

Smyrna/Rutherford County Airport Authority

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

June 30, 2012 and 2011

Smyrna/Rutherford County Airport Authority

ROSTER OF OFFICIALS

June 30, 2012

Board of Commissioners

J. Michael Woods
Helene Colvin
Steve Harrison
Graeme Coates
Clyde Jones

Chairman
Vice Chairperson
Commissioner
Commissioner
Commissioner

Executive Staff

John R. Black
Lois Vallance

Executive Director
Airport Manager

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Independent Auditors' Report

To the Board of Directors
Smyrna/Rutherford County Airport Authority

We have audited the accompanying financial statements of Smyrna/Rutherford County Airport Authority as of June 30, 2012 and 2011 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, 2012 and 2011, and the respective 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 6, 2012 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 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 5 through 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.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee

November 6, 2012

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, 2012. This information should be considered within the context of the accompanying financial statements and note disclosures.

PROFILE OF THE AUTHORITY

The Smyrna Airport, located in Smyrna, Tennessee, is the third-largest airport (by acreage) in Tennessee (behind the Memphis and Nashville airports). Located near three interstate systems (I-40, I-75, and I-24) and within 600 miles of 80 percent of the U.S. population, it is the busiest general aviation airport in the state of Tennessee. The Smyrna Airport promotes economic prosperity in Rutherford County and the surrounding region, serving as an economic engine and attracting new businesses to the area. The airport offers over 8,000 feet of runway, numerous aircraft hangars, and professional office space. It is centrally-located to a large and friendly population of potential travelers, customers, and workers. Smyrna Airport has won numerous awards from the State of Tennessee and from the FAA Southern Region. Those awards recognize outstanding customer service, safe operations, and recognize a progressive business model.

The airport and its related business entities directly account for \$44.0 million in output and \$34.6 million in payroll expenditures and employ 3,275 workers (full-time, part-time, or in a contracted capacity). Economic activity at the Smyrna Airport induces another \$18.7 million in business output and 1,660 jobs in the local economy. The Smyrna Airport also generates over \$1.1 million in economic activity from hosting the Great Tennessee Air Show, and it facilitates flight training for the MTSU Aerospace program, which has 800 majors and a host of faculty members who teach those students. Smyrna Airport houses a new one-megawatt solar farm with 3,400 solar panels. The Airport is also home to the Tennessee Army National Guard helicopter wing, AASF # 1.

Our mission is to be a world-class air facility serving our community, region, aviation, business and industry base, and be recognized by these groups as a valuable asset.

FINANCIAL OPERATIONS HIGHLIGHTS

Net assets increased \$637,227 in 2012 as compared to a decrease of \$1,424,298 in 2011. Capital grants of \$1,150,832 contributed to the increase in net assets during 2012. Depreciation contributed primarily to the decrease in 2011 and declined significantly in 2012 due to the aging of the Authority's fixed assets. Depreciation was \$827,340 in 2012 and \$1,567,578 in 2011.

Authority lease revenue for the year ended June 30, 2012 totaled \$1,356,709 as compared to \$1,135,528 in 2011. This increase is attributable directly to the addition of several medium-sized tenants and slight improvements in current economic conditions. Aircraft operations totaled more than 68,000 for the 2011-2012 fiscal year compared to 67,000 last year and fuel flowage totaled 2,174,698 gallons resulting in \$131,383 in fuel flowage fees. Smyrna Airport's operations and fuel flowage reflect the nationwide general aviation trend although somewhat better than the national average. The majority of the Authority's revenue continues to be from facility and land leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses increased slightly to \$1,100,424 from \$1,092,334. Operating expenses were very consistent when comparing the current year to the prior year. Non-operating income includes a maintenance grant and taxiway improvement funding from the TN Aeronautics Division. Interest expense was \$56,646 compared to \$59,100 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED FINANCIAL INFORMATION

A condensed summary of the Authority's operations follows:

	Year Ended June 30,	
	2012	2011
Operating revenues	\$ 1,438,985	\$ 1,194,355
Operating expenses	<u>1,100,424</u>	<u>1,092,334</u>
Operating income	338,561	102,021
Depreciation	<u>827,340</u>	<u>1,567,578</u>
Loss before non-operating income(expense)	(488,779)	(1,465,557)
Non operating income	1,182,937	109,214
Non operating expense	<u>(56,931)</u>	<u>(67,955)</u>
Net increase(decrease) in net assets	<u>\$ 637,227</u>	<u>\$ (1,424,298)</u>

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

	June 30,	
	2012	2011
ASSETS		
Current assets	\$ 865,422	\$ 674,448
Property and equipment	28,217,193	27,841,622
Total assets	<u>\$ 29,082,615</u>	<u>\$ 28,516,070</u>
LIABILITIES		
Current and other liabilities	405,598	396,110
Long term debt	786,352	866,522
Total liabilities	<u>1,191,950</u>	<u>1,262,632</u>
NET ASSETS		
Invested in capital assets, net of related debt	27,348,716	26,897,746
Unrestricted	541,949	355,692
Total net assets	<u>27,890,665</u>	<u>27,253,438</u>
Total liabilities and net assets	<u>\$ 29,082,615</u>	<u>\$ 28,516,070</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tennessee Aeronautics Division, includes further development of landside and airside property in the Airport Business Park, repairs and improvements on existing hangars and buildings.

CURRENT AIRPORT ACTIVITIES

Staffing levels are not expected to change over the next year, however, benefits costs are expected to increase. With a new contract in place for the production of The Great Tennessee Airshow, the Authority recognized a small amount of revenue from the 2012 airshow. As directed by the Board, the airshow is contingent upon securing a US military jet team. *A Learn to Fly Day, Young Eagles Program 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 Authority currently has all office space and hangar space occupied by tenants under lease. The Authority prices lease space competitively to attract viable lease customers.

The Airport saw its first scheduled airline flights in 2012. Partnering with Branson Air Express, Corporate Flight Management utilized Smyrna Airport as the terminal for their Public Charter flights. While the Authority did not recognize any revenue from this test schedule, there was an increase in public awareness which ultimately benefits the Authority and all its business partners.

Due to the expansive ramp space, Smyrna Airport provides a safe refuge for aircraft normally stationed along US coastlines that are susceptible to hurricanes. This service generally is reflected in increased aircraft operations and fuel sales.

With the Authority's ARFF capabilities, Department of Defense charter aircraft utilized Smyrna Airport to expedite the movement of troops. More than 6,000 members of the military returned home through Smyrna this year.

A one-megawatt solar array is in place and fully operational. While the array generates solar power that ultimately goes back on the electric grid, the Authority recognizes income from a land lease on property designated for non-aviation use. The Authority was successful in procuring funding from the TN Aeronautics Division for the purchase of a new dump truck/snow plow to replace the 1979 version that's been in use here since 1991. At a cost of nearly \$100,000, the Authority's portion is 5%. The next airfield improvement project will entail the rehabilitation of taxiways B, C and D. Estimated at about \$2m, the Authority will contribute 5% toward the cost. Funding assistance has been requested from the TN Aeronautics Division.

New sources of income for airport operations and further development are critical to self-sustainment in the future. The Authority continues to market further development of the Airport Business Park. To this end, the Authority will begin Phase II development of the Airport Business Park. TN Aeronautics Division approved funding for the installation of utilities and roadway at an estimated cost of \$684,000. The Authority's portion of this project is \$51,300. 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.

Smyrna/Rutherford County Airport Authority

BALANCE SHEETS

	June 30,	
ASSETS	2012	2011
Current assets		
Cash and cash equivalents	\$ 590,807	\$ 532,755
Certificate of deposit	100,000	100,000
Accounts receivable (no allowance for doubtful accounts considered necessary)	156,699	8,497
Grants receivable	17,916	33,196
Total current assets	865,422	674,448
Capital assets		
Land	18,149,969	18,149,969
Other capital assets, net of depreciation	10,067,224	9,482,864
Construction in progress	-	208,789
	28,217,193	27,841,622
	\$ 29,082,615	\$ 28,516,070
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 82,125	\$ 77,354
Accounts payable	29,705	18,821
Accrued payroll and related liabilities	81,567	70,206
Total current liabilities	193,397	166,381
Long-term debt, less current portion	786,352	866,522
Other liabilities		
Deferred income and tenants' deposits	212,201	229,729
Total liabilities	1,191,950	1,262,632
Net assets		
Invested in capital assets, net of related debt	27,348,716	26,897,746
Unrestricted	541,949	355,692
	27,890,665	27,253,438
	\$ 29,082,615	\$ 28,516,070

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,	
	2012	2011
Revenue		
Lease income	\$ 1,356,709	\$ 1,135,528
Other income	82,276	58,827
	1,438,985	1,194,355
Operating expenses	1,100,424	1,092,334
Operating income before depreciation	338,561	102,021
Provision for depreciation	827,340	1,567,578
Operating loss	(488,779)	(1,465,557)
Other non operating revenue and (expenses)		
Operating grants	23,400	23,400
Master plan update	(285)	(728)
Flood damage expenses	-	(8,127)
Gain on sale of equipment	6,800	1,226
Interest income	1,905	4,799
Interest expense	(56,646)	(59,100)
	(24,826)	(38,530)
Loss before capital contributions	(513,605)	(1,504,087)
Capital grants	1,150,832	79,789
Increase (decrease) in net assets	637,227	(1,424,298)
Net assets, beginning of year	27,253,438	28,677,736
Net assets, end of year	\$ 27,890,665	\$ 27,253,438

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from tenants	\$ 1,273,255	\$ 1,226,031
Cash paid to suppliers	(612,566)	(602,171)
Cash paid to employees	<u>(465,613)</u>	<u>(470,008)</u>
Net cash provided by operating activities	195,076	153,852
Cash flows from non-capital financing activities		
Proceeds from operating grants	23,400	23,400
Other non operational expenditures	<u>(285)</u>	<u>(8,855)</u>
Net cash provided by non-capital financing activities	23,115	14,545
Cash flows from capital and related financing activities		
Additions to property and equipment	(1,202,911)	(291,141)
Proceeds from sale of vehicles	6,800	1,226
Proceeds from capital grants	1,166,112	46,593
Principal payments on long-term debt	(75,399)	(72,900)
Interest paid	<u>(56,646)</u>	<u>(59,100)</u>
Net cash used by capital and related financing activities	(162,044)	(375,322)
Cash flows from investing activities		
Purchase of investments	(100,000)	(100,000)
Maturities of investments	100,000	100,000
Interest received	<u>1,905</u>	<u>4,799</u>
Net cash provided by investing activities	<u>1,905</u>	<u>4,799</u>
Net increase (decrease) in cash and cash equivalents	58,052	(202,126)
Cash and cash equivalents, beginning of year	<u>532,755</u>	<u>734,881</u>
Cash and cash equivalents, end of year	<u>\$ 590,807</u>	<u>\$ 532,755</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF CASH FLOWS (Continued)

	<u>For the Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (488,779)	\$ (1,465,557)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	827,340	1,567,578
Decrease (increase) in accounts receivable	(148,202)	40,302
Increase in accounts payable	10,884	13,268
Increase in accrued payroll and related liabilities	11,361	6,887
Decrease in deferred income/tenants deposit	(17,528)	(8,626)
Total adjustments	<u>683,855</u>	<u>1,619,409</u>
Net cash provided by operating activities	<u>\$ 195,076</u>	<u>\$ 153,852</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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, 2012, 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, 2012 and 2011

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	<u>530,229</u>
	<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, 2012 and 2011

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, 2011	\$ 18,149,969	\$ 208,789	\$ 22,831,719	\$ 26,448,499	\$ 1,541,463	\$ 69,180,439
Additions	-	-	44,429	1,351,677	15,595	1,411,701
Retires	-	(208,789)	-	-	(29,980)	(238,769)
Balance, June 30, 2012	18,149,969	-	22,876,148	27,800,176	1,527,078	70,353,371
Accumulated depreciation						
Balance, June 30, 2011	-	-	16,653,072	23,683,079	1,002,666	41,338,817
Additions	-	-	521,278	236,197	69,866	827,341
Retires	-	-	-	-	(29,980)	(29,980)
Balance, June 30, 2012	-	-	17,174,350	23,919,276	1,042,552	42,136,178
Net assets, June 30, 2012	\$ 18,149,969	\$ -	\$ 5,701,798	\$ 3,880,900	\$ 484,526	\$ 28,217,193

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
2013		\$ 82,125	\$ 50,354
2014		87,191	44,809
2015		92,568	43,329
2016		98,278	33,722
2017		69,245	9,955
2018-2022		373,904	77,938
2023-2024		65,166	2,702
		<u>\$ 868,477</u>	<u>\$ 262,809</u>

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

	Balance June 30, 2011	Additions	Retires	Balance June 30, 2012
Capital outlay notes	\$ 943,876	-	(75,399)	\$ 868,477

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

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 are estimated as follows:

Year ended June 30,	2013	\$ 1,170,587
	2014	1,016,598
	2015	886,669
	2016	774,898
	2017	709,554
	Thereafter	12,302,974
		<u>\$ 16,861,280</u>

Not included in the above lease totals are certain fuel flowage fees received from two tenants in 2012 and 2011; these fees amounted to approximately \$131,383 in 2012 and \$96,261 in 2011.

NOTE G - MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Three tenants account for approximately 70% and 80% of lease revenue and other income for the year ended June 30, 2012 and 2011, respectively. Substantially all major tenants are in the aviation industry. At June 30, 2012 and 2011 outstanding accounts receivable from these customers was \$94,824 and \$0, respectively.

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, 2012 and 2011

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, 2012 was 16.49% 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, 2012 and 2011 the Authority's annual pension cost of \$72,256 and \$70,395, respectively, to TCRS was equal to the Authority's required and actual contributions.

The required contribution was determined as part of the July 1, 2009 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 2.5 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, 2009 was 15 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$70,395	100.00%	\$ 0.00
6/30/11	\$67,903	100.00%	\$ 0.00
6/30/10	\$72,256	100.00%	\$ 0.00

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE H – PENSION PLAN (CONTINUED)

Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 91.64% funded. The actuarial accrued liability (AAL) for benefits was \$1,055,000 and the actuarial value of assets was \$967,000 resulting in a unfunded actuarial accrued liability (UAAL) of \$88,000. 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 20.14%.

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) 1.00	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1-Jul-11	\$967	\$1,055	\$88	91.64%	\$438	20.14%
1-Jul-09	\$680	\$767	\$87	88.66%	\$440	19.79%
1-Jul-07	\$535	\$628	\$93	85.19%	\$415	22.41%

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, 2012 and 2011

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, 2012	From Inception
Federal grants	\$ -	\$ 11,167,349
State grants	1,150,832	6,374,996
City of Smyrna	-	160,000
Rutherford County	-	437,215
	\$ 1,150,832	\$ 18,139,560

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 – INVESTMENTS

The Authority has a certificate of deposit for \$100,000 at a local bank that bears interest at .6%. The certificate renewed in April 2011 and matures in October 2012. The bank is a participant in the Tennessee State Collateral Pool.

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-11	\$967	\$1,055	\$88	91.64%	\$438	20.14%
1-Jul-09	\$680	\$767	\$87	88.66%	\$440	19.79%
1-Jul-07	\$535	\$628	\$93	85.19%	\$415	22.41%

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 conducted for the purpose of forming opinions on the financial statements of the Smyrna/Rutherford County Airport Authority's financial statements 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. The supplemental information and schedules are the responsibility of management and were derived from and relate 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.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee

November 6, 2012

Smyrna/Rutherford County Airport Authority
OPERATING EXPENSES

	For the Year Ended June 30,	
	2012	2011
Administrative salaries	\$ 152,133	\$ 163,463
Office supplies and expense	7,660	8,076
Maintenance, building and grounds	39,993	37,427
Accounting and legal fees	33,150	32,900
Telephone	10,316	10,555
Printing and postage	559	294
Travel	203	-
Marketing	9,056	10,953
Utilities	124,076	122,480
Insurance	104,281	103,389
Payroll taxes	35,937	36,681
Employee benefits	99,456	100,232
Retirement benefit plan	70,395	66,217
Maintenance salaries	152,003	143,535
Airfield maintenance expenses	74,628	76,251
Commissioner fees	18,598	18,533
Safety services salaries	155,139	151,364
Dues and subscriptions	797	1,167
Bad debt expense	-	2,600
Safety expenses	11,894	5,392
Conferences, education and training	150	825
	<u>\$ 1,100,424</u>	<u>\$ 1,092,334</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority
Schedule of State and Federal Financial Assistance
Year Ended June 30, 2012

Grantor	CFDA#	Contract #	Grant Receivable June 30, 2011	Receipts	Expenditures	Local Match	Grant Receivable June 30, 2012
TN Dept of Transportation	N/A	75-555-1705-04	\$ 15,280	\$ 1,278,302	\$ 1,263,022	\$ -	A \$ -
TN Dept of Transportation	N/A	99-555-1217-04	-	23,400	46,800	23,400	-
Federal Emergency Management Assoc	97.036	34101-0000006492	17,916	-	-	-	A 17,916
TN Dept of Transportation	N/A	75-555-1408-04	-	14,113	28,225	14,112	-
Total federal and state awards			<u>\$ 33,196</u>	<u>\$ 1,315,815</u>	<u>\$ 1,338,047</u>	<u>\$ 37,512</u>	<u>\$ 17,916</u>

Basis of Presentation:

This schedule is prepared on the accrual basis of accounting.

A local match is not included since SRCAA advances match to TOA prior to grant start

**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, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Smyrna/Rutherford County Airport Authority is responsible for establishing and maintaining effective 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 internal 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 2012-1. 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.

Dempsey Vantecase + Folks PLLC

Murfreesboro, Tennessee

November 6, 2012

Smyrna/Rutherford County Airport Authority
SCHEDULE OF FINDINGS AND RESPONSES
For the Year ended June 30, 2012

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 #2012-1

<u>Criteria-</u>	Management of the Airport should consistently prepare financial statements in accordance with U. S. GAAP.
<u>Condition-</u>	Management lacks the expertise required to prepare complete financial statements.
<u>Cause-</u>	Management lacks resources and necessary educational background.
<u>Effect-</u>	Auditor recommended and posted several adjustments to the general ledger and had to assist in preparation of draft financial statements.
<u>Recommendation-</u>	Management should consider implementing policies to allow the Airport to prepare and review statements for consistent application of U.S. GAAP in financial reporting.
<u>Managements Response-</u>	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, 2012

Comments of Prior Audit Findings and Related Resolution

Finding #2011-1

<u>Condition-</u>	Management lacks the expertise required to prepare complete financial statements.
<u>Recommendation-</u>	Management should consider implementing policies to allow the Airport to prepare and review statements for consistent application of U.S. GAAP in financial reporting.
<u>Current year update-</u>	No changes were noted during the current year audit.