

**JACKSON-MADISON COUNTY
AIRPORT AUTHORITY**

JACKSON, TENNESSEE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
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INTRODUCTORY SECTION

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
DIRECTORY
June 30, 2012

BOARD MEMBERS

Hoyt Hayes, Jr.
Essie Lovelady
Bill Sipes
Tim Wilson
Bob Maniss

MANAGEMENT TEAM

Steve Smith, Executive Director
Cindy Melton, Accountant

FINANCIAL SECTION



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Independent Auditor's Report

Jackson-Madison County Airport Authority
McKellar-Sipes Regional Airport
Jackson, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Jackson-Madison County Airport Authority, Jackson, Tennessee (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, as of June 30, 2012, and the respective changes in financial position and, where applicable, 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 December 7, 2012, 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 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.

Jackson-Madison County Airport Authority
McKellar-Sipes Regional Airport
Jackson, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 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 Authority's financial statements. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary section 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive, flowing style.

Jackson, Tennessee
December 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Jackson-Madison County Airport Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012. All amounts, unless otherwise indicated, are expressed in actual dollars. A comparative analysis of key elements of total governmental funds and total enterprise funds has been provided. A prior year comparative analysis of government-wide data has been provided.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial condition is strong. The Authority is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$7.42 million and exceeded liabilities in the amount of \$6.83 million (i.e. net assets).
- Net assets decreased \$9,058 during the current year.
- Operating revenues were \$2.73 million, while operating expenses were \$2.74 million which resulted in a decrease in net assets of \$9,058.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements are made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section and 4) the internal control and compliance section. The introductory section includes the Authority's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The other supplementary information section includes the Schedule of revenues, expenditures, and changes in fund balance – general fund- budget and actual, the schedule of salaries and bonds of principal officials, schedule of state financial assistance and the schedule of federal awards. The internal control and compliance section includes the report on internal control and compliance.

REQUIRED FINANCIAL STATEMENTS

The Authority's required financial statements include both government-wide financial statements and fund financial statements. The fund financial statements consist of governmental fund financial statements and business-type, proprietary fund financial statements. The Authority's governmental activities include general operations and capital projects. The Authority's business-type activities include the FBO (Fixed Based Operator).

Government-wide Financial Statements

The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Authority.

The *Statement of Activities* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are

MANAGEMENT'S DISCUSSION AND ANALYSIS

reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Authority's operations and can be used to determine whether the Authority has successfully recovered all of its costs. This statement also measures the Authority's profitability and credit worthiness. The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Authority's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of Authority's near-term financing decisions. Both the Balance Sheet — Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements and reconciliations can be found on pages 11 through 14 of this report.

Information is presented separately in the Balance Sheet — Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds for the General Fund and Capital Projects Fund, which are considered to be major funds.

Proprietary funds - Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The Authority uses an enterprise fund to account for the FBO.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the FBO, which is considered a major fund of the Authority. The basic proprietary fund financial statements can be found on pages 15 through 17 of this report.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual* presents the results of activities over the course of the fiscal year in comparison with the original and final budget. An additional column is presented showing the differences between the final budget and the actual expenditures for the year.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$6.82 million at the close of the most recent fiscal year. A portion of the Authority's net assets, 92.06% reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1A
CONDENSED STATEMENT OF NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|---------------------|-----------------------------|------------------|---------------------|---------------------|
| | June 30, | | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Current and other assets | \$ 885,379 | \$ 805,314 | \$ 221,522 | \$ 267,895 | \$ 1,106,901 | \$ 1,073,209 |
| Capital assets | 6,286,541 | 6,362,867 | 26,441 | 42,080 | 6,312,982 | 6,404,947 |
| Total assets | <u>7,171,920</u> | <u>7,168,181</u> | <u>247,963</u> | <u>309,975</u> | <u>7,419,883</u> | <u>7,478,156</u> |
| Long-term liabilities | - | - | 73,865 | 162,501 | 73,865 | 162,501 |
| Other liabilities | 347,143 | 340,399 | 169,749 | 137,072 | 516,892 | 477,471 |
| Total liabilities | <u>347,143</u> | <u>340,399</u> | <u>243,614</u> | <u>299,573</u> | <u>590,757</u> | <u>639,972</u> |
| Invested in capital assets | 6,322,645 | 6,398,971 | 441 | 441 | 6,323,086 | 6,399,412 |
| Restricted | 201,507 | 34,124 | - | - | 201,507 | 34,124 |
| Unrestricted | 300,625 | 394,687 | 3,908 | 9,961 | 304,533 | 404,648 |
| Total net assets | <u>\$ 6,824,777</u> | <u>\$ 6,827,782</u> | <u>\$ 4,349</u> | <u>\$ 10,402</u> | <u>\$ 6,829,126</u> | <u>\$ 6,838,184</u> |

An additional portion of the Authority's net assets (2.93%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$304,533) may be used to meet the Authority's ongoing obligations.

The increase in restricted net assets of \$167,383 represented an increase in net assets restricted by grant contracts.

Statement of Activities – Expenses in the governmental activities column exceeded revenues by \$3,005. Revenues and expenses slightly increased during the year due to the fact that the Authority received more grant money from state and federal governments..

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

| | Governmental | | Business-type | | Total | |
|------------------------|----------------------------|----------------------------|------------------------|-------------------------|----------------------------|----------------------------|
| | Activities | | Activities | | | |
| | Year Ended June 30, | | Year Ended June 30, | | Year Ended June 30, | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Operating revenues | \$ 1,011,039 | \$ 914,633 | \$ 1,723,870 | \$ 1,239,359 | \$ 2,734,909 | \$ 2,153,992 |
| Non-operating revenues | 215 | 18,222 | - | - | 215 | 18,222 |
| Total revenues | 1,011,254 | 932,855 | 1,723,870 | 1,239,359 | 2,735,124 | 2,172,214 |
| Operating expenses | 1,014,259 | 1,027,221 | 1,729,923 | 1,228,957 | 2,744,182 | 2,256,178 |
| Total expenses | 1,014,259 | 1,027,221 | 1,729,923 | 1,228,957 | 2,744,182 | 2,256,178 |
| Change in net assets | (3,005) | (94,366) | (6,053) | 10,402 | (9,058) | (83,964) |
| Beginning net assets | 6,827,782 | 6,922,148 | 10,402 | - | 6,838,184 | 6,922,148 |
| Ending net assets | <u>\$ 6,824,777</u> | <u>\$ 6,827,782</u> | <u>\$ 4,349</u> | <u>\$ 10,402</u> | <u>\$ 6,829,126</u> | <u>\$ 6,838,184</u> |

COMMENTS ON FUND FINANCIAL STATEMENTS

The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General fund – The focus of the Authority's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements.

In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Revenues in the general fund were essentially unchanged from the prior year. The most significant changes in revenues in the general fund were:

- A \$5 thousand decrease in property use.
- A \$7 thousand increase in concessions.

Expenditures and other financing uses in the general fund increased from last year by approximately \$34 thousand. The most significant changes in expenditures and other financing uses in the general fund were:

- A \$17 thousand decrease in maintenance and utilities expenses.
- A \$51 thousand increase in administration expenses.

A budget is adopted for the General Fund but is used as a management tool and is not considered a legal spending restriction.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Authority had invested \$6.31 million in a variety of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt – At year ended June 30, 2012 the authority had notes payable of \$162,501 minus current maturities of \$88,636.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

There are no substantial changes anticipated for next year's budget for the general, capital projects funds and FBO funds. Rehabilitation and expansion of airport facilities will continue as previously set forth by the authority's master plan.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Jackson-Madison County Airport Authority, 308 Grady Montgomery Drive, Jackson, TN 38301.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2012

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|---------------------|
| Assets | | | |
| Cash | \$ 284,547 | \$ 113,481 | \$ 398,028 |
| Receivables | | | |
| Accounts | 9,619 | 59,083 | 68,702 |
| Intergovernmental | - | 11,108 | 11,108 |
| Grants | 174,901 | - | 174,901 |
| Internal balances | 140,191 | (140,191) | - |
| Inventories | 5,388 | 41,821 | 47,209 |
| Deposits on contracts | 201,507 | - | 201,507 |
| Deferred expenses | 69,226 | - | 69,226 |
| Capital assets not being depreciated | | | |
| Construction in progress | 335,377 | - | 335,377 |
| Capital assets being depreciated (net of accumulated depreciation) | | | |
| Land improvements | 180 | - | 180 |
| Buildings | 3,005,848 | - | 3,005,848 |
| Infrastructure | 2,432,761 | - | 2,432,761 |
| Machinery and equipment | 512,375 | 26,441 | 538,816 |
| Unamortized lease cost (net of accumulated amortization) | - | 136,220 | 136,220 |
| Total assets | <u>7,171,920</u> | <u>247,963</u> | <u>7,419,883</u> |
| Liabilities | | | |
| Accounts payable | 91,822 | 81,113 | 172,935 |
| Compensated absences payable | 24,679 | - | 24,679 |
| Refundable deposits | 6,562 | - | 6,562 |
| Contracts payable - capital projects | 206,664 | - | 206,664 |
| Deferred revenues | 17,416 | - | 17,416 |
| Noncurrent liabilities | | | |
| Notes payable, due within one year | - | 88,636 | 88,636 |
| Notes payable, due after one year | - | 73,865 | 73,865 |
| Total liabilities | <u>347,143</u> | <u>243,614</u> | <u>590,757</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 6,286,541 | 441 | 6,286,982 |
| Restricted for capital projects | 201,507 | - | 201,507 |
| Unrestricted | 336,729 | 3,908 | 340,637 |
| Total net assets | <u>\$ 6,824,777</u> | <u>\$ 4,349</u> | <u>\$ 6,829,126</u> |

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

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | |
|---------------------------|---------------------|--------------------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities | | | | | | | |
| Airport operation | \$ 1,014,259 | \$ 317,722 | \$ 242,140 | \$ 451,177 | \$ (3,220) | \$ - | \$ (3,220) |
| Business-type activities | | | | | | | |
| FBO | <u>1,729,923</u> | <u>1,723,870</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(6,053)</u> | <u>(6,053)</u> |
| Total | <u>\$ 2,744,182</u> | <u>\$ 2,041,592</u> | <u>\$ 242,140</u> | <u>\$ 451,177</u> | <u>(3,220)</u> | <u>(6,053)</u> | <u>(9,273)</u> |
| | | General revenues | | | | | |
| | | Interest earnings | | | <u>215</u> | <u>-</u> | <u>215</u> |
| | | Total general revenues and transfers | | | <u>215</u> | <u>-</u> | <u>215</u> |
| | | Change in net assets | | | (3,005) | (6,053) | (9,058) |
| | | Net assets - beginning | | | <u>6,827,782</u> | <u>10,402</u> | <u>6,838,184</u> |
| | | Net assets - ending | | | <u>\$ 6,824,777</u> | <u>\$ 4,349</u> | <u>\$ 6,829,126</u> |

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

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET**

June 30, 2012

| | General Fund | Capital Projects Fund | Total |
|--------------------------------------|-------------------------|--------------------------------------|-------------------|
| Assets | | | |
| Cash | \$ 160,147 | \$ 124,400 | \$ 284,547 |
| Receivables | | | |
| Accounts | 9,619 | - | 9,619 |
| Grants | 23,400 | 151,501 | 174,901 |
| Due from other funds | 103,577 | 36,614 | 140,191 |
| Inventories | 5,388 | - | 5,388 |
| Deposits on contracts | - | 201,507 | 201,507 |
| | \$ 302,131 | \$ 514,022 | \$ 816,153 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 9,122 | \$ 82,700 | \$ 91,822 |
| Refundable deposits | 6,562 | - | 6,562 |
| Contracts payable | - | 206,664 | 206,664 |
| Deferred revenues | 17,416 | - | 17,416 |
| Total liabilities | 33,100 | 289,364 | 322,464 |
| Fund Balances | | | |
| Non-spendable | 5,388 | - | 5,388 |
| Restricted for grant projects | - | 201,507 | 201,507 |
| Assigned for future capital projects | - | 23,151 | 23,151 |
| Unassigned | 263,643 | - | 263,643 |
| Total fund balances | 269,031 | 224,658 | 493,689 |
| | \$ 302,131 | \$ 514,022 | \$ 816,153 |

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

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
TO GOVERNMENTAL FUNDS BALANCE SHEET**

June 30, 2012

Amounts reported for the governmental activities in the statement
of net assets (Page 9) are different because

| | |
|---|---------------------|
| Fund balance - total governmental funds (Page 11) | \$ 493,689 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds | 6,286,541 |
| Deferred asset not available to pay current expenditures, therefore, is deferred in the funds | 69,226 |
| Compensated absences not due in the current period, therefore, not reported in the funds | <u>(24,679)</u> |
| Net assets of governmental activities (Page 9) | <u>\$ 6,824,777</u> |

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

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2012

| | General Fund | Capital Projects Fund | Total |
|-----------------------------------|-------------------------|--------------------------------------|----------------|
| Revenues | | | |
| Intergovernmental | | | |
| Grants | | | |
| Local | \$ - | \$ 44,324 | \$ 44,324 |
| State | 23,400 | 232,873 | 256,273 |
| Federal | - | 166,685 | 166,685 |
| Operating subsidies | 218,740 | - | 218,740 |
| Service and property use | | | |
| Space rentals | 237,858 | - | 237,858 |
| Concessions | 14,641 | - | 14,641 |
| Fuel flowage | 38,863 | - | 38,863 |
| Landing fees | 932 | - | 932 |
| Land rentals | 27,800 | - | 27,800 |
| Other | | | |
| PFC revenue | - | 443 | 443 |
| Vending and miscellaneous | - | 140 | 140 |
| Interest income | 75 | - | 75 |
| Bad debt | (2,372) | - | (2,372) |
| Total revenues | 559,937 | 444,465 | 1,004,402 |
| Expenditures | | | |
| Current | | | |
| Fire protection | 9,460 | - | 9,460 |
| Maintenance and utilities | 159,065 | - | 159,065 |
| Administration | 345,037 | - | 345,037 |
| Control tower | 18,915 | - | 18,915 |
| Capital projects | - | 368,939 | 368,939 |
| Total expenditures | 532,477 | 368,939 | 901,416 |
| Net change in fund balance | 27,460 | 75,526 | 102,986 |
| Fund balance, beginning of year | 241,571 | 149,132 | 390,703 |
| Fund balance, end of year | \$ 269,031 | \$ 224,658 | \$ 493,689 |

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

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
RECONCILIATION OF STATEMENT OF GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO
STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2012

Amounts reported for the governmental activities in the statement of activities
(Page 10) are different because

| | |
|--|-------------------|
| Excess of revenues over expenditures - total governmental funds (Page 13) | \$ 102,986 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period. This is the amount by which depreciation exceeds capital outlays in the current period | (76,326) |
| Amortization of deferred asset not reported in the funds | (23,075) |
| Increase in accrual for compensated absences not reported in the funds | <u>(6,590)</u> |
| Change in net assets of governmental activities (Page 10) | <u>\$ (3,005)</u> |

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

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

| | FBO |
|--|------------|
| Assets | |
| Current assets | |
| Cash | \$ 113,481 |
| Receivables | |
| Accounts | 48,269 |
| Credit cards | 10,814 |
| Inventory | |
| ACGAS | 22,103 |
| Jet fuel | 15,081 |
| Oil and additive | 4,637 |
| Due from United States Government | 11,108 |
| Total current assets | 225,493 |
| Noncurrent assets | |
| Capital assets | |
| Automobiles | 23,000 |
| Equipment | 23,095 |
| Furniture and fixtures | 10,738 |
| Accumulated depreciation | (30,392) |
| Total capital assets (net of accumulated depreciation) | 26,441 |
| Unamortized lease cost | 136,220 |
| Total noncurrent assets | 162,661 |
| Total assets | 388,154 |
| Liabilities | |
| Current liabilities | |
| Accounts payable | 76,323 |
| Sales tax payable | 4,790 |
| Due to other funds | 140,191 |
| Note payable - current maturities | 88,636 |
| Total current liabilities | 309,940 |
| Noncurrent liabilities | |
| Notes payable, net of current maturities | 73,865 |
| Total liabilities | 383,805 |
| Net assets | |
| Invested in capital assets, net of related debt | 441 |
| Unrestricted | 3,908 |
| Total net assets | \$ 4,349 |

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

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND**

For the Year Ended June 30, 2012

| | FBO |
|---------------------------------|---------------------|
| Operating revenues | |
| Sales - fuel, oil and additives | \$ 1,603,771 |
| Sales - other | 1,515 |
| Rentals | 95,712 |
| Other operating revenues | <u>22,872</u> |
| Total operating revenues | <u>1,723,870</u> |
| Operating expenses | |
| Cost of goods sold | 1,310,217 |
| Credit card fees | 28,268 |
| Uniforms | 9,407 |
| Catering | 1,713 |
| Advertising | 727 |
| Equipment rentals | 97 |
| Salaries and wages | 210,385 |
| Depreciation | 16,707 |
| Dues and subscriptions | 1,723 |
| Entertainment | 625 |
| Equipment maintenance | 5,097 |
| FBO supplies | 7,726 |
| Truck lease | 26,220 |
| Contract Labor | 400 |
| Lease expense | 74,302 |
| Flowage fee | 30,227 |
| Miscellaneous | 71 |
| Office supplies | 1,672 |
| Postage | 162 |
| Repairs and maintenance | 3,506 |
| Taxes - fuel and sales | 186 |
| Telephone | <u>485</u> |
| Total operating expenses | <u>1,729,923</u> |
| Change in net assets | (6,053) |
| Total net assets, beginning | <u>10,402</u> |
| Total net assets, ending | <u>\$ 4,349</u> |

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

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

| | FBO |
|---|---------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 1,792,327 |
| Cash paid to suppliers | (1,296,763) |
| Cash paid to employees for services | (210,385) |
| Other operating payments | (118,312) |
| Net cash provided by operating activities | 166,867 |
| Cash flows from noncapital financing activities | |
| Net change in due to other funds | 9,071 |
| Cash flows from capital and related financing activities | |
| Acquisition of capital assets | (1,068) |
| Principal payments on long-term note payable | (88,636) |
| Net cash used by capital and related financing activities | (89,704) |
| Net increase in cash and cash equivalents | 86,234 |
| Cash and cash equivalents - beginning of year | 27,247 |
| Cash and cash equivalents - end of year | \$ 113,481 |
| Reconciliation of operating income to net cash provided | |
| (used) by operating activities | |
| Operating income | \$ (6,053) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | |
| Depreciation | 16,707 |
| Amortization | 74,302 |
| (Increase) decrease in receivables | 68,457 |
| (Increase) decrease in inventories | (19,223) |
| Increase (decrease) in payables | 32,677 |
| Net cash provided by operating activities | \$ 166,867 |

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

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – ORGANIZATION

The Jackson-Madison County Airport Authority (the Authority) is a governmental entity, which is a joint venture between the City of Jackson and Madison County, Tennessee. There are no other governmental units that are considered component units of the Authority.

The Authority was created by a joint resolution of the governing bodies of the City of Jackson and Madison County, being vested with the authority for the “planning, establishment, development, construction, enlargement, improvement, maintenance, equipment operation, regulation, protection and policing of McKellar-Sipes Regional Airport for and on behalf of Madison County and the City of Jackson.

On August 31, 2010, the Authority acquired the operations of the vendor operating the McKellar-Sipes Regional Airport fixed base operations (FBO). The Authority assumed the fixed based operations on September 1 providing services including rental of hangar space and sales of fuel.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to generally accepted accounting principles applicable to governments as defined in the *Statement of Governmental Accounting Standards Board (GASB)*. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The funds related to the Authority included in this report are controlled by or dependent on the Authority’s Board. Control by or dependence on the Authority are determined on the basis of budget adoption, outstanding debt secured by revenues or general obligation of the Authority or the Authority’s obligation to fund any deficits that may occur.

On this basis, the following funds groups are included in this report:

Fund Types:

Governmental Funds:

General Fund

Capital Projects Fund

Proprietary Fund:

Fixed Base Operations

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment, are offset by program revenues. Direct expenses are those that are clearly

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following governmental funds (both are considered major funds):

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for the capital outlay and special projects of the Authority.

The Authority reports the following proprietary fund (considered a major fund):

The FBO fund accounts for revenues and expenditures related to the fixed based operation, including, but not limited to hangar rental and fuel sales.

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles. The Authority's reporting entity applies all relevant *Governmental Accounting Standards Board* (GASB) pronouncements and applicable *Financial Accounting*

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand and demand deposits. All interest earned is allocated to the source from which the cash originated.

Capital Assets

Capital assets, which include equipment and furniture, are included in the government-wide financial statements. The Authority land and building are titled to the City of Jackson and Madison County, and therefore are not included in the Authority's capital assets. Capital assets are defined by the Board as assets with an initial, individual (or group combined) cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Authority are depreciated using the straight line method over the following useful lives:

| | |
|-------------------------|---------------|
| Land improvements | 20 years |
| Buildings | 10 - 40 years |
| Machinery and equipment | 5 - 50 years |
| Infrastructure | 10 - 50 years |

Compensated Absences

The Authority records as expenditures the vacation accrued during the year that would normally be liquidated with expendable available financial resources. The employees accumulate vacation days and in the event of termination employees are reimbursed for accumulated vacation up to a maximum of 30 days. The current portion of the accrued vacation at June 30, 2012 recorded in the General Fund is the amount that would normally be liquidated with expendable available financial resources. Accumulated annual leave at June 30, 2012 totaled \$24,679.

Full-time employees accrue sick leave up to a maximum accumulation of 120 days. However, no employees retain any vested interest in their unused sick leave upon termination of employment.

Fund Equity

In accordance with GASB No. 54, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Restricted – Amounts that can be spent only for specific purposes because of the Authority Charter, Authority Code, state or federal laws or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Board of Directors ordinance or resolution. To be reported as committed, amounts cannot be used for any other purpose unless the Authority takes the same highest level action to remove or change the constraint.

Assigned – Amounts the Authority intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds, as needed, unless the Board of Directors or the finance committee has provided otherwise in its commitment or assignment actions.

Deferred Revenue

Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Interfund Transactions

Interfund transactions are recorded as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Authority adopts annual operating budgets on a basis consistent with generally accepted accounting principles. The operating budget serves as a management control device that is presented to the city and county for their consideration in providing operating support and grants to the Authority. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

Some Capital Projects Fund expenditures are also budgeted in accordance with generally accepted accounting principles. However, project-length financial plans are also adopted for certain other Capital Projects Funds expenditures.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Adjustments to the balance sheet of governmental funds to the statement of net assets include the following items:

When capital assets that are to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in the governmental funds. However, the statement of net assets includes those capital assets among the assets of the Authority as a whole.

| | |
|--------------------------|---------------------|
| Cost of capital assets | \$ 10,778,867 |
| Accumulated depreciation | <u>(4,492,326)</u> |
| | <u>\$ 6,286,541</u> |

B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

The net change in fund balances of governmental funds differs from the change in net assets for governmental activities. The difference arises primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

When capital assets that are to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

| | |
|---------------------------------------|------------------|
| Capital assets purchased | \$ (358,385) |
| Depreciation and amortization expense | <u>434,711</u> |
| Difference | <u>\$ 76,326</u> |

Accrued compensated absences not expected to be liquidated with current resources are not reflected as an expenditure in the governmental funds.

| | |
|---|-------------------|
| Compensated absences at beginning of year | \$ (24,679) |
| compensated absences at end of year | <u>18,089</u> |
| | <u>\$ (6,590)</u> |

NOTE 5 – CASH AND INVESTMENTS

Custodial Credit Risk

The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Authority to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2012, all bank deposits were fully collateralized or insured.

NOTE 6 - CAPITAL ASSETS

Fixed assets acquired in the General Fund are expensed when purchased. The assets on the government-wide financial statements include only those that have met the Authority's capitalization policy. The City of Jackson and Madison County budget for Capital Outlay by the Authority, and pays directly for the items so budgeted. These items are also included in the Capital Asset account, if they meet the criteria. The land occupied by the Authority is owned by the City of Jackson and Madison County and is therefore not reflected in these financial statements. Capital asset activity for the year ended June 30, 2012 was as follows:

| Governmental activities: | Beginning Balance | Additions | Retirements | Ending Balance |
|---|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets, not being depreciated | | | | |
| Construction in process | \$ 1,236,359 | \$ 335,377 | \$ 1,236,359 | \$ 335,377 |
| Total capital assets not being depreciated | <u>1,236,359</u> | <u>335,377</u> | <u>1,236,359</u> | <u>335,377</u> |
| Capital assets, being depreciated | | | | |
| Land improvements | 154,214 | - | - | 154,214 |
| Buildings | 5,730,480 | 408,276 | - | 6,138,756 |
| Infrastructre | 1,952,762 | 833,788 | - | 2,786,550 |
| Furniture and fixtures | 7,114 | 1,578 | - | 8,692 |
| Machinery and equipment | 757,122 | 10,431 | 6,085 | 761,468 |
| Vehicles | 593,809 | - | - | 593,809 |
| Total capital assets, being depreciated | <u>9,195,501</u> | <u>1,254,073</u> | <u>6,085</u> | <u>10,443,489</u> |
| Total capital assets | 10,431,860 | 1,589,450 | 1,242,444 | 10,778,866 |
| Less: accumulated depreciation for: | | | | |
| Land improvements | 72,605 | 9,592 | - | 82,196 |
| Buildings | 2,496,582 | 219,892 | - | 2,716,474 |
| Infrastructre | 583,914 | 106,066 | - | 689,980 |
| Furniture and fixtures | 4,860 | 1,465 | - | 6,326 |
| Machinery and equipment | 557,890 | 54,829 | 6,085 | 606,634 |
| Vehicles | 346,744 | 111,988 | - | 389,612 |
| Total depreciation | <u>4,062,595</u> | <u>503,832</u> | <u>6,085</u> | <u>4,491,222</u> |
| Governmental activities capital assets, net | <u>\$ 6,369,265</u> | <u>\$ 1,085,618</u> | <u>\$ 1,236,359</u> | <u>\$ 6,287,644</u> |

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Amounts remaining in capital outlay in the governmental-wide column is for items that did not meet the capitalization criteria.

| Business-type activities: | Beginning Balance | Additions | Retirements | Ending Balance |
|---|------------------------------|--------------------|--------------------|---------------------------|
| Capital assets, being depreciated | | | | |
| Furniture and fixtures | \$ 11,314 | \$ 1,068 | \$ - | \$ 12,382 |
| Machinery and equipment | 21,452 | - | - | 21,452 |
| Vehicles | 23,000 | - | - | 23,000 |
| Total capital assets | <u>55,766</u> | <u>1,068</u> | <u>-</u> | <u>56,834</u> |
| Less: accumulated depreciation for: | | | | |
| Furniture and fixtures | 3,143 | 4,056 | | 7,199 |
| Machinery and equipment | 4,153 | 4,984 | | 9,137 |
| Vehicles | 6,389 | 7,667 | - | 14,056 |
| Total depreciation | <u>13,685</u> | <u>16,707</u> | <u>-</u> | <u>30,392</u> |
| Business-type activities capital assets, net | <u>\$ 42,081</u> | <u>\$ (15,639)</u> | <u>\$ -</u> | <u>\$ 26,442</u> |

Depreciation expense for the year ended June 30, 2012 was \$451,417.

NOTE 7 – UNAMORTIZED LEASE COST

On August 31, 2010, the Authority acquired the operations of the vendor operating the McKellar-Sipes Regional Airport fixed based operations for \$325,000. The acquisition cost included the purchase of capital assets totaling \$52,559 and a lease buyout totaling \$272,441. Beginning in September 2010, the cost of the lease buyout is being amortized over 44 months, the term of the related debt used to finance the acquisition as described in Note 11. Amortization expense pertaining to the lease buyout totaled \$74,302 for the year ended June 30, 2012.

NOTE 8 – DEFERRED ASSET

The deferred asset totals \$69,227 as of June 30, 2012. This amount represents work that was done on the Master Plan Update. This deferred asset is being amortized over a useful life of 10 years in the amount of \$23,074 per year beginning in the fiscal year 2009.

NOTE 9 – PENSION PLANS

During the fiscal year ended June 30, 2012, certain employees of the Authority were members of the Tennessee Consolidated Retirement System. The Tennessee Consolidated Retirement System is a defined benefit retirement plan covering general employees and teachers of the state as well as employees of political subdivisions that have elected coverage. Benefits are determined by a formula using the high five-year average salary and years of service of each employee. Employees of the Authority are covered in the plan under Madison County's account.

Madison County makes all required employer contributions for the employees covered under the plan.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – REVENUE FROM OPERATING LEASES AND CONTRACTS

A significant portion of the Authority's revenues come from operating leases on the Authority's property and various other concessions. All property under lease is owned jointly by the City of Jackson and Madison County. The Authority has future minimum revenues under operating leases as follows:

| Year Ending June 30, | Minimum Lease Revenues |
|-------------------------|---------------------------|
| 2013 | \$ 145,040 |
| 2014 | 138,441 |
| 2015 | 45,009 |
| 2016 | 15,902 |
| 2017 | 6,000 |
| 2018-2022 | 30,000 |
| 2023-2027 | 30,000 |
| 2028-2032 | 30,000 |
| 2033-2037 | 30,000 |
| 2038-2042 | 26,000 |

The Authority has annual revenues of \$59,293 from leases cancelable by either party on thirty days notice.

The Authority also receives the following revenues from concession contracts:

| <u>Concession</u> | <u>Revenue Base</u> |
|--------------------|-------------------------|
| Automobile rentals | 7.50% of gross rents |
| Fuel sales | \$0.085 per gallon sold |

NOTE 11 – LONG-TERM DEBT

On August 31, 2010, the Authority acquired the operations of the vendor operating the McKellar-Sipes Regional Airport fixed based operations for \$325,000. The Authority financed this acquisition with non-interest bearing debt totaling \$325,000 payable to US Aviation in 44 monthly installments of \$7,386 through April 2014.

Long-term debt activity for the year ended June 30, 2012 is as follows:

Business-type activities:

| | Balance June 30, 2011 | Additions | Retirements | Balance June 30, 2012 | Amounts Due Within One Year |
|---------------|--------------------------|-----------|-------------|--------------------------|-----------------------------------|
| Notes payable | \$ 251,137 | \$ - | \$ (88,636) | \$ 162,501 | \$ 88,636 |

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Maturities of notes payable are as follows:

| Year Ended June 30, | Amount |
|------------------------|-------------------|
| 2013 | 88,636 |
| 2014 | 73,865 |
| | <u>\$ 162,501</u> |

NOTE 12 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2012, the Authority or Madison County purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

OTHER SUPPLEMENTARY INFORMATION SECTION

The other supplementary information section of this report includes information not required to be included in the basic financial statements and is provided for the purpose of additional analysis.

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance-</u> |
|--|-------------------------|----------------|----------------|-------------------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Over</u> <u>(Under)</u> |
| Revenues | | | | |
| Intergovernmental | | | | |
| State maintenance grant | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ - |
| Operating subsidies - local | 201,740 | 201,740 | 201,740 | - |
| Operatng subsidies for control tower - local | 17,000 | 17,000 | 17,000 | - |
| | <u>242,140</u> | <u>242,140</u> | <u>242,140</u> | <u>-</u> |
| Services and Property Use | | | | |
| Space Rentals: | | | | |
| Airline | 2,156 | 2,156 | 9,260 | 7,104 |
| Tee hangars | 27,420 | 27,420 | 27,420 | - |
| Hangar #3 | 10,650 | 10,650 | 10,050 | (600) |
| Hangar #4 - Suite B | 9,000 | 9,000 | 9,000 | - |
| Hangars #8 and #10 | 34,210 | 34,210 | 34,721 | 511 |
| Hangar #6 | 23,300 | 23,300 | 23,772 | 472 |
| Hangar #10 - Suite B | 5,400 | 5,400 | 5,400 | - |
| Hangar # 6 office | 8,250 | 8,250 | 8,415 | 165 |
| Hangar #8 offices | 10,800 | 10,800 | 11,535 | 735 |
| Hanger 1 - TN Aircraft | 12,500 | 12,500 | 11,250 | (1,250) |
| AFSS/AFSFO | 38,809 | 38,809 | 38,809 | - |
| Car rental service area - building #15 | 1,620 | 1,620 | 1,620 | - |
| Rental offices - terminal building #9 | 20,200 | 20,200 | 20,538 | 338 |
| Fuel farm | 2,500 | 2,500 | 2,550 | 50 |
| Miscellaneous rent | 4,800 | 4,800 | 4,800 | - |
| Joint use - Army National Guard | 10,000 | 10,000 | 10,000 | - |
| Miscellaneous | 600 | 600 | 8,718 | 8,118 |
| | <u>222,215</u> | <u>222,215</u> | <u>237,858</u> | <u>15,643</u> |
| Concessions: | | | | |
| Hertz | 18,595 | 18,595 | 14,586 | (4,009) |
| Enterprise | 1,000 | 1,000 | 55 | (945) |
| | <u>19,595</u> | <u>19,595</u> | <u>14,641</u> | <u>(4,954)</u> |
| Fuel Flowage: | | | | |
| FBO | 26,800 | 26,800 | 30,227 | 3,427 |
| United Foods | 7,500 | 7,500 | 8,636 | 1,136 |
| | <u>34,300</u> | <u>34,300</u> | <u>38,863</u> | <u>4,563</u> |
| Landing Fees: | | | | |
| Corporate Airlines | - | - | 932 | 932 |
| Freight surcharge | 300 | 300 | - | (300) |
| | <u>300</u> | <u>300</u> | <u>932</u> | <u>632</u> |

See the independent auditor's report.

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance-</u> |
|-------------------------------------|-------------------------|--------------------|--------------------|-------------------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Over</u> <u>(Under)</u> |
| Land Rentals | | | | |
| Agriculture | \$ 21,176 | \$ 21,176 | \$ 21,000 | \$ (176) |
| Golf course | 3,600 | 3,600 | 3,600 | - |
| BellSouth | 200 | 200 | 200 | - |
| Hanger land lease | - | - | 3,000 | 3,000 |
| | <u>24,976</u> | <u>24,976</u> | <u>27,800</u> | <u>2,824</u> |
| Total Services and Property Use | <u>301,386</u> | <u>301,386</u> | <u>320,094</u> | <u>18,708</u> |
| Other | | | | |
| Vending and miscellaneous | 132 | 132 | - | (132) |
| Interest | - | - | 75 | 75 |
| Bad debt | (2,500) | (2,500) | (2,372) | 128 |
| | <u>(2,368)</u> | <u>(2,368)</u> | <u>(2,297)</u> | <u>71</u> |
| Total Revenues | <u>541,158</u> | <u>541,158</u> | <u>559,937</u> | <u>18,779</u> |
| Expenditures | | | | |
| Current | | | | |
| Fire Protection | | | | |
| ARFF training and supplies | 3,000 | 3,000 | 2,980 | (20) |
| Fuel, oil and grease | 2,000 | 2,000 | 2,000 | - |
| Maintenance- fire equipment | 5,000 | 5,000 | 4,480 | (520) |
| Maintenance - passenger screening | 500 | 500 | - | (500) |
| | <u>10,500</u> | <u>10,500</u> | <u>9,460</u> | <u>(1,040)</u> |
| Maintenance and Utilities | | | | |
| Janitorial supplies | \$ 5,000 | \$ 5,000 | \$ 4,498 | \$ (502) |
| Fuel, oil and grease | 9,000 | 9,000 | 14,152 | 5,152 |
| Maintenance - ARFF | 2,000 | 2,000 | 1,412 | (588) |
| Maintenance - other | 61,000 | 61,000 | 58,174 | (2,826) |
| Outside lighting | 7,500 | 7,500 | 7,159 | (341) |
| Utilities | 75,000 | 75,000 | 70,056 | (4,944) |
| Maintenance equipment | 1,000 | 1,000 | 3,614 | 2,614 |
| | <u>160,500</u> | <u>160,500</u> | <u>159,065</u> | <u>(1,435)</u> |

See the independent auditor's report.

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance- |
|-----------------------------------|-------------------------|--------------------|-------------------------|-------------------------|
| | <u>Original</u> | <u>Final</u> | | Over (Under) |
| Current: | | | | |
| Administration | | | | |
| Personnel cost | 300,000 | 300,000 | 298,661 | (1,339) |
| Dues and publications | 3,000 | 3,000 | 3,322 | 322 |
| Automobile expense | 2,500 | 2,500 | 3,494 | 994 |
| Office equipment | 3,250 | 3,250 | 2,678 | (572) |
| Administration | 6,500 | 6,500 | 6,302 | (198) |
| Legal and accounting | 11,274 | 11,274 | 9,255 | (2,019) |
| Office supplies and postage | 4,500 | 4,500 | 5,490 | 990 |
| Communications | 13,634 | 13,634 | 10,420 | (3,214) |
| Repairs and maintenance | 1,000 | 1,000 | 430 | (570) |
| Promotion | 5,000 | 5,000 | 4,985 | (15) |
| | <u>350,658</u> | <u>350,658</u> | <u>345,037</u> | <u>(5,621)</u> |
| Control Tower | | | | |
| Utilities | 8,500 | 8,500 | 8,912 | 412 |
| Maintenance and janitorial | 7,500 | 7,500 | 6,329 | (1,171) |
| Equipment purchases and repairs | 2,500 | 2,500 | 3,475 | 975 |
| Miscellaneous | 1,000 | 1,000 | 199 | (801) |
| | <u>19,500</u> | <u>19,500</u> | <u>18,915</u> | <u>(585)</u> |
| Total expenditures | <u>541,158</u> | <u>541,158</u> | <u>532,477</u> | <u>(8,681)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 27,460</u> | <u>\$ 27,460</u> |
| Fund balance, beginning of year | | | <u>241,571</u> | |
| Fund balance, end of year | | | <u>\$ 296,491</u> | |

See the independent auditor's report.

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND**

For the Year Ended June 30, 2012

Revenues

Intergovernmental

| | |
|--|-----------|
| Grants - local governments | \$ 44,324 |
| Grants - TDOT Aeronautics Division | 232,873 |
| Grants - Federal Aviation Administration | 166,685 |
| | 443,882 |

Other

| | |
|----------------------------|-----|
| PFC revenue | 443 |
| Interest and miscellaneous | 140 |
| | 583 |

| | |
|----------------|---------|
| Total revenues | 444,465 |
|----------------|---------|

Expenditures

Capital Projects

| | |
|------------------------------|---------|
| State and local projects | 343,934 |
| FAA capital projects | 7,414 |
| Other capital projects | 4,725 |
| Miscellaneous local projects | 8,698 |
| Other capital improvements | 4,168 |
| Total expenditures | 368,939 |

| | |
|-----------------------------------|---------------|
| Net change in fund balance | 75,526 |
|-----------------------------------|---------------|

| | |
|---------------------------------|---------|
| Fund balance, beginning of year | 149,132 |
|---------------------------------|---------|

| | |
|---------------------------|------------|
| Fund balance, end of year | \$ 224,658 |
|---------------------------|------------|

See the independent auditor's report.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF SALARIES AND BONDS OF PRINCIPAL OFFICIALS
June 30, 2012

| <u>Name</u> | <u>Position</u> | <u>Annual Salary</u> | <u>Amount of Bond</u> |
|-----------------|-----------------|----------------------|-----------------------|
| Tim Wilson | Commissioner | None | \$ 500,000 |
| Essie Lovelady | Commissioner | None | 500,000 |
| Bill Sipes | Commissioner | None | 500,000 |
| Hoyt Hayes, Jr. | Commissioner | None | 500,000 |
| Bob Maniss | Commissioner | None | 500,000 |

See the independent auditor's report.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2012

| <u>Grant or Program</u> | <u>Grant Number</u> | <u>(Receivable) Unspent 7/1/2011</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Deposits on Contract (1)</u> | <u>(Receivable) Unspent 6/30/2012</u> |
|---|---------------------|--|-------------------|---------------------|-------------------------------------|---|
| State: | | | | | | |
| Tennessee Department of Transportation: | | | | | | |
| Airport Improvements | Z-09-21-3993-00 | \$ (4,769) | \$ 15,506 | \$ 9,663 | \$ 1,074 | \$ - |
| Airport Improvements | Z-09-21-4015-00 | - | 22,425 | 25,982 | 2,887 | (6,444) |
| Airport Improvements | Z-09-21-4020-00 | (1,992) | 1,992 | - | - | - |
| Airport Improvements | AERO-12-223-00 | - | - | 36,414 | 4,046 | (40,460) |
| Airport Improvements | AERO-12-139-00 | - | 9,400 | 73,100 | 8,122 | (71,822) |
| Airport Improvements | 3-47-SBGP-29 | - | 41,900 | 37,710 | 4,190 | - |
| Airport Improvements | AERO-11-188-00 | - | 51,000 | 50,004 | 5,556 | (4,560) |
| Airport Improvements | Z-10-22-0209-00 | (23,400) | 23,400 | 23,400 | - | (23,400) |
| Total State Financial Assistance | | \$ (30,161) | \$ 165,623 | \$ 256,273 | \$ 25,875 | \$ (146,686) |

(1) - Deposits on contracts consist of local match funds sent to the Tennessee Department of Transportation and held on deposit. These funds are returned to the Authority as grant drawdowns occur.

See the independent auditor's report.

JACKSON-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

| <u>Grant or Program</u> | <u>CFDA Number</u> | <u>Grant Number</u> | <u>(Receivable) Unspent 7/1/2011</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Deposits on Contracts (1)</u> | <u>(Receivable) Unspent 6/30/2012</u> |
|-----------------------------------|------------------------|-------------------------|--|--------------------------|--------------------------|--------------------------------------|---|
| Federal: | | | | | | | |
| U.S. Department of Transportation | | | | | | | |
| Passed through Tennessee | | | | | | | |
| Department of Transportation: | | | | | | | |
| Airport Improvements | 20.106 | 3-47-SBGP-38 | \$ - | \$ 156,920 | \$ 166,686 | \$ 18,449 | \$ (28,215) |
| Land Acquisition Agreement | 20.106 | DG-10-29290-00 | (197,840) | 197,840 | - | - | - |
| Total Federal Awards | | | <u>\$ (197,840)</u> | <u>\$ 354,760</u> | <u>\$ 166,686</u> | <u>\$ 18,449</u> | <u>\$ (28,215)</u> |

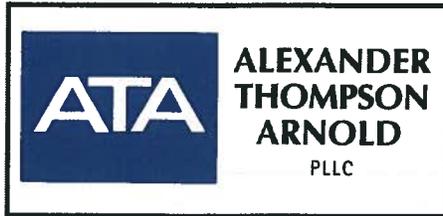
Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the Jackson-Madison County Airport Authority under programs of the federal government for the year ended June 30, 2012. The expenditures are presented using the modified accrual basis of accounting.

- (1) - Deposits on contracts consist of local match funds sent to the Tennessee Department of Transportation and held on deposit. These funds are returned to the Authority as grant drawdowns occur.

See the independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



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Kentucky 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***

Jackson-Madison County Airport Authority
McKellar-Sipes Regional Airport
Jackson, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Jackson-Madison County Airport Authority, Jackson, Tennessee (the Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 7, 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 the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously.

Jackson-Madison County Airport Authority
McKellar-Sipes Regional Airport
Jackson, Tennessee

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*.

This report is intended solely for the information of the Board of Directors, management, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive, flowing style.

Jackson, Tennessee
December 7, 2012

**JACKSON-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS**

June 30, 2012

**FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Current year findings:

None reported.

Prior year findings:

Finding 2011-01 – Issuance of long-term debt without legal authority (Corrected – no additional debt issued).