

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**UPPER CUMBERLAND REGIONAL AIRPORT
SPARTA, TENNESSEE**

**For the Year Ended
June 30, 2011**

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INTRODUCTORY SECTION

**UPPER CUMBERLAND REGIONAL AIRPORT
ROSTER OF AIRPORT OFFICIALS
June 30, 2011**

Board of Directors:

Title

Wallace Austin

Chairman

Jeff Young

Bob Mackie

Secretary-Treasurer

Will Roberson

Matt Swallows

Mike Atwood

Management:

Title

Jim Kmet

Manager

Amanda Austin

Accountant

FINANCIAL SECTION

ALBERT R. DICUS

Certified Public Accountant

Member: AICPA; TSCPA

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Sparta, Tennessee 38583*

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Upper Cumberland Regional Airport
Sparta, Tennessee

I have audited the accompanying statement of net assets of the Upper Cumberland Regional Airport as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Upper Cumberland Regional Airport's management. My responsibility is to express an opinion on these financial statements based on my audit.

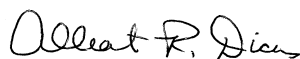
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Cumberland Regional Airport as of June 30, 2011, changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 30, 2012, on my consideration of the Upper Cumberland Regional Airport's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 14 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Government 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, and historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of Upper Cumberland Regional Airport. The information presented as "Introductory Section" and "Other Financial Information" in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information presented as "Other Financial Information" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information presented as the "Introductory Section" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.



Certified Public Accountant

Sparta, Tennessee
January 30, 2012

UPPER CUMBERLAND REGIONAL AIRPORT
750 Airport Road
Sparta, Tennessee 38583
931-739-7000

Wallace Austin, Chairman
Jeff Young
Will Roberson

Bob Mackie, Sec-Treasurer

Mike Atwood
Wallace Austin
Matt Swallows

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial statements allows management an opportunity to discuss and analyze the financial condition of the Upper Cumberland Regional Airport (UCRA) Summary financial statement data, key financial and operational indicators used in UCRA's budget, bond resolutions and other management tools were used for this analysis. This information should be read in conjunction with the accompanying financial statements and report of the independent auditor, Albert R. Dicus, CPA.

SUMMARY OF ORGANIZATION AND BUSINESS

The Upper Cumberland Regional Airport was established on April 2, 1993 to provide for joint ownership and management of the existing Sparta-White County Airport, in equal shares, by the Cities of Sparta and Cookeville and the Counties of White and Putnam.

The Airport is governed by a seven member Board of Commissioners. The governing body of each participating governmental entity appoints one member. The fifth and sixth members will be chief executive officers of the participating governmental entities, who will serve, in rotation, for two year, overlapping terms. The seventh member is by the T-Hanger Association, subject to the approval of the other members of the board.

The Airport's capital assets consist primarily of the Airport's land, runways, hangers and buildings.

The Airport receives financial support from each of the participating governments in equal amounts. In addition, the Airport's construction projects are generally financed by grants from the Federal Aviation Administration and State Department of Transportation. These grants generally require local matching funds ranging from 5% to 50%, depending on the grant. The Airport also receives reimbursement from the State for certain repair and maintenance expenses up to 50% of the total expenditures, not to exceed a predetermined amount. For the fiscal year ending June 30, 2011, the maximum reimbursement amount was \$23,400.

The Airport, itself, has no taxing authority. The Airport's revenues are derived from hanger rent and fuel flow fees.

THE ANNUAL FINANCIAL STATEMENTS

The financial statements report information about UCRA using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate regulated accounting principles applicable to the private sector utilities are not used by government utilities.

The financial statements include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of UCRA on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets 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 reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The statement also provides certain information about UCRA's recovery of its costs. UCRA's t-hangar rental rates are established by the Board of Commissioners based on changes in the industry and needs of the airport.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

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 UCRA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning.

**UPPER CUMBERLAND REGIONAL AIRPORT
CONDENSED STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND JUNE 30, 2010**

ASSETS	2011	2010	Variance	
			Amount	%
Current Assets	\$ 888,112.15	\$ 722,865.04	\$ 165,247.11	22.86%
Capital Assets	14,892,073.46	15,030,096.20	-138,022.74	-0.92%
TOTAL ASSETS	\$ 15,780,185.61	\$ 15,752,961.24	\$ 27,224.37	0.17%
LIABILITIES				
Current Liabilities	\$ 173,217.58	\$ 70,825.76	\$ 102,391.82	144.57%
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	\$ 14,720,140.56	\$ 14,960,420.66	\$ (240,280.10)	-1.61%
Restricted	217,560.95	314,622.19	-97,061.24	-30.85%
Unrestricted	669,266.52	407,092.63	262,173.89	64.40%
TOTAL NET ASSETS	15,606,968.03	15,682,135.48	-75,167.45	-0.48%
TOTAL LIABILITIES AND NET ASSETS	\$ 15,780,185.61	\$ 15,752,961.24	\$ 27,224.37	0.17%

**UPPER CUMBERLAND REGIONAL AIRPORT
CONDENSED STATEMENTS OF REVENUES, EXPENSES & CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE, 30, 2011 AND JUNE 30, 2010**

	2011	2010	Variance	
			Amount	%
Operating revenues:				
State reimbursement	\$ 23,400.00	\$ 22,703.52	\$ 696.48	3.07%
Rental income	111,358.00	96,026.00	15,332.00	15.97%
Air show revenue	-	32,265.31	(32,265.31)	-100.00%
Fuel flow fee	5,160.35	5,857.28	(696.93)	-11.90%
Miscellaneous income	794.69	13,694.94	(12,900.25)	-94.20%
Total Operating Revenue	\$ 140,713.04	\$ 170,547.05	\$ (29,834.01)	-17.49%
Non-operating revenues:				
Interest income	338.06	334.81	3.25	0.97%
Total Revenues	\$ 141,051.10	\$ 170,881.86	\$ (29,830.76)	-17.46%
Operating expenses:				
Airport Operations	\$ 113,487.39	\$ 96,619.59	\$ 16,867.80	17.46%
General and Administrative and Other	60,333.73	120,292.88	(59,959.15)	-49.84%
Depreciation	385,610.02	340,316.18	45,293.84	13.31%
Total Operating Expenses	559,431.14	557,228.65	2,202.49	0.40%
Decrease in Net Assets				
Before Capital Contributions	\$ (418,380.04)	\$ (386,346.79)	\$ (32,033.25)	8.29%
Capital contributions:				
Contributions from participating governments	112,000.00	112,000.00	-	0.00%
Grant income	231,212.59	1,255,770.83	(1,024,558.24)	-81.59%
In(De)crease in Net Assets	\$ (75,167.45)	\$ 981,424.04	\$ (1,056,591.49)	-107.66%
Net assets at July 1	15,682,135.48	14,700,711.44	981,424.04	6.68%
Net Assets at June 30	<u>\$15,606,968.03</u>	<u>\$ 15,682,135.48</u>	<u>\$ (75,167.45)</u>	<u>-0.48%</u>

FINANCIAL ANALYSIS

UCRA's financial condition remained strong at year-end with adequate liquid assets and a reasonable level of unrestricted net assets. UCRA continues to have no outstanding debt. Management believes the following information presented is important to understand the financial statements:

- Total assets at year-end were \$15,780,186 and exceeded liabilities (net assets) by \$15,606,968. Of the total net assets, \$669,267 was unrestricted and available to support short-term operations.
- Total assets increased from 2010 to 2011 by \$27,224(0.17%) and net assets decreased \$75,167 (-0.48%).Restricted decreased and unrestricted net assets increased by \$97,061 (-30.85%) and \$262,174 (64.40%), respectively.
- There was an increase in current assets from 2010, \$165,247 (22.86%).
- There was grant income of \$231,213 in 2011, a decrease of \$1,024,558from 2010. The significant decrease is due to the multiple construction projects that were completed.
- UCRA receives financial assistance from the state and federal government by way of grants for improvements and general maintenance as well as from all four participating governments for matching funds of grants and general operating expenses.

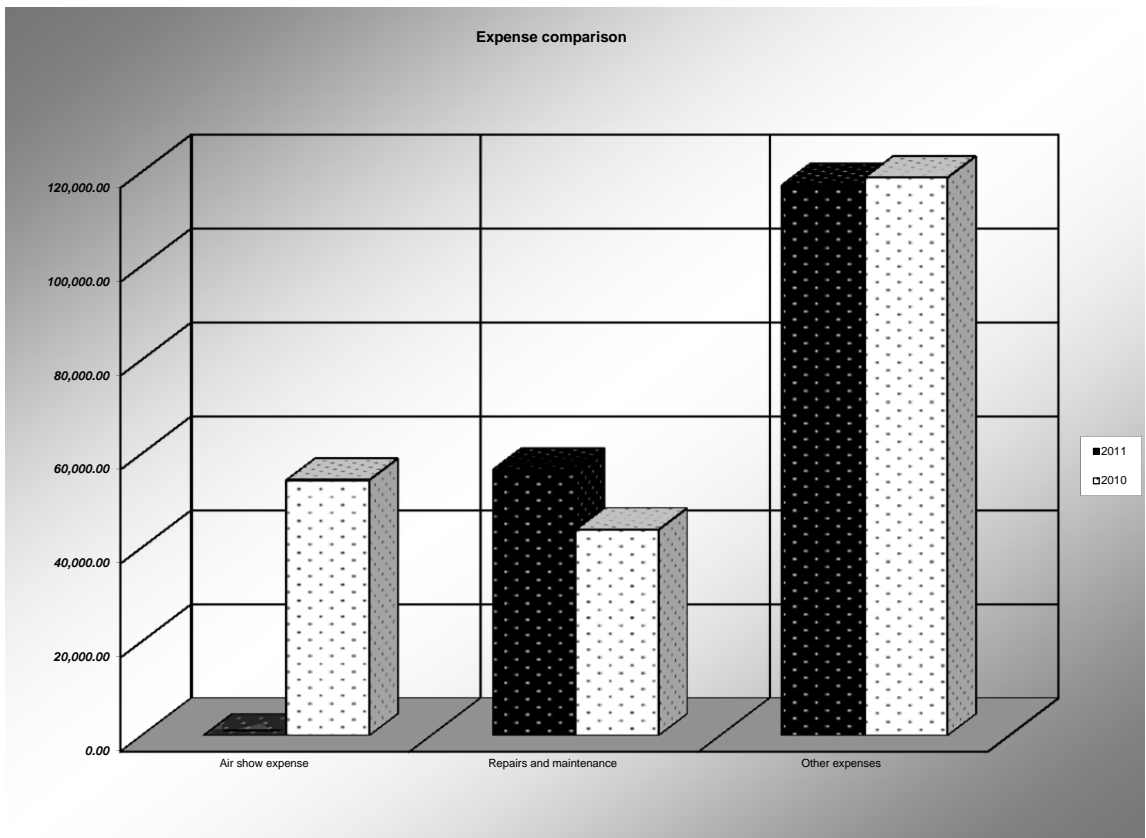
Results of Operations

Revenues from operations fall into four general categories: hanger rental, fuel flow fee, and state repair/maintenance reimbursement, and air show income.

- UCRA's hangar rental rates stayed at \$132 during the fiscal year.
- Operating revenues were \$140,713, a decrease of \$29,834 or -17.49%, from 2010. Decreases were the results of loss of income from the 2010 air show and miscellaneous income.
- Operating expenses before depreciation decreased by \$43,091, a decrease of 19.87% compared to 2010. This was a result of decreases in:

Upper Cumberland Regional Airport
 Management's Discussion and Analysis
 Page Six

	<u>2011</u>	<u>2010</u>	<u>Difference</u>	
Air show expense	\$ -	\$ 54,362	\$ (54,362)	126%
Repairs and maintenance	56,602	43,780	12,823	-30%
Other expenses	117,219	118,770	(1,552)	4%
Total	\$ 173,821	\$ 216,912	\$ (43,091)	100%



The significant decreases were air show expenses. Depreciation expense increased by \$45,294, or 13.31%.

- Operating loss for the year was \$418,718, \$32,037 more than 2010. The majority of this increase is the loss of depreciation. The decrease in the increase in net assets was a \$1,056,591 (107.66%) decrease when compared to 2010. This number significantly decreased because of the decrease in grant revenue of \$1,024,558.

Capital Contributions

UCRA receives financial support from each of the four participating governments. For the year ended June 30, 2011, the Airport received \$28,000 from each government, totaling \$112,000 for operating expenses. In addition, the Airport applies, as needed, for state and federal funding for various construction and improvement projects.

CAPITAL ASSETS

There was a net decrease of \$138,023 (-0.92%) in capital assets. Construction projects of the security lighting project and security fence project were completed in the 2010-2011 year. More detailed information about UCRA's capital activity is described in Note C in the accompanying notes to the financial statements.

DEBT

At June 30, 2011, UCRA had no debt bonds payable.

GENERAL TRENDS AND SIGNIFICANT EVENTS

The Upper Cumberland Regional Airport is working towards an air show in September 17, 2011. Planning began in October 2010. Revenues and expenses will be shown on the 2011-2012 financial statements.

Two projects were completed in the fiscal year. The security lighting project, which illuminates the parking lot, was completed in Fall 2010. The security fence project began and work was completed Spring 2011.

Occupancy of T-hangar rentals climbed to 100% capacity during the year after having 8 open vacancies July 2010.

Preliminary work began on a website for the airport. Kevin Liska, of the Tennessee Technological University Media Center, presented a report to the Airport Board. This will most likely be a multiyear project.

Lease negotiations began with Region Air LLC, fixed based operator, to clean up and clarify the old operating leases and amendments bought from Averitt Aviation with a new operating lease.

The airport manager traveled to Florida in January 2011 to market the airport and recruit commercial tenants. Several contacts were made for potential tenants.

There were two devastating lightning strikes in spring 2011. Damage to the runway, taxiway, glideslope, security system, and lightning regulators were approximately \$90,000. Insurance covered the majority of the repairs. This will be reflected in the 2011-2012 financial statements. Currently, bids are being taken on new lightning regulators to increase the capacity of any future problems

CONTACTING UCRA

The financial report is designed to provide our customers, creditors and regulatory agencies with a general overview of the Airport's finances. If you have any questions about this report or need additional information, you may contact the Airport at:

Jim Kmet
Upper Cumberland Regional Airport
750 Airport Road
Sparta, TN38583
(931) 739-7000

BASIC FINANCIAL STATEMENTS

**UPPER CUMBERLAND REGIONAL AIRPORT
STATEMENT OF NET ASSETS
June 30, 2011**

ASSETS

CURRENT ASSETS

Cash - Note B		\$ 666,490.20
Cash - restricted		206,191.60
Cash deposited with the state		10,946.58
Accounts receivable		2,501.00
Accounts receivable - State of Tennessee		422.77
Prepaid expenses		1,560.00
		1,560.00
		\$ 888,112.15

CAPITAL ASSETS - Note C

Capital assets	\$ 17,143,482.85	
Less accumulated depreciation	(3,351,588.85)	
	13,791,894.00	
Construction in progress	1,100,179.46	14,892,073.46
		\$ 15,780,185.61

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable		\$ 557.18
Accounts payable - construction		171,932.90
Accrued and withheld payroll taxes		727.50
		173,217.58
TOTAL CURRENT LIABILITIES	\$	173,217.58

NET ASSETS

Invested in capital assets, net of related debt	\$ 14,720,140.56	
Restricted for capital activity	217,560.95	
Unrestricted	669,266.52	15,606,968.03
		\$ 15,780,185.61

See the notes to financial statements.

UPPER CUMBERLAND REGIONAL AIRPORT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2011

Operating revenues:		
State repair and maintenance reimbursement	\$	23,400.00
Rental income		111,358.00
Fuel flow fee		5,160.35
Miscellaneous income		794.69
TOTAL OPERATING REVENUE	\$	140,713.04
Operating expenses:		
Utilities	\$	45,116.93
Repairs and maintenance		56,602.46
Professional fees		3,600.00
Insurance		11,768.00
Accounting		6,000.00
Office expense		2,213.51
Salaries		40,990.46
Payroll taxes		3,189.77
Depreciation expense		385,610.02
Miscellaneous		4,339.99
		559,431.14
OPERATING LOSS	\$	(418,718.10)
Non-operating revenues (expenses) -		
Interest income		338.06
DECREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	\$	(418,380.04)
Contributions from participating governments	\$	112,000.00
Grants		231,212.59
		343,212.59
DECREASE IN NET ASSETS	\$	(75,167.45)
Net assets at July 1, 2010		15,682,135.48
NET ASSETS AT JUNE 30, 2011	\$	15,606,968.03

See the notes to financial statements.

UPPER CUMBERLAND REGIONAL AIRPORT
STATEMENT OF CASH FLOWS
Year ended June 30, 2011

Cash flows from operating activities:

Receipts from customers		\$ 115,603.44
Receipts from other governments		31,482.63
Payments to suppliers		(130,693.71)
Payments to employees		(44,552.95)

**NET CASH USED BY
OPERATING ACTIVITIES** \$ (28,160.59)

Cash flows from noncapital financing -

Intergovernmental revenues		112,000.00
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Cash flows from capital and related financing activities:

Proceeds from grants	\$	300,038.82
Cash deposited with the state		47,631.98
Additions to fixed assets		(145,329.92)

**NET CASH PROVIDED BY CAPITAL
AND RELATED FINANCING ACTIVITIES** 202,340.88

Cash flows from investing activities:

Interest received		338.06
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**NET INCREASE IN CASH AND
CASH EQUIVALENTS** \$ 286,518.35

Cash and cash equivalents at July 1, 2010		586,163.45
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**CASH AND CASH EQUIVALENTS
AT JUNE 30, 2011** \$ 872,681.80

**Reconciliation of Operating Income
to Net Cash Provided by Operating Activities**

Operating loss		\$ (418,718.10)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		385,610.02
Changes in current assets and liabilities:		
Increase in accounts receivable	\$	(1,709.60)
Decrease in accounts receivable - State		8,082.63
Increase in prepaid expenses		(1,560.00)
Increase in accounts payable		507.18
Decrease in accrued and withheld payroll taxes		(372.72)

Net cash used by Operating Activities \$ (28,160.59)

See the notes to financial statements.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note A - Summary of Significant Accounting Policies

The accounting policies of the Upper Cumberland Regional Airport conform to generally accepted accounting principals as applicable to governments. Financial statements of the Airport are prepared in conformity with statements of the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

1. Reporting Entity

The Sparta-White County Airport Commission was created July 9, 1970 pursuant to Sections 42-321 through 42-325, Tennessee Code Annotated, for the purpose of providing a joint county and municipal airport for Sparta and White County, Tennessee. On April 2, 1993, the Upper Cumberland Regional Airport was established to provide for joint ownership and management of the existing Sparta-White County Airport, in equal shares, by the Cities of Sparta and Cookeville and the Counties of Putnam and White. The seven member board of the Airport is composed of one member appointed by each participating government; the chief executive officer of the participating governmental entities, who will serve, in rotation, for two year, overlapping terms; and a representative from the pilot's committee who is selected by the pilot's committee, subject to the approval of the other members of the board.

2. Individual Component Unit Disclosures

There are no legally separate components of the Upper Cumberland Regional Airport which meet the criteria for being reported as part of the primary government by either the blending method or by discrete presentation.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011**

Note A (Cont'd):

3. Basis of Accounting

The Airport uses the accrual method of accounting to prepare its financial statements.

The Airport has elected under Government Accounting Standards Board (GASB) Statement Number 20 to adopt all Financial Accounting Standards Board pronouncements applicable to local governments and GASB pronouncements issued through November 30, 1989, and only GASB pronouncements issued by GASB after November 30, 1989.

All activities of the Airport are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The accounting and financial reporting treatment applied to the Airport is determined by its measurement focus. The transactions of the Airport are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

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

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011**

Note A (Cont'd):

4. Capital Assets and Long-Term Liabilities

All capital assets are valued at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Cost consists of all direct costs related to construction or acquisition of capital assets. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs related to qualified expenditures for projects under development are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of the property, plant, and equipment, are expensed as incurred.

Capital policy for the Airport is items purchased or betterment, not repairs, in excess of \$1,000.00 and having a useful life of one year or more will be capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Runways, Hangers, Roads, Waterlines	40
Improvements	10
Buildings	20-40
Equipment	10-40

5. Cash equivalent

For purposes of the statement of cash flows, all highly liquid investments (including debt-service funds) with a maturity date of three months or less when purchased are considered to be cash equivalents.

6. Receivables and Revenues

Operating revenues consist of hanger rent, intergovernmental revenues, and other miscellaneous income.

Non-operating revenue consists of interest income earned on cash investments.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011**

Note A (Cont'd):

7. Contributions

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets when earned. Contributions include federal, state and local grants in support of system improvements.

8. Net Assets

Net assets contain the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified as invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt is all capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of the assets; debt related to unspent proceeds or other restricted cash and investments is not included in this determination. Restricted for capital activity and debt service includes net assets restricted by external parties such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. Unrestricted are the net assets that do not meet the definition of capital assets, net of related debt or restricted for capital activity and debt service.

9. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may vary from those estimates.

10. Budget

The Airport's Board must submit an annual operating budget to each party on or before April 1 of each year. The total expenditures of the Airport board in any fiscal year will be determined by the budget approved by all of the parties. The Airport's budgetary basis of accounting is consistent with generally accepted accounting principles.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011**

Note A (Cont'd):

11. Restricted Assets

Assets restricted for debt service represent cash maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the Airport or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions.

Assets restricted for capital activity represent cash and receivables funded through long-term debt and grant revenues that are payable to the contractor and are reported as liabilities payable from restricted assets.

Note B - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Airport's deposit policy for custodial risk is as follows:

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool.

The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the district.

The Airport is in compliance with the State of Tennessee laws regarding collateralized deposits.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011**

Note C – Capital assets activity during the year was as follows:

	Balance at July 1	Additions	Reductions	Balance at June 30
Capital Assets Not Being Depreciated:				
Land	\$ 2,453,581.28	\$ -	\$ -	\$ 2,453,581.28
Construction in progress	852,592.18	247,587.28	-	1,100,179.46
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 3,306,173.46	\$ 247,587.28	\$ -	\$ 3,553,760.74
Capital Assets Being Depreciated:				
Runways, Roads and Improvements	\$ 10,721,741.99	\$ -	\$ -	\$ 10,721,741.99
Hangers and Buildings	2,591,698.14	-	-	2,591,698.14
Equipment	1,376,461.44	-	-	1,376,461.44
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 14,689,901.57	\$ -	\$ -	\$ 14,689,901.57
Less Accumulated Depreciation for:				
Runways, Roads and Improvements	(1,908,132.47)	(269,502.15)	-	(2,177,634.62)
Hangers and Buildings	(668,062.26)	(65,715.53)	-	(733,777.79)
Equipment	(389,784.10)	(50,392.34)	-	(440,176.44)
TOTAL ACCUMULATED DEPRECIATION	\$ (2,965,978.83)	\$ (385,610.02)	\$ -	\$ (3,351,588.85)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, Net	\$ 11,723,922.74	\$ (385,610.02)	\$ -	\$ 11,338,312.72
CAPITAL ASSETS, NET	\$ 15,030,096.20	\$ (138,022.74)	\$ -	\$ 14,892,073.46

Depreciation expense was \$385,610.02.

CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2011 consisted of:

	<u>Actual to date</u>	<u>Remaining Commitment</u>
Runway Extension and Airport Improvements Phase III	\$ 1,017,323.20	\$ -
Security Improvements	82,856.26	27,143.74
	<u>\$ 1,100,179.46</u>	<u>\$ 27,143.74</u>

The above projects are funded from federal and state grants.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

June 30, 2011

Note D - The Airport is exposed to various risks related to property and casualty losses. The Airport has decided it is more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for property and casualty coverage. The Airport joined the Tennessee Municipal League Property Pool, which is a public entity risk pool established by the Tennessee Municipal League, an association of member municipalities. The Airport pays an annual premium to the TML Pool for its property and casualty insurance coverage. The creation of the TML Pool provides for it to be self-sustaining through member premiums. The TML Pool reinsures through commercial insurance companies for claims in excess of \$50,000.00 for each insured event.

The Airport continues to carry commercial insurance for its liability coverage. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note E - On March 12, 1998, the Board of Directors authorized an amendment to the lease and operating agreement with Averitt Aviation, Incorporated, for the Airport's terminal buildings, fueling system and the paved aircraft parking ramp space adjoining the terminal buildings. The agreement requires that the Lessee provide normal public access to the new terminal facility during normal business hours of the FBO except for access to the private offices of the FBO.

The agreement is for a period of five years, commencing on August 1, 1993, and continuing through July 31, 1998, with the option to extend the term of the agreement for two additional periods of five years.

On February 3, 2003, the Board of Directors authorized an extension of the operating agreement for two additional five-year terms. The Lessee agrees to pay to the Lessor, effective February 3, 2003, four cents per gallon of all fuel sold at the airport, including fuel sold to the Lessee.

On March 7, 2005, the Board of Directors authorized an amendment to the Lease and Operating Agreement that extends the agreement by ten years.

On September 2, 2008, the Board of Directors authorized an assignment of the lease and operating agreement from Averitt Aviation, Incorporated to Region Air, LLC. The new FBO assumed operation of the airport on November 1, 2008.

During the year, the Lessee paid \$5,160.35, in fuel flow fees to the Lessor.

**UPPER CUMBERLAND REGIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011**

Note F – The Upper Cumberland Regional Airport has commitments outstanding for two separate construction projects at June 30, 2011 that are being funded, in part, by federal and state grants. A summary of these projects is as follows:

<u>Project Description</u>	<u>Federal Portion</u>	<u>Local Match</u>	<u>Total</u>
Runway Extension and Airport Improvements Phase III	\$ 964,279.00	\$ 53,002.00	\$ 1,017,281.00
Security Improvements	99,000.00	11,000.00	110,000.00

Funds totaling \$247,587.28 were expended during the year ended June 30, 2011. Unexpended grant funds totaling \$27,143.74 were available to complete these projects.

Note G - There were no pending or threatened litigation against the Airport at June 30, 2011, for which the Airport has a potential liability.

OTHER FINANCIAL INFORMATION

**UPPER CUMBERLAND REGIONAL AIRPORT
SCHEDULE OF GRANT ACTIVITY
Year ended June 30, 2011**

<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>
<u>Federal Awards</u>			
FEDERAL AVIATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION			
20.106	93-555-0146-04 Z-09-21-3994-00	Airport Improvements Phase II	Federal Aviation Administration
TOTAL FEDERAL FINANCIAL ASSISTANCE			
<u>State Awards</u>			
STATE GRANTS			
	93-555-0745-04 Z-09-21-3989-00	Security improvements Taxi Lane	Tennessee Department of Transportation
	93-555-0736-04 Z-06-02-9416-01	2009-10 Airport Maintenance	Tennessee Department of Transportation
	99-555-1206-04 AERO M11-162	2009-10 Airport Maintenance	Tennessee Department of Transportation
TOTAL STATE GRANTS			

**UPPER CUMBERLAND REGIONAL AIRPORT
SCHEDULE OF GRANT ACTIVITY
Year ended June 30, 2011**

<u>Balance July 1, 2010</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2011</u>
\$ (65,906.76)	\$ 225,468.19	\$ 159,984.20	\$ (422.77)
<u>\$ (65,906.76)</u>	<u>\$ 225,468.19</u>	<u>\$ 159,984.20</u>	<u>\$ (422.77)</u>
\$ (3,342.24)	\$ 74,570.63	\$ 71,228.39	\$ -
(8,082.63)	8,082.63	-	-
<u>-</u>	<u>23,400.00</u>	<u>23,400.00</u>	<u>-</u>
<u>\$ (11,424.87)</u>	<u>\$ 106,053.26</u>	<u>\$ 94,628.39</u>	<u>\$ -</u>

ALBERT R. DICUS

Certified Public Accountant

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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

Board of Directors
Upper Cumberland Regional Airport
Sparta, Tennessee

I have audited the financial statements of Upper Cumberland Regional Airport as of and for the year ended June 30, 2011, and have issued my report thereon dated January 30, 2012. I conducted my 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 Upper Cumberland Regional Airport is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Upper Cumberland Regional Airport's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Upper Cumberland Regional Airport's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Upper Cumberland Regional Airport'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 combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Board of Directors
Upper Cumberland Regional Airport
Sparta, Tennessee

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Cumberland Regional Airport's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and the Board of Commissioners of the Upper Cumberland Regional Airport, and the Tennessee Comptroller's Office, Division of Municipal Audit and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

Sparta, Tennessee
January 30, 2012

UPPER CUMBERLAND REGIONAL AIRPORT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011

A: SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Upper Cumberland Regional Airport.
2. No significant deficiencies were disclosed during the audit of the financial statements of the Upper Cumberland Regional Airport.
3. No instances of noncompliance that are required to be reported under *Government Auditing Standards* were disclosed during the audit.