

Smyrna/Rutherford County Airport Authority

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

June 30, 2013 and 2012

CONTENTS

Roster of Public Officials	3
Independent Auditors' Report	4 - 5
Management's Discussion and Analysis	6 - 9
Basic Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Fund Position	11
Statements of Cash Flows	12 - 13
Notes to Financial Statements	14 - 21
Required Supplementary Information-Schedule of Funding Progress (Pension Plan)	22
Supplemental Information	
Auditors' Report on Supplemental Information	23
Schedule of Federal and State Financial Assistance	24
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based Upon an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	25 - 26
Schedule of Findings and Response	27 - 28

Smyrna/Rutherford County Airport Authority

ROSTER OF OFFICIALS

June 30, 2013

Board of Commissioners

J. Michael Woods
Helene Colvin
Steve Harrison
Graeme Coates
Paul Lamb

Chairman
Vice Chairperson
Commissioner
Commissioner
Commissioner

Executive Staff

John R. Black
Lois Vallance

Executive Director
Airport Manager

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners and Management
Smyrna/Rutherford County Airport Authority
Smyrna, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Smyrna/Rutherford County Airport Authority, as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Smyrna/Rutherford County Airport Authority, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 and the schedule of funding progress for the pension plan presented on page 22 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, on our consideration of the Smyrna Rutherford County Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smyrna Rutherford County Airport Authority's internal control over financial reporting and compliance.

Dempsey VanHorn & Folli PLLC

Murfreesboro, Tennessee
November 1, 2013

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, 2013. 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-65, 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 two runways with the longest being 8,048 feet, air traffic control, and ARFF capabilities, along with numerous aircraft hangars, and professional office space. It is centrally located to a large 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 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. Smyrna Airport houses a one-megawatt solar farm with 3,400 solar panels generating clean energy which goes directly on the grid for Middle TN Electric Membership Corporation. 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 industrial base, and be recognized by these groups as a valuable asset.

FINANCIAL OPERATIONS HIGHLIGHTS

Net assets decreased \$57,468 in 2013 as compared to an increase of \$637,227 in 2012 and a decrease in 2011 of \$1,424,298. The decrease in 2011 is primarily related to much higher depreciation expense. Depreciation declined in 2012 and 2013 due to the aging of the Authority's fixed assets. Depreciation was \$820,327 in 2013 and \$827,340 in 2012 and \$1,567,578 in 2011.

Authority lease revenue for the year ended June 30, 2013 totaled \$1,622,288 as compared to \$1,356,709 in 2012 and \$1,194,355 in 2011. This increase is attributable directly to the addition of several medium-sized tenants and slight improvements in current economic conditions. Air traffic is up 5% over last year which was up 14% over the previous year. Fuel flowage totaled 2,477,594 gallons which was the largest fuel flowage year ever reported. 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 modestly over the last three years to \$1,160,882 in 2013 from \$1,100,709 in 2012 and \$1,092,334 in 2011. Operating expenses were very consistent when comparing the current year to the prior year. The main increase in 2013 related to various maintenance projects. Non-operating income includes federal and state grant funding through the Tennessee Aeronautics Division. In 2012 the Authority obtained a large grant of overlay some taxiways. Interest expense was 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 statement of net position reports all the Authority's assets and liabilities, with the difference being reported as net position. 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 position 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 as improved economic conditions and new leases have helped to improve operating results 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,		
	2013	2012	2011
Operating revenues	\$ 1,703,371	\$ 1,438,985	\$ 1,194,355
Operating expenses	1,160,882	1,100,709	1,092,334
Operating income	542,489	338,276	102,021
Depreciation	818,797	827,340	1,567,578
Loss before non operating income(expense)	(276,308)	(489,064)	(1,465,557)
Non operating income	268,715	1,182,937	109,214
Non operating expense	(49,875)	(56,646)	(67,955)
Increase(decrease) in net position	<u>\$ (57,468)</u>	<u>\$ 637,227</u>	<u>\$ (1,424,298)</u>

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

	June 30,		
	2013	2012	2011
ASSETS			
Current assets	\$ 1,111,762	\$ 865,422	\$ 674,448
Property and equipment	27,868,795	28,217,193	27,841,622
Total assets	<u>\$ 28,980,557</u>	<u>\$ 29,082,615</u>	<u>28,516,070</u>
LIABILITIES			
Current and other liabilities	448,199	405,688	396,110
Long term debt	699,161	786,262	866,522
Total liabilities	1,147,360	1,191,950	1,262,632
NET POSITION			
Invested in capital assets, net of related debt	26,935,710	27,348,716	26,897,746
Unrestricted	897,487	541,949	355,692
Total net assets	<u>27,833,197</u>	<u>27,890,665</u>	<u>27,253,438</u>
Total liabilities and net position	<u>\$ 28,980,557</u>	<u>\$ 29,082,615</u>	<u>\$ 28,516,070</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL IMPROVEMENTS

The majority of the Authority's construction activities are financed with federal and state grants. The Authority normally must match a portion of those grants with funds from operations. The Airport's Capital Improvement Plan, approved by the State of Tennessee Aeronautics Division, includes further development of landside and airside property in the Airport Business Park, upkeep of the airfield to standards and repairs or improvements to 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, particularly the health insurance coverage. Scheduled for June 14-15, 2014, the Great Tennessee Airshow will feature the US Navy Blue Angels, if sequestration is reversed and the jet teams are permitted to fly in 2014. A *Learn to Fly Day*, *Young Eagles Program* and the *Smyrna Rotary Club's Wings of Freedom Fish Fry* are other venues to bring visitors to the airport in large numbers and instill a love of aviation in youngsters.

The Authority currently has 92% of all office space leased, while 100% of hangar space is occupied by tenants under lease. The Authority lease prices are competitive in order to attract viable lease customers.

Smyrna Airport has expansive ramp space which provides a safe refuge for aircraft normally stationed along US coastlines that are susceptible to hurricanes. This service generally provides increased aircraft operations and fuel sales. We also partner with other government agencies for emergency response/mutual aid exercises and training.

With the Authority's ARFF capabilities, various charters companies choose Smyrna for their operations, particularly when providing service for college teams. Heavy cargo aircraft operate into Smyrna to deliver their goods to local manufacturers and businesses.

The Authority has been successful in procuring funding from the Tennessee Aeronautics Division. The next airfield improvement project will entail the rehabilitation of taxiways B, C, D and a portion of J. Estimated at nearly \$3 million, the Authority will contribute 5% toward the cost. In addition, the Aeronautics Division has granted funds for the construction of a hangar and associated road, utilities, ramp and taxiway. Located at the northernmost end of Thunderbird Drive, this construction will be the catalyst to future hangar development and provide new sources of income for the Authority.

The Authority continues to market the Airport Business Park for further development which is critical to self-sustainment. 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

STATEMENTS OF NET POSITION

	June 30,	
	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 861,448	\$ 590,807
Certificate of deposit	100,000	100,000
Accounts receivable (no allowance for doubtful accounts considered necessary)	34,307	156,699
Grants receivable	116,007	17,916
Total current assets	<u>1,111,762</u>	<u>865,422</u>
Capital assets		
Land	18,149,969	18,149,969
Other capital assets, net of depreciation	9,525,151	10,067,224
Construction in progress	46,942	-
	<u>27,722,062</u>	<u>28,217,193</u>
Other assets		
Deposits on grants	146,733	-
	<u>\$ 28,980,557</u>	<u>\$ 29,082,615</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Current portion of long-term debt	\$ 87,191	\$ 82,215
Accounts payable	68,904	29,705
Accrued payroll and related liabilities	76,866	81,567
Total current liabilities	<u>232,961</u>	<u>193,487</u>
Long-term debt, less current portion	699,161	786,262
Other liabilities		
Deferred income and tenants' deposits	215,238	212,201
Total liabilities	<u>1,147,360</u>	<u>1,191,950</u>
Net position		
Invested in capital assets, net of related debt	26,935,710	27,348,716
Unrestricted	897,487	541,949
	<u>27,833,197</u>	<u>27,890,665</u>
	<u>\$ 28,980,557</u>	<u>\$ 29,082,615</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	For the Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Revenue		
Lease income	\$ 1,626,288	\$ 1,356,709
Other income	77,083	82,276
	<u>1,703,371</u>	<u>1,438,985</u>
 Operating expenses		
Administrative salaries	\$ 160,158	\$ 152,133
Office supplies and expense	9,740	7,660
Maintenance, building and grounds	73,585	39,993
Accounting and legal fees	33,150	33,150
Telephone	10,667	10,316
Marketing	9,870	9,056
Utilities	131,110	124,076
Insurance	96,409	104,281
Payroll taxes	40,982	35,937
Employee benefits	91,888	99,456
Retirement benefit plan	68,593	70,395
Maintenance salaries	153,129	152,003
Airfield maintenance expenses	74,962	74,628
Commissioner fees	18,581	18,598
Safety services salaries	161,704	155,139
Safety expenses	8,311	11,894
Miscellaneous expenses	18,043	1,994
	<u>1,160,882</u>	<u>1,100,709</u>
 Operating income before depreciation	542,489	338,276
 Provision for depreciation	<u>818,797</u>	<u>827,340</u>
 Operating loss	(276,308)	(489,064)
 Other non operating revenue and (expenses)		
Operating grants	46,966	23,400
Gain on sale of equipment	4,000	6,800
Interest income	1,173	1,905
Interest expense	(49,875)	(56,646)
	<u>2,264</u>	<u>(24,541)</u>
 Loss before capital contributions	(274,044)	(513,605)
 Capital grants	<u>216,576</u>	<u>1,150,832</u>
 Change in net position	(57,468)	637,227
 Net position, beginning of year	<u>27,890,665</u>	<u>27,253,438</u>
 Net position, end of year	<u>\$ 27,833,197</u>	<u>\$ 27,890,665</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash received from tenants	\$ 1,828,800	\$ 1,273,255
Cash paid to vendors and suppliers	(628,112)	(612,851)
Cash paid to employees	(498,272)	(465,613)
Net cash provided by operating activities	<u>702,416</u>	<u>194,791</u>
Cash flows from non-capital financing activities		
Proceeds from operating grants	<u>25,740</u>	<u>23,400</u>
Net cash provided by non-capital financing activities	25,740	23,400
Cash flows from capital and related financing activities		
Additions to property and equipment	(323,666)	(1,202,911)
Proceeds from sale of vehicles	4,000	6,800
Deposits on capital grants	(146,733)	-
Proceeds from capital grants	139,711	1,166,112
Principal payments on long-term debt	(82,125)	(75,399)
Interest paid	(49,875)	(56,646)
Net cash used by capital and related financing activities	<u>(458,688)</u>	<u>(162,044)</u>
Cash flows from investing activities		
Purchase of investments	(100,000)	(100,000)
Maturities of investments	100,000	100,000
Interest received	1,173	1,905
Net cash provided by investing activities	<u>1,173</u>	<u>1,905</u>
Net increase in cash and cash equivalents	270,641	58,052
Cash and cash equivalents, beginning of year	<u>590,807</u>	<u>532,755</u>
Cash and cash equivalents, end of year	<u>\$ 861,448</u>	<u>\$ 590,807</u>

See notes to financial statements

Smyrna/Rutherford County Airport Authority

STATEMENTS OF CASH FLOWS (Continued)

	For the Year Ended June 30,	
	2013	2012
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (276,308)	\$ (489,064)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	818,797	827,340
Decrease (increase) in accounts receivable	122,392	(148,202)
Increase in accounts payable	39,199	10,884
Increase in accrued payroll and related liabilities	(4,701)	11,361
Decrease in deferred income/tenants deposit	3,037	(17,528)
Total adjustments	978,724	683,855
Net cash provided by operating activities	\$ 702,416	\$ 194,791

See notes to financial statements

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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. Basis of Accounting

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. Operating revenues and expenses reflect the charges to tenants for airport use and the related costs of those services, excluding interest. All other revenues and expenses are non operating.

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, 2013, 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, 2013 and 2012

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.

8. Net Fund Position

The Authority's net investment in capital assets consists of the historical cost or value of donated assets, less accumulated depreciation, less debt related to acquiring assets. The Authority's remaining net fund position is unrestricted.

NOTE C - ACQUISITION OF AIRPORT

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

Real and tangible personal property	\$	49,407,346
Cash and accounts receivable		530,229
	<u>\$</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. The clean-up was completed and the Authority received a

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

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
Balance, June 30, 2012	\$ 18,149,969	\$ -	\$ 22,876,148	\$ 27,800,176	\$ 1,527,078	70,353,371
Additions	-	46,942	100,071	-	176,652	323,665
Retires	-	-	-	-	(4,505)	(4,505)
Balance, June 30, 2013	18,149,969	46,942	22,976,219	27,800,176	1,699,225	70,672,531
Accumulated depreciation						
Balance, June 30, 2012	-	-	17,174,350	23,919,276	1,042,552	42,136,178
Additions	-	-	304,417	387,848	126,532	818,797
Retires	-	-	-	-	(4,505)	(4,505)
Balance, June 30, 2013	-	-	17,478,767	24,307,124	1,164,579	42,950,470
Net assets, June 30, 2013	\$ 18,149,969	\$ 46,942	\$ 5,497,452	\$ 3,493,052	\$ 534,646	\$ 27,722,061

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%.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE E – LONG TERM DEBT(CONTINUED)

Maturities of long term debt are as follows:

Year ended June 30,		Principal	Interest
2014		\$ 87,191	\$ 44,809
2015		92,568	39,432
2016		98,278	33,722
2017		104,339	27,660
2018		113,073	17,859
2019-2023		275,994	41,551
2024		14,909	159
		<u>\$ 786,352</u>	<u>\$ 205,192</u>

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

	Balance June 30, 2012	Additions	Retires	Balance June 30, 2013
Capital outlay notes	\$ 868,477	-	(82,125)	\$ 786,352
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retires</u>	<u>June 30, 2012</u>
	\$ 943,876		(75,399)	\$ 868,477

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,	2014	\$ 1,113,918
	2015	935,284
	2016	782,355
	2017	710,551
	2018	672,356
	Thereafter	11,631,296
		<u>\$ 15,845,760</u>

Not included in the above lease totals are certain fuel flowage fees received from two tenants in 2013 and 2012; these fees amounted to approximately \$126,982 in 2013 and \$131,383 in 2012.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE G - MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Three tenants account for approximately 60% and 70% of lease revenue and other income for the year ended June 30, 2013 and 2012, respectively. Substantially all major tenants are in the aviation industry. At June 30, 2013 and 2012 outstanding accounts receivable from these customers was \$0 and \$94,824, 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 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, 2013 was 16.57% 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, 2013 and 2012 the Authority's annual pension cost of \$68,593 and \$72,256, respectively, to TCRS was equal to the Authority's required and actual contributions.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE H – PENSION PLAN(CONTINUED)

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, 2011 was 3 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost(APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/13	\$68,593	100.00%	\$ 0.00
6/30/12	\$70,395	100.00%	\$ 0.00
6/30/11	\$67,903	100.00%	\$ 0.00

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.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE H – PENSION PLAN(CONTINUED)

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.

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, 2013	From Inception
Federal grants	\$ 116,037	\$ 11,283,386
State grants	100,539	6,475,535
City of Smyrna	-	160,000
Rutherford County	-	437,215
	<u>\$ 216,576</u>	<u>\$ 18,356,136</u>

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.

Smyrna/Rutherford County Airport Authority
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE M – INVESTMENTS

The Authority has a certificate of deposit for \$100,000 at a local bank that bears interest at 0.6%. The certificate renewed in April 2013 and matures in September 2013. 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 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 schedule listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information and schedule is the responsibility of management and was 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 1, 2013

Smymrna/Rutherford County Airport Authority
 Schedule of State and Federal Financial Assistance
 Year Ended June 30, 2013

Granitor	CFDA#	Contract #	Grant Receivable June 30, 2012	Receipts	Expenditures	Local Match	Grant Receivable June 30, 2013
TN Dept of Transportation	N/A	75-555-0712-04	\$ -	\$ -	\$ 80,000	\$ 4,000 A	\$ 80,000
TN Dept of Transportation	N/A	75-555-0711-04	-	9,968	17,812	891 A	7,844
TN Dept of Transportation	N/A	75-555-0715-04	-	-	21,226	-	21,226
TN Dept of Transportation	N/A	Maintenance Grant	-	25,740	51,480	25,740	-
FEMA	97.036	34101-0000006492	17,916	17,916	-	-	-
U.S. Dept of Transportation- Airport Improvement Program	20.106	3-47-SBGP-44 75-555-0110-04 *	-	96,710	101,800	56,090	-
U.S. Dept of Transportation- Airport Improvement Program	20.106	3-47-SBGP-42 75-555-0109-04 *	-	22,192	29,130	2,185 A	6,937
Total federal and state awards			\$ 17,916	\$ 172,526	\$ 301,448	\$ 88,906	\$ 116,007

Basis of Presentation:
 This schedule is prepared on the accrual basis of accounting.

A local match is included in grant receivable since SRCAA advances match to TOA prior to grant start

***** State contract number- SRCAA is grant subrecipient
 State share of grant is 5%

**INDEPENDENT AUDITOR'S 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 Commissioners
Smyrna Rutherford County Airport Authority

We have audited, in accordance with the 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, the financial statements of the Smyrna Rutherford County Airport Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Smyrna Rutherford County Airport Authority basic financial statements and have issued our report thereon dated November 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Smyrna Rutherford County Airport Authority internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smyrna Rutherford County Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of Smyrna Rutherford County Airport's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smyrna Rutherford County Airport Authority's financial statements are free from 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*.

Smyrna Rutherford County Airport Authority's Response to Findings

Smyrna Rutherford County Airport Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. Smyrna Rutherford County Airport Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Danquay Vantase - Folli ACC

Murfreesboro, Tennessee
November 1, 2013

Smyrna/Rutherford County Airport Authority
SCHEDULE OF FINDINGS AND RESPONSES
For the Year ended June 30, 2013

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 #2013-1

<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, 2013 and 2012

Comments of Prior Audit Findings and Related Resolution

Finding #2012-1

<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.