

EVERETT-STEWART REGIONAL AIRPORT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2013

**EVERETT-STEWART REGIONAL AIRPORT
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EVERETT-STEWART REGIONAL AIRPORT
ROSTER OF OFFICIALS AND KEY MANAGEMENT EMPLOYEES
June 30, 2013

Obion County Mayor
Bennie McGuire

Weakley County Mayor
Houston Patrick

Board of Directors
Allen C. Gooch, chairman
Wayne McCreight, vice-chairman
Kay Stegall, secretary/treasurer
Jim Bondurant
Mike Holman
Kevin McAlpin
Stoney Orton

Key Management Employees
Jo Ann Speer – Manager

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American Institute of Certified Public Accountants
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AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Independent Auditor's Report

Board of Directors
Everett-Stewart Regional Airport
Union City, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Everett-Stewart Regional Airport as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport'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 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 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 governmental activities and the major fund of Everett-Stewart Regional Airport as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Everett-Stewart Regional Airport's basic financial statements. The introductory section and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and schedule of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and schedule of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013 on our consideration of the Airport'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 Everett-Stewart Regional Airport's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
December 27, 2013

**EVERETT-STEWART REGIONAL AIRPORT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET**

June 30, 2013

	General Fund	Adjustments (Note 2)	Statement of Net Position
ASSETS			
Cash	\$ 399,125	\$ -	\$ 399,125
Accounts receivable	42,759	-	42,759
Prepaid matching funds - grant	236,649	-	236,649
Inventory	32,484	-	32,484
Restricted cash - debt service	16,014	-	16,014
Capital assets (net of accumulated depreciation)			
Land	-	914,693	914,693
Work in progress	-	201,281	201,281
Buildings	-	1,122,756	1,122,756
Infrastructure	-	6,030,595	6,030,595
Equipment and vehicles	-	64,261	64,261
Total assets	\$ 727,031	\$ 8,333,586	9,060,617
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 23,212	\$ -	23,212
Retainage payable	32,240	-	32,240
Accrued expenses	5,263	-	5,263
Deferred revenue	1,019	-	1,019
Long-term liabilities			
Due within one year		23,976	23,976
Due in more than one year		263,596	263,596
Total liabilities	61,734	287,572	349,306
Fund balance/Net position			
Fund balance			
Nonspendable	32,484	(32,484)	-
Restricted - grant matching funds	236,649	(236,649)	-
Assigned - debt service	16,014	(16,014)	-
Assigned - next year's budget	11,831	(11,831)	-
Unassigned	368,319	(368,319)	-
Total fund balance	665,297	(665,297)	
Total liabilities and fund balance	\$ 727,031		
Net position			
Net investment in capital assets		8,046,014	8,046,014
Restricted for grants		236,649	236,649
Unrestricted		428,648	428,648
Total net position		\$ 8,046,014	\$ 8,711,311

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

EVERETT-STEWART REGIONAL AIRPORT
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

	General Fund	Adjustments Note 2	Statement of Activities
Expenditures/expenses:			
Fuel and related costs	\$ 387,521	\$ -	\$ 387,521
Maintenance and utilities	86,229	-	86,229
Administration	172,957	-	172,957
Capital outlay	934,298	(934,298)	-
Depreciation	-	400,421	400,421
Total expenditures/expenses	<u>1,581,005</u>	<u>(533,877)</u>	<u>1,047,128</u>
Program revenues:			
Charges for services	617,218	-	617,218
Operating grants and contributions	45,400	-	45,400
Capital grants and contributions	<u>1,154,495</u>	<u>(287,572)</u>	<u>866,923</u>
Total program revenues	<u>1,817,113</u>	<u>(287,572)</u>	<u>1,529,541</u>
Net program income	<u>236,108</u>	<u>246,305</u>	<u>482,413</u>
General revenues:			
Interest income	1,255	-	1,255
Miscellaneous income	<u>1,660</u>	-	<u>1,660</u>
Total general revenues	<u>2,915</u>	-	<u>2,915</u>
Change in fund balance/net position	<u>239,023</u>	<u>246,305</u>	<u>485,328</u>
Fund balance/net position			
Beginning of the year - as previously reported	426,274	7,789,309	8,215,583
Prior period adjustment	-	10,400	10,400
Beginning of the year - as restated	<u>426,274</u>	<u>7,799,709</u>	<u>8,225,983</u>
End of the year	<u>\$ 665,297</u>	<u>\$ 8,046,014</u>	<u>\$ 8,711,311</u>

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

**EVERETT-STEWART REGIONAL AIRPORT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL**

For the Year Ended June 30, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Fuel sales	\$ 563,527	\$ 431,181	\$ 429,826	\$ (1,355)
Federal grant revenue	204,000	74,128	198,340	124,212
USDA loan	287,572	287,572	287,572	-
State - grant revenue	2,556,113	987,079	635,663	(351,416)
State - airport maintenance program	23,400	23,400	14,887	(8,513)
Refund of local grant matching funds	-	-	8,582	8,582
Contributions from other governments	42,100	40,000	40,000	-
Lease/rentals	176,254	177,564	177,564	-
Interest income	2,147	997	1,255	258
Fees	50	215	215	-
Sales of pilot supplies, computer testing, vending, etc.	-	9,466	9,273	(193)
Miscellaneous refunds	20,995	995	1,660	665
Other	430	16,350	15,191	(1,159)
Total revenues	<u>3,876,588</u>	<u>2,048,947</u>	<u>1,820,028</u>	<u>(228,919)</u>
Expenditures				
Cost of pilot supplies, computer testing, vending, etc.	-	6,102	5,467	(635)
Airport manager	45,125	45,125	45,125	-
Fuel commissions	10,000	10,000	8,682	(1,318)
Other salaries and wages	45,640	45,640	44,443	(1,197)
Payroll taxes	7,133	7,133	7,213	80
Advertising	5,000	5,440	4,341	(1,099)
Audit services	3,500	6,250	6,250	-
Communication	4,400	4,642	4,642	-
Dues and memberships	2,000	2,143	2,898	755
Licenses	500	340	340	-
Maintenance/repair service - building	12,000	12,989	12,989	-
Maintenance/repair service - equipment	5,000	4,911	4,911	-
Maintenance/repair service - vehicles	2,000	592	592	-
Pest control	790	332	292	(40)
Postal charges	500	449	449	-
Printing and forms	575	248	217	(31)
Fuel truck expense	9,600	9,797	9,797	-
Travel and training	5,000	3,399	3,299	(100)
Disposal fees/garbage services	1,000	843	843	-
Other contracted services	22,000	11,167	15,807	4,640
Electricity	18,000	16,248	16,088	(160)
Equipment, machinery and parts	2,000	1,518	1,518	-
Fuel - gasoline	2,100	4,084	4,084	-
Fuel - aviation	476,770	362,611	363,476	865
Natural gas	1,200	1,442	1,442	-
Office supplies	2,000	2,214	-	(2,214)
Uniforms	1,000	1,097	1,097	-
Water and sewer	760	435	435	-
Other supplies and materials	6,480	7,441	7,585	144
Insurance	9,482	9,710	9,710	-
Other charges	18,115	16,974	14,425	(2,549)
Airport improvement	3,130,537	1,092,292	974,915	(117,377)
USDA loan payment	28,757	-	-	-
Other equipment	13,382	3,452	7,633	4,181
Total expenditures	<u>3,892,346</u>	<u>1,697,060</u>	<u>1,581,005</u>	<u>(116,055)</u>
Revenues over (under) expenditures	<u>\$ (15,758)</u>	<u>\$ 351,887</u>	<u>\$ 239,023</u>	<u>\$ (112,864)</u>

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

EVERETT-STEWART REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Reporting Entity

The Everett-Stewart Regional Airport is a joint venture between Obion County, Tennessee, and Weakley County, Tennessee. On December 1, 2006, an inter-local agreement between Obion and Weakley counties was enacted for the joint operation of the Airport, as authorized by Tennessee Code Annotated, Section 42-5-201, et.seq. The Airport Board is composed of seven members, with four members being appointed from Obion County and three members from Weakley County.

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

The Airport's financial statements have been prepared in conformity with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB).

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. 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.

The Airport is a special-purpose government; therefore, the government-wide and fund financial statements have been combined. The statement of net position and the governmental fund balance sheet reports information on all of the non-fiduciary activities of the Airport. The first column represents the general fund, which is the Airport's only fund. It accounts for all financial resources of the entity. The second column reflects the adjustments necessary to convert the amounts in the general fund to the accrual basis of accounting. The statement of activities and governmental fund revenues, expenditures and changes in fund balance reports the general fund activity adjusted to the accrual basis of accounting.

In general, federal and state grants, county contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and so 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.

C. Impact of Recently Issued Accounting Pronouncements

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred

EVERETT-STEWART REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the Airport had no deferred outflows or deferred inflows of resources as defined by GASB 63.

D. Assets, Liabilities and Fund Balance/Net Position

Deposits and Investments

The Airport's policies limit deposits and investments to those instruments allowed by applicable state laws. The Airport's cash on the balance sheet includes cash on hand, demand deposits and certificates of deposit at various financial institutions.

Accounts Receivable

Amounts due for fuel sales and hangar rent are recorded as accounts receivable.

Inventory

Inventory of fuel, maintenance supplies and miscellaneous items for resale are reported at cost using the first-in/first-out method.

Capital Assets

Capital assets are recorded as adjustments to the general fund column in the statement of net position and governmental funds balance sheet. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$10,000. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. For the year under examination, there were no interest costs capitalized.

Compensated Absences

The Airport has only one full-time employee that earns vacation. The Airport has determined that accumulated compensated absences are immaterial to the financial statements and, therefore, they have not been accrued.

Fund Balance/Net position

In the governmental fund financial statements, fund balance is classified as follows:

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.
- Assigned – amounts that are designated by the Board for a particular purpose but are not spendable until there is a majority vote approval by the Board.
- Unassigned – all amounts in the general fund not included in other spendable classifications.

As of June 30, 2013, the Airport had nonspendable fund balance for inventory and restricted fund balance for prepaid grant matching funds. There was assigned fund balance for amounts set aside for debt service and for the amount designated by the Board for use during the next fiscal year in the 2013-2014 budget.

EVERETT-STEWART REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

For the classification of fund balance and net position, the Airport first considers restricted amounts to have been spent when an expenditure is incurred for purposes in which both restricted and unrestricted resources are available. Further, the Airport considers committed, assigned, then unassigned amounts to have been spent when an expenditure is incurred for purposes in which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 2 – RECONCILIATION OF GOVERNMENTAL FUND STATEMENTS TO GOVERNMENT-WIDE STATEMENTS

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statement. However, the statement of net position includes those capital assets, net of accumulated depreciation. Also, long-term liabilities are not due and payable in the current period and as such, are not reported in the general fund. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources. Neither transaction has any effect on net position. During the year ended June 30, 2013, the Airport received \$287,572 in loan proceeds.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

According to the agreement regarding the operations of the Airport, the Airport board must submit a balanced annual operating budget to each County legislative body sixty days prior to the start of the fiscal year. The local expenditures of the Airport will be determined by the budget approved by the Counties. No purchase or expenditure in excess of the sum allotted in the annual budget may be made by the Board without the approval of the parties. This places the legal level of control at the fund level.

The Airport budgets on the cash basis, in that revenues and expenditures are budgeted as cash receipts and disbursements. However, for the current year, there were no material differences between the cash basis and the modified accrual basis. As a result, the budgetary statement is in agreement with the statement of revenues, expenditures and changes in fund balance prepared according to generally accepted accounting principles for governmental funds.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Cash Deposits with Financial Institutions

Custodial credit risk is the risk that in the event of a depository institution failure, the Airport's deposits may not be returned. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of 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 Airport's agent in the Airport's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Airport 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 at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2013, the Airport's bank deposits were fully insured or collateralized.

EVERETT-STEWART REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

B. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 914,693	\$ -	\$ -	\$ 914,693
Work in process	3,744,522	223,640	3,766,881	201,281
Capital assets being depreciated:				
Buildings	1,147,487	433,325	-	1,580,812
Infrastructure	6,506,386	3,977,790	-	10,484,176
Equipment and vehicles	59,964	66,424	-	126,388
Total capital assets being depreciated	<u>7,713,837</u>	<u>4,477,539</u>	<u>-</u>	<u>12,191,376</u>
Less accumulated depreciation for:				
Buildings	417,714	40,342	-	458,056
Infrastructure	4,108,372	345,209	-	4,453,581
Equipment and vehicles	47,257	14,870	-	62,127
Total accumulated depreciation	<u>4,573,343</u>	<u>400,421</u>	<u>-</u>	<u>4,973,764</u>
Governmental activities capital assets, net	<u>\$ 7,799,709</u>	<u>\$ 4,300,758</u>	<u>\$ 3,766,881</u>	<u>\$ 8,333,586</u>

C. Long-Term Debt

The Airport received \$143,786 each from Obion County and Weakley County from USDA loans procured by both counties to be passed through to the Airport. As a result, the Airport has a note payable to each county that matures on October 31, 2022, with monthly payments of \$1,332 each that began October 31, 2013, and zero percent interest. Scheduled principal payments for each of the next five years and thereafter are as follows:

For the year ended June 30, 2014	\$ 23,976
For the year ended June 30, 2015	31,968
For the year ended June 30, 2016	31,968
For the year ended June 30, 2017	31,968
For the year ended June 30, 2018	31,968
For the years 2019 through 2023	135,724
Total	<u>\$ 287,572</u>

The following is a summary of debt activity for the year ended June 30, 2013.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Note payable - Obion County	\$ -	\$ 143,786	\$ -	\$ 143,786	\$ 11,988
Note payable - Weakley County	-	143,786	-	143,786	11,988
Totals	<u>\$ -</u>	<u>\$ 287,572</u>	<u>\$ -</u>	<u>\$ 287,572</u>	<u>\$ 23,976</u>

EVERETT-STEWART REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 – OTHER INFORMATION

A. Risk Management

The Airport is exposed to various risks related to general liability, property and casualty losses, worker's compensation, and auto liability. The Airport has limited the effects of these risks with commercial insurance coverage for general liability and participation in public entity risk pools as part of Obion County's policies detailed below. The County bills the Airport for its proportionate share of these premiums. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

Property and casualty losses – Obion County participates in the Local Government Property and Casualty Fund (LGPCF), which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties. The LGPCF is to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims in excess of a specified amount for each insured event.

Workers' compensation insurance – Obion County also participates in the Local Government Workers' Compensation Fund (LGWCF), a public entity risk pool established under the provisions of Section 2920-401, TCA, by the Tennessee County Services Association to provide a program of workers' compensation coverage to employees of local governments. The LGWCF is to be self-sustaining through member premiums. The County bills the Airport for its proportionate share of the premiums. The LGWCF reinsures through commercial insurance companies for claims in excess of a specified amount for each insured event.

B. Operating Leases

Farm Land - The Airport leases 523 acres of farm land to two area farmers under 3-year lease contracts that expire December 31, 2014. Total rental income under these contracts for the year ended June 30, 2013, was \$122,292.

Land - The Airport entered into an agreement on May 18, 1999, to lease land to Vaughn Electric Company, Inc., for the construction of a private hanger. The term of the lease is twenty years with an option to renew the lease for an additional term of ten years. At the expiration of the lease agreement or the option period, the building will become the property of the Obion County Airport Commission. Payments for the lease received for the year ended June 30, 2013, were \$300. Future minimum lease payments for the remainder of the lease are \$300 per fiscal year.

Buildings - An agreement between Obion County, acting through the Obion County Airport Commission, allows West Tennessee Aviation, Inc., to lease space in the maintenance hangar with lean-to until December 31, 2013. The monthly rent is \$1,400. Total rent income under this contract was \$15,400 for the year ended June 30, 2013.

A lease was executed with Larry Russell of Russell's Flying Service to lease a portion of the north hanger for \$350 per month. The lease was in effect from January 1, 2009, to January 31, 2013, with an option to renew for an additional five years. Income under this lease for the year ended June 30, 2013, was \$4,200.

Effective June 1, 2006, the Airport entered into a lease agreement with Cutting Edge for a period of 5 years, with a monthly rental of \$100 and an option to renew at the same amount for an additional 5 years. Total rent received for the year ended June 30, 2013, was \$1,100.

EVERETT-STEWART REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Future annual minimum lease payments to be received under the operating leases described above for the next five fiscal years are:

Year ending June 30, 2014	\$137,091
Year ending June 30, 2015	67,196
Year ending June 30, 2016	5,600
Year ending June 30, 2017	4,500
Year ending June 30, 2018	2,400

C. Long-Term Agreements

The County of Obion, Tennessee, entered into a contract with the State of Tennessee on September 12, 1988, for the establishment and maintenance of an Automated Weather Observation System (AWOS) at Everett-Stewart Regional Airport. The State agreed to purchase, install and maintain the equipment necessary for the AWOS, and the County agreed to provide the site, electrical power source, electrical power service, telephone service installation and telephone service at no cost to the State.

The County of Obion, Tennessee, entered into a contract with the Federal Aviation Administration on March 10, 2000, for the installment and maintenance of an Instrument Landing System (ILS) at Everett Stewart Regional Airport. The FAA agreed to purchase, install and maintain the equipment necessary for the ILS, and the County agreed to provide the site.

D. Prior Period Adjustment

During the current year, it was discovered that a capital asset purchased in the prior year had not been capitalized. As a result, a prior period adjustment was made to increase beginning net position by \$10,400 to capitalize the piece of equipment. General fund balance was not affected by this adjustment.

SUPPLEMENTARY SCHEDULES

EVERETT-STEWART REGIONAL AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

<u>Grantor Agency/ Pass-through Agency/ Program Name</u>	<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Balance July 1, 2012 (Receivable)</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2013 (Receivable)</u>
U.S. Department of Transportation, Federal Aviation Administration/ Pass-through Tennessee Department of Transportation, Aeronautics Division/ Airport Improvement Program						
Runway Extension	20.106	66-555-0740-04	\$ (15,584)	\$ 18,160	\$ 2,576	\$ -
Clear Span Hangars	20.106	66-555-0153-04	-	195,764	195,764	-
Total Airport Improvement Program			<u>(15,584)</u>	<u>213,924</u>	<u>198,340</u>	<u>-</u>
U.S. Department of Agriculture, Rural Development/ Pass-through Obion County, Tennessee/ Rural Economic Development Loan and Grant Program						
	10.854		-	143,786	143,786	-
Pass-through Weakley County, Tennessee/ Rural Economic Development Loan and Grant Program						
	10.854		-	143,786	143,786	-
Total Department of Agriculture			<u>-</u>	<u>287,572</u>	<u>287,572</u>	<u>-</u>
Total federal awards			<u>\$ (15,584)</u>	<u>\$ 501,496</u>	<u>\$ 485,912</u>	<u>\$ -</u>

NOTE: The accompanying schedule was prepared on the modified accrual basis of accounting.

See independent auditor's report

**EVERETT-STEWART REGIONAL AIRPORT
SCHEDULE OF STATE FINANCIAL ASSISTANCE**

For the Year Ended June 30, 2013

<u>Grantor Agency/ Pass-through Agency/ Program Name</u>	<u>State Grant Number</u>	<u>Balance July 1, 2012 (Receivable)</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2013 (Receivable)</u>
Tennessee Department of Transportation, Aeronautics Division/					
Underground Tank Closure	66-555-0449-04	\$ (2,500)	\$ 4,735	\$ 2,235	\$ -
Runway Extention	66-555-0740-04	-	2,816	2,816	-
Clear Span Hangars	66-555-0153-04	-	194,229	194,229	-
Agricultural Development Area	66-555-0755-04	-	82,672	82,672	-
Airfield Electrical Components	66-555-0756-04	-	25,702	25,702	-
Drainage Improvements	66-555-0452-04	-	13,596	13,596	-
Ground Maintenance Equipment	66-555-0351-04	-	49,819	49,819	-
Taxi Lane Connector	66-555-0750-04	-	189,818	189,818	-
Maintenance - crack, seal and coat runway	66-555-0754-04	-	73,154	73,154	-
North Hangar Repair	66-555-0458-04	-	1,622	1,622	-
Total		<u>(2,500)</u>	<u>638,163</u>	<u>635,663</u>	<u>-</u>
Airport Maintenance Contract - prior year	99-555-1217-04	-	5,541	5,541	-
Airport Maintenance Contract - current year	99-555-1228-04	-	9,346	9,346	-
Total Maintenance Contracts		<u>-</u>	<u>14,887</u>	<u>14,887</u>	<u>-</u>
Total state assistance		<u>\$ (2,500)</u>	<u>\$ 653,050</u>	<u>\$ 650,550</u>	<u>\$ -</u>

NOTE: The accompanying schedule was prepared on the modified accrual basis of accounting.

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
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Independent Auditor's Report

Board of Directors
Everett-Stewart Regional Airport
Fulton, Kentucky

We have audited, 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, the financial statements of the governmental activities and the major fund of Everett-Stewart Regional Airport as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements, and have issued our report thereon dated December 27, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Everett-Stewart Regional Airport's 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 the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 as Item 13-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Everett-Stewart Regional Airport'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*.

Everett-Stewart Regional Airport's Response to Findings

Everett-Stewart Regional Airport's response to the finding identified in our audit is described in the accompanying schedule of findings. The Airport'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.

Alexander Thompson Arnold PLLC

Union City, Tennessee
December 27, 2013

EVERETT-STEWART REGIONAL AIRPORT
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2013

13-1 Segregation of Duties (repeat finding)

Condition: The Everett-Stewart Regional Airport cannot fully segregate the record-keeping, custodial and authorization functions of its internal controls due to the size of its staff.

Criteria: Management should design internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected. A fundamental concept in a good system of internal control is segregation of duties.

Effect: The risk of errors or fraud occurring and not being prevented or detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: We recommend that management and the board assess the Airport's current internal control system on an ongoing basis to ensure that accounting duties are being segregated to the extent possible and practicable. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

Management's Response: *Due to limited funding, it is not feasible for the Airport to employ additional employees in order to segregate duties. We have hired a part-time office assistant which helps with the segregation of duties. We have also contracted with a bookkeeper to further segregate financial duties. To avoid risk of errors, two signatures are required on all checks.*