% of all amounts not covered by federal deposit insurance.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority requires any bank deposits to be insured by the Federal Deposit Insurance Corporation and any deposits in excess of FDIC coverage shall be collateralized by acceptable securities pledged for said purpose and an agreement between the Bank of Deposit and the Authority shall be executed. As of June 30, 2012, the Authority's bank balances were not exposed to custodial credit risk because they were insured and collateralized.

The Authority also has \$12,812 in an escrow account with the State of Tennessee.

**MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance 7/1/2011	Additions/ Adjustments	Retirements/ Adjustments	Balance 6/30/2012
Capital assets not being depreciated				
Land	\$ 91,331	\$ -	\$ -	\$ 91,331
Construction in progress	-	-	-	-
Total capital assets not being depreciated	91,331	-	-	91,331
Capital assets being depreciated				
Airport	3,520,826	-	-	3,520,826
Building	196,238	-	-	196,238
Equipment	208,792	-	-	208,792
Vehicles	14,880	-	-	14,880
Total capital assets being depreciated	3,940,736	-	-	3,940,736
Less accumulated depreciation for:				
Airport	(1,223,659)	(133,802)	-	(1,357,461)
Building	(42,519)	(4,906)	-	(47,425)
Equipment	(137,350)	(12,108)	-	(149,458)
Vehicles	(14,880)	-	-	(14,880)
Total accumulated depreciation	(1,418,408)	\$ (150,816)	\$ -	(1,569,224)
Total capital assets, net	<u>\$ 2,613,659</u>			<u>\$ 2,462,843</u>

5. LONG-TERM DEBT

a. Description of Individual Bond Issues and Loans Outstanding

Summarized below are the System's individual bond and loan issues which are outstanding at year end:

	Amount Outstanding	Interest Rate	Current Principal Requirement
Notes:			
Capital Outlay Note	\$ 172,027	6.38%	\$ 10,512

**MCNAIRY COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

b. Summary of Principal and Interest Requirements – All Debt

Fiscal Year	Principal	Interest
2013	\$ 10,512	\$ 10,703
2014	11,199	10,016
2015	11,931	8,285
2016	12,710	8,505
2017	13,541	7,675
2018-2022	82,190	23,886
2023-2024	29,944	1,649
	<u>\$ 172,027</u>	<u>\$ 70,719</u>
Less:		
Payable within one year	<u>10,512</u>	<u>10,703</u>
Due after one year	<u>\$ 161,515</u>	<u>\$ 60,016</u>

c. Changes in Outstanding Debt

Business-Type Activities	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012
Revenue Bonds	\$ 181,692	\$ -	\$ 9,665	\$ 172,027
	<u>\$ 181,692</u>	<u>\$ -</u>	<u>\$ 9,665</u>	<u>\$ 172,027</u>

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims have not exceeded this commercial coverage in any of the past three years.

7. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds.

8. DEFERRED RENT

The hospital prepaid hangar rent for fifteen years to aid in construction of the new hangar. The Authority has recorded the appropriate amount as deferred rent and is recognizing the rent revenue as it is earned.

9. MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

Management evaluated subsequent events through January 30, 2013 which is the financial statement issuance date. There were no significant subsequent events to disclose.

MCNAIRY COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Contract/Project Number	Accrued Revenue at 7/1/2011	Receipts	Disbursements/ Expenditures	Accrued Revenue at 6/30/2012
STATE FINANCIAL ASSISTANCE						
Tennessee Department of Aeronautics/ Airport Maintenance FY 2011/2012	N/A	99-555-1199-04	\$ -	\$ 3,279	\$ 3,279	\$ -
Tennessee Department of Aeronautics/ Airport Maintenance FY 2010/2011	N/A	99-555-1206-04	-	3,023	3,023	-
TOTAL STATE AWARDS			-	6,302	6,302	-
LOCAL MATCH						
Department of Transportation Aeronautics Division - Security Upgrades/Fencing	N/A	Z-08-20-0708-00	5,500	-	-	5,500
Department of Transportation Aeronautics Division	N/A	99-555-1217-04	-	-	1,300	1,300
Department of Transportation Aeronautics Division - Land Acquisition	N/A	Z-07-03-7554-00	4,960	4,903	-	57
Department of Transportation Aeronautics Division - Surge Protectors	N/A	Z-07-03-7704-00	284	-	-	284
Department of Transportation Aeronautics Division - Grounds Maintenance Equipment	N/A	Z-09-21-3978-00	320	320	-	-
Department of Transportation Aeronautics Division - Box Hangar	N/A	AERO-10-166-00/55-555-0134-04	5,671	-	-	5,671
TOTAL LOCAL MATCH			16,735	5,223	1,300	12,812
TOTAL STATE AWARDS AND LOCAL MATCH			\$ 16,735	\$ 11,525	\$ 7,602	\$ 12,812

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of McNairy County Airport Authority under programs of the federal and state governments for the year ended June 30, 2012. The schedule is presented using the accrual basis of accounting.

**MCNAIRY COUNTY AIRPORT AUTHORITY
SCHEDULE OF LONG-TERM DEBT
JUNE 30, 2012**

<u>Year Ending</u>	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 10,512	\$ 10,703
2014	11,199	10,016
2015	11,931	8,285
2016	12,710	8,505
2017	13,541	7,675
2018	14,426	6,790
2019	15,368	5,847
2020	16,372	4,843
2021	17,442	3,773
2022	18,582	2,633
2023	19,796	1,419
2024	10,148	230
Total	<u>\$ 172,027</u>	<u>\$ 70,719</u>



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

McNairy County Airport Authority
Selmer, Tennessee

We have audited the financial statements of the McNairy County Airport Authority, a component unit of McNairy County, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 30, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described below as 2011-01 and 2011-02 to be material weaknesses.

2011-01 SEGREGATION OF DUTIES

At present, there is a lack of segregation of duties in receiving and disbursing cash due to the limited number of personnel.

RECOMMENDATION: In order to effectively mitigate this weakness, we recommend that the board closely monitor the financial activities on a timely basis.

MANAGEMENT'S RESPONSE: We concur.

2011-02 FINANCIAL STATEMENTS MATERIALLY MISSTATED

The Authority had materially misstated its financial statements. The Authority had erroneously booked some grant receivables. Various other adjustments were also required to correct the financial statements.

Recommendation: We recommend the Authority make the necessary adjustments to reconcile its accounts prior to year end.

Management's Response: We agree and will correct this finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moduin : Associates, PLLC

January 30, 2013