

**ELIZABETHTON MUNICIPAL AIRPORT**  
A Component Unit of the City of Elizabethton, Tennessee  
Elizabethton, Tennessee

Financial Statements and Other Financial Information  
For the Years Ended June 30, 2019 and 2018

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

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**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Airport Commission Members and Management**  
**June 30, 2019**

Airport Commission Members

William B. Greene, Jr.	Chairman
John E. Seward, Jr.	Vice-Chairman
Sam LaPorte	Commissioner
Pat McGinnis	Commissioner
Steve Sykes	Commissioner

Management

Daniel R. Cogan	Chief Operating Officer
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# Lewis & Associates, P.C.

— Certified Public Accountants —

Princeton Professional Building  
136 Princeton Road  
Johnson City, TN 37601

P: 423-926-5138  
Fax: 423-926-3949  
LewisCPAs.com

## INDEPENDENT AUDITORS' REPORT

To the City Council & Airport Commission  
City of Elizabethton, Tennessee  
Elizabethton Municipal Airport  
Elizabethton, TN

### Report on the Financial Statements

We have audited the accompanying financial statements of Elizabethton Municipal Airport (the Airport), a component unit of the City of Elizabethton, Tennessee, as of and for the years ended June 30, 2019 and 2018, 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.

### Auditors' 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 of 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 auditors' 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.



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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 financial position of Elizabethton Municipal Airport as of June 30, 2019 and 2018, and the changes in its financial position, and cash flows thereof 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 5-8 and the schedules related to the pension plans on pages 36-39, 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elizabethton Municipal Airport's basic financial statements. The introductory section, schedule of changes in long-term debt by individual issue, schedule of expenditures of federal awards and state financial assistance, and management corrective action plan are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of changes in long-term debt by individual issue and schedule of expenditures of federal awards and 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 changes in long-term debt by individual issue and schedule of expenditures of federal awards and state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and management corrective action plan have 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 them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019, on our consideration of Elizabethton Municipal 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Elizabethton Municipal Airport's 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 Elizabethton Municipal Airport's internal control over financial reporting and compliance.

*Lewis & Associates, P.C.*

Johnson City, Tennessee

November 7, 2019

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Management's Discussion and Analysis**  
**For Years Ended June 30, 2019 and 2018**

As financial management of the Elizabethton Municipal Airport (the Airport), a component unit of the City of Elizabethton, Tennessee, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2019 and 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

**Financial Highlights**

Management believes the Airport's financial condition continues to be strong. The Airport saw growth in most of its product lines in 2019, including gallons of fuel sold, hangar nights sold, vehicle storage fees, and airport user fees. Overall non-grant gross revenue increased by 10.6%. Total non-depreciation expenses increased 9.8% primarily due to increase in cost of fuel sold.

The Airport recognized an operating loss of \$24,406 for fiscal year 2019 compared to an operating loss of \$30,166 for fiscal year 2018. The decrease was caused primarily by increased fuel sales offset by increased repair and maintenance expense. Capital contributions were received from the State of Tennessee grants primarily for ongoing capital expansion projects in the amounts of \$110,904 and \$1,357,155 for fiscal years 2019 and 2018, respectively. Net income and capital contributions produced an increase in net position of 76,494 in 2019 compared to 1,318,172 in 2018. At the end of fiscal year 2019, the Airport had net position of \$12,415,079, an increase of 0.6% from \$12,338,585 at the close of fiscal year 2018.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Airport's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since the Airport consists of a single enterprise fund, no fund level financial statements are shown. In addition, the Airport has no infrastructure assets and is therefore exempt from required infrastructure disclosures. This report contains additional information concerning the Airport's expenditures of federal awards and state financial assistance and other required supplementary information related to pensions.

**Basic financial statements:** The basic financial statements are designed to provide readers with a broad overview of the Airport's finances in a manner similar to a private-sector business.

The statements of net position present information on all of the Airport's assets and liabilities, and deferred inflows/outflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Airport is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position which indicates an improved financial position.

The statements of revenue, expenses, and changes in net position present information showing how the Airport's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statements of cash flows present cash flows broken down into four categories: cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statements of cash flows relate these amounts to changes in cash balances from the beginning of the year to the end of the year.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

**Other information:** In addition to the financial statements and accompanying notes, this report also presents certain additional information concerning the Airport's expenditures of federal awards and state financial assistance, as well as required supplementary information related to the Airport's pension.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Management's Discussion and Analysis (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Financial Analysis**

Net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the Airport, assets exceeded liabilities by \$12,415,079 as of June 30, 2019. This represents an increase of \$76,494 (0.6%) from the prior year. The unrestricted net position was \$357,159.

The largest portion of the Airport's net position has historically been its capital assets including significant construction in progress.

The Airport's net position was as follows as of June 30, 2019 and 2018:

	2019	2018
Current assets	\$ 496,047	\$ 389,731
Capital assets	12,405,498	12,474,951
Restricted assets	45,885	52,501
Other noncurrent assets	255	255
Deferred outflow of resources	37,260	43,124
Total assets and deferred outflow of resources	12,984,945	12,960,562
Current liabilities	120,783	138,014
Long-term liabilities	433,325	472,731
Deferred inflows of resources	15,758	11,232
Total liabilities and deferred inflows of resources	569,866	621,977
Net position:		
Net investment in capital assets	12,013,260	12,051,576
Restricted for capital improvements	44,660	52,501
Unrestricted	357,159	234,508
Total net position	\$ 12,415,079	\$ 12,338,585

The Airport's changes in net position were as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Operating revenues	\$ 1,166,116	\$ 1,069,390
Operating expenses	1,190,522	1,099,556
Income (loss) from operations	(24,406)	(30,166)
Non-operating revenues (expenses):		
Interest income	228	127
Interest (expense)	(10,232)	(8,944)
TDOT grants	110,904	1,357,155
Total non-operating revenues	100,900	1,348,338
Increase in net position	76,494	1,318,172
Net position, beginning of year	12,338,585	11,020,413
Net position, end of year	\$ 12,415,079	\$ 12,338,585



**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Management's Discussion and Analysis (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Significant Events**

Transient traffic, especially during the spring and summer seasons, remains the area with the greatest growth potential. JetA and AvGas fuel sales were again the most important product lines, accounting for 64% of operating revenue. Airport leadership is actively recruiting new corporate customers and aviation related enterprises to base their operations from the Airport.

The Airport competed a major expansion project during the 2019 fiscal year. The \$1,354,000 project will increase the runway length by 481 feet, for a total useable runway of 5,000 feet. Included in that project was a new turn around area at the approach end of runway 24 as well as crack repair and seal coating of the entire runway. The runway surface is now in excellent condition and the repairs should last 7-10 years. This project should positively impact the Airport services, growth and finances for many years to come.

Airport leadership believes the longer runway combined with the Airport's reputation for excellent service are the main factors fueling the increase in sales.

Demand for hangar space continues to increase with the Airport's hangars being filled to capacity during the final months of fiscal year 2019. In addition, consumer demand for individual T-hangars continues to grow. The Airport currently has 26 of those units leased with 20+ currently on a wait list for space to come available. Traditionally, T-hangar lease holders have very little turnover, averaging less than one unit per year becoming available.

Construction plans were finalized and approved in 2019 for hangar door restoration and terminal upgrades related to Americans with Disabilities Act (ADA) compliance. These projects are scheduled to be completed in 2020. In addition, new grant money was acquired in 2019 for acquisition of a tree easement on the Eastern boundary of the Airport, engineering and survey work to plan future tree clearing needs, and routine maintenance of the grounds and terminal.

The growth of Airport operations and complexity of aircraft served created the need for more highly trained aviation service technicians. The Airport added three part-time positions for professional line service technicians in 2019. This brings the total staff size to 15, with six full-time personnel.

Future anticipated development for the Airport include projects to install an above ground fuel storage facility, enhance runway lighting, and develop a full length taxiway on the terminal side of the runway. All these project will be eligible for funding from the Tennessee Department of Transportation Aeronautics Division.

Elizabethton Municipal Airport is the airport of choice for several corporations whether they are airplanes based here or operate here when visiting the Tri-Cities. MedTrans (Wings Air Rescue), a 24 hour/7 day per week emergency medical services provider, is also a large year round corporate customer. Fractional and charter operators such as NetJets, FlexJets, Gamma Aviation, and Plane Sense are all large consumers of Airport products and services on a seasonal basis.

**Cash Flows**

Net cash provided by operating activities during the year ended June 30, 2019 was \$215,561, an increase of 34,667 from 2018 operating cash flows. There was no net cash from noncapital financing activities during the year ended June 20, 2019. Net cash from capital and related financing activities resulted in cash outlays of \$70,663 for the fiscal year 2019, a decrease of \$62,766 from the prior year. Interest earned on savings account in the amount of \$169 provided net cash from investing activities.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Management's Discussion and Analysis (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Capital Assets and Debt Administration**

Capital Assets: The Airports investment in capital assets amounted to \$12,405,498 as of June 30, 2019, a decrease of \$69,453. The decrease was primarily generated by depreciation. Capital assets include land and improvements, hangars and terminal buildings, and major movable operating equipment. It also includes construction in progress in the amount of \$1,360,331 consisting of ramp rehabilitation, airport layout plan, and runway extension projects.

Long-term Debt: The Airport had long-term debt in the amount of \$392,238 as of June 30, 2019, a decrease of \$7,762 from the prior year, from a loan which was obtained in July 2018 in the amount of \$400,000. The funds were used for local share funding required for Tennessee Department of Transportation Aeronautics development grants for ramp expansion and runway extension. These funds were also used to complete roof repairs associated with storm damage in excess of amounts reimbursed by insurance.

**Summary of Organization and Business**

Elizabethton Municipal Airport was created by Ordinance No. 864 for the City of Elizabethton, Carter County, Tennessee on September 1, 1965 under TCA Sect. 42-603 of the Tennessee Code. Operations began at that time. The Airport has five Commission members who are authorized to manage the Airport as authorized by the Charter of Incorporation. Each commission member shall be entitled to one vote on matters arising for determination and a majority of the Commission members shall constitute a quorum for the purpose of conducting business affairs and exercising its powers for all others purpose.

The Airport's funding is from hangar rentals, fuel sales, ancillary aviation services, and grants from the City of Elizabethton and State of Tennessee. The acquisition and construction of capital assets will be funded by grants and loans from the City and State governments, including some federal funding.

**Final Comments**

The Airport continues to excel at its primary mission to provide safe, efficient service to local, corporate, government, and transient aircraft owners, passengers, and pilots.

It is an integral part of the regional economic development initiatives. The Airport routinely provides aircraft services for corporations with operations locally and throughout the region. Furthermore, it is the arrival airport of choice for tourists spending time in the mountains of Eastern Tennessee and Western North Carolina.

The extensive capital improvement campaign with rehabilitations, expansions, and repairs currently undertaken by the Elizabethton Municipal Airport will provide a solid infrastructure for future growth and Airport operation for many years to come.

**Requests for Information**

This financial report is designed to provide a general overview of the Airport's finances for all interested parties. Questions concerning this report or requests for additional information should be directed to Manager, Elizabethton Municipal Airport, 415 Hwy. 91, Elizabethton, Tennessee 37643.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Statements of Net Position**  
**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 248,873	\$ 104,972
Accounts receivable	57,613	60,013
Inventory of fuel, oil, and supplies	44,561	42,870
Operating grants receivable	145,000	145,000
Capital contributions receivable	-	36,876
Total current assets	496,047	389,731
Noncurrent assets:		
Restricted assets:		
Grant local matching deposits	44,660	52,501
Stabilization Reserve Account	1,225	-
Total restricted assets	45,885	52,501
Other asset:		
Utility deposits	255	255
Capital assets:		
Land and land improvements	10,894,480	10,801,322
Hangars and terminal building	2,884,213	2,832,725
Major movable equipment	453,026	453,026
Construction in progress	1,360,331	1,321,979
Accumulated depreciation	(3,186,552)	(2,934,101)
Total capital assets, net	12,405,498	12,474,951
Total noncurrent assets	12,451,638	12,527,707
Total assets	12,947,685	12,917,438
<b>Deferred outflows of resources</b>		
Pension changes in investment earnings	25,351	23,562
Pension contributions after measurement date	11,909	19,562
Total deferred outflows of resources	\$ 37,260	\$ 43,124

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

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**  
**Statements of Net Position (Continued)**  
**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 39,617	\$ 58,713
Payroll taxes and other liabilities	12,755	8,123
Sales and use tax payable	3,552	3,873
Construction in progress payables	-	23,375
Accrued interest	653	2,570
Compensated absences	14,075	11,658
Unearned bulk fuel and rental revenue	31,135	21,872
Notes payable - current portion	18,871	7,705
T-Hanger deposits	125	125
Total current liabilities	120,783	138,014
Long-term liabilities:		
Notes payable, net of current portion	373,367	392,295
Net pension liability	44,341	67,129
Compensated absences, net of current portion	15,617	13,307
Total long-term liabilities	433,325	472,731
Total liabilities	554,108	610,745
<b>Deferred inflows of resources</b>		
Pension changes in experience	15,758	11,232
Total deferred inflows of resources	15,758	11,232
<b>Net Position</b>		
Net investment in capital assets	12,013,260	12,051,576
Restricted for capital improvements	44,660	52,501
Unrestricted	357,159	234,508
Total net position	\$ 12,415,079	\$ 12,338,585

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

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**  
**Statements of Revenue, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating revenue</b>		
Sales of Jet-A fuel	\$ 604,238	\$ 554,059
Sales of aviation gasoline	140,788	109,434
Rental income	237,173	214,677
Other income	24,617	31,920
Operating grants	159,300	159,300
Total operating revenue	<u>1,166,116</u>	<u>1,069,390</u>
<b>Operating expenses</b>		
Purchase of Jet-A fuel	339,427	306,863
Purchase of aviation gasoline	107,551	79,176
Salaries and wages	258,572	250,075
Payroll taxes	19,419	19,163
Employee benefits	36,210	50,728
Repairs and maintenance	50,159	23,267
Utilities	47,251	46,586
Insurance	23,608	24,835
Office expenses	6,402	8,474
Supplies	2,581	5,234
Telephone and communications	6,188	5,791
Credit card fees	12,296	10,659
Travel and entertainment	1,984	2,585
Dues and subscriptions	1,801	1,925
Professional Services	16,900	10,957
Other expenses	7,722	7,769
Depreciation	252,451	245,469
Total operating expenses	<u>1,190,522</u>	<u>1,099,556</u>
<b>Net operating loss</b>	(24,406)	(30,166)
<b>Other income (expenses)</b>		
Interest income	228	127
Interest expense	(10,232)	(8,944)
Total other income (expenses)	(10,004)	(8,817)
<b>Capital contributions</b>		
State of Tennessee	110,904	1,357,155
Total capital contributions	<u>110,904</u>	<u>1,357,155</u>
<b>Change in net position</b>	76,494	1,318,172
<b>Net position - beginning of year</b>	<u>12,338,585</u>	<u>11,020,413</u>
<b>Net position - end of year</b>	<u>\$ 12,415,079</u>	<u>\$ 12,338,585</u>

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

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Statements of Cash Flows**  
**For the Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 1,018,479	\$ 874,374
Cash received from operating grants	159,300	159,300
Cash paid for goods and services	(708,373)	(603,089)
Cash paid to employees	(253,845)	(249,691)
Net cash provided by operating activities	215,561	180,894
<b>Cash flows from capital and related financing activities</b>		
Principal paid on notes	(7,762)	(95,500)
Proceeds from issuance of long-term debt	-	400,000
Interest paid on debt service	(12,149)	(6,374)
Cash received from state and local governments	155,621	1,306,749
Construction of capital assets in progress	(61,727)	(1,333,579)
Purchase of capital assets	(144,646)	(404,725)
Net cash used by capital and related financing activities	(70,663)	(133,429)
<b>Cash flows from investing activities</b>		
Deposits to Stabilization Reserve Trust	(1,166)	-
Interest income	169	127
Net cash provided by investing activities	(997)	127
<b>Net increase (decrease) in cash</b>	143,901	47,592
<b>Cash - beginning of year</b>	104,972	57,380
<b>Cash - end of year</b>	\$ 248,873	\$ 104,972
 <b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income (loss)	\$ (24,406)	\$ (30,166)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	252,451	245,469
Changes in deferred outflows for pensions	5,864	(5,364)
Changes in deferred inflows for pensions	4,526	2,034
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,400	(23,918)
(Increase) decrease in inventory of fuel, oil and supplies	(1,691)	(5,690)
Increase (decrease) in accounts payable	(19,096)	10,559
Increase (decrease) in sales and use tax payable	(321)	2,908
Increase (decrease) in accrued payroll taxes	4,632	(4,828)
Increase (decrease) in unearned bulk fuel and rental revenue	9,263	(11,798)
Increase (decrease) in pension assets and liabilities	(22,788)	1,305
Increase (decrease) in compensated absences	4,727	383
Net cash provided by operating activities	\$ 215,561	\$ 180,894

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

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements**  
**For Year Ended June 30, 2019 and 2018**

**Note 1 – Summary of Significant Accounting Policies**

General Information

The Elizabethton Municipal Airport (the “Airport”) is a general aviation facility providing aeronautic access to Elizabethton, Carter County, and the surrounding areas. The Airport is noted for providing full service aviation services including refueling, maintenance, storage, and basic amenities. The Airport was authorized by the Board of Commissioners of the City of Elizabethton, Tennessee by Ordinance No.864 in 1965. It is governed by Title 20 of the Elizabethton Municipal Code and the general law regarding airport authorities as set forth in Tennessee Code Annotated sections 42-3-101 through 42-3-103 and 42-5-101 through 42-5-205.

Reporting Entity

The Airport is a component unit of the City of Elizabethton, Tennessee. The basic, but not the only, criteria for including a potential component unit within the primary government’s reporting entity is the primary government’s financial accountability for the potential component unit. A primary government is financially accountable if it appoints a voting majority of the organization’s governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens upon, the primary government. The Elizabethton Municipal Airport Commissioners are appointed for five-year terms by the Elizabethton City Council. The City of Elizabethton is responsible for all Airport indebtedness. Based upon the application of these criteria, the Airport is a component unit of the City of Elizabethton, Tennessee.

Basis of Presentation

The accounts of the Airport are organized on the basis of a proprietary fund type and are considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows and outflows, net position, and revenues and expenses, as appropriate. Government resources are allocated to and accounted for in the fund based on the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounts of the Airport are on an enterprise fund basis. An enterprise fund is a proprietary type fund used to account for operations that (1) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Airport operates as a singular enterprises fund.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Airport distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues are charges to aviation customers for facility usage and fuel sales. Operating expenses include the cost of fuel, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Definition of Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Airport considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents regardless of restrictions. Commercial bank certificates of deposits with initial maturities exceeding three months are not considered cash equivalents. As of June 30, 2019 and 2018, the Airport held no cash equivalents.

Account Receivable and Customer Revenues

Revenues are derived primarily from the aviation fuel sales and aircraft storage charges. Accounts receivable are the results of ordinary transactions in the normal course of business. Based on prior experience, management believes that all customer accounts will be collected. Other revenues are generated through operating and capital grants from the City of Elizabethton and State of Tennessee, respectively.

Inventories

Inventories of fuels and supplies are valued at cost based on a weighted-average cost flow assumption. The inventory is maintained on a basis and physical counts are conducted at regular intervals.

Capital Assets

Capital assets are defined by the Airport as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are stated at cost, net of accumulated depreciation and amortization. Donated assets are recorded at estimated fair market value at the date of donation. Depreciation is recorded using the straight line method with the following useful lives, as follows:

Land Improvements	15 years
Landscaping	20 years
Hanger Buildings	30 years
Hanger Contents	10-15 years
Equipment	7-15 years
Office Equipment	5 years
Vehicles	3 years

Assets that are retired or disposed of are removed from the books along with any accumulated depreciation and any resulting gain or loss is recognized at the time of disposal. The cost of repairs and maintenance that do not add value to the capital assets or extend the useful life of the capital assets are expensed when incurred.

Income Taxes

The Airport is a municipal airport organized and existing pursuant to the provisions of Tennessee Code Annotated 42-3-103 which is exempt from federal income taxes pursuant to 26 USC 115 relating to income of states, municipalities, etc.

Compensated Absences

As set forth by the policies of the City of Elizabethton, the Airport management accrues vacation and sick leave at a maximum rate of 10 hours per month and 8 hours per month, respectively. Accrued vacation leave is capped at a maximum of 360 hours and is payable upon resignation or retirement. Sick leave is not capped and is surrendered upon resignation or retirement.



**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Pensions – Legacy Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Elizabethton Municipal Airport's portion of the City of Elizabethton's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Airport's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Pensions – Hybrid Plan with Cost Controls

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Elizabethton Municipal Airport's portion of the City of Elizabethton – Hybrid with Cost Controls' participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Airport's portion of the Elizabethton – Hybrid with Cost Controls' fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Budgetary Accounting

The Airport Board of Commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with the basis used in preparing the Airport's financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenses) until then. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components as applicable: investment in capital assets, restricted net position, and unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation, and, if applicable, deferred outflows of resources, reduced by any outstanding debt attributable to the acquisition, construction, and improvement of those assets. Debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted net position consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Net Position Flow Assumption

Sometimes the Airport will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the Airport's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 statement of net position date and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Date of Management's Review

The Airport's management has evaluated events and transactions occurring subsequent to the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Note 2 - Cash**

Deposits on the balance sheet are comprised entirely of demand deposit, petty cash, and cash on hand to be deposited. The Airport's cash balance was \$248,873 and \$104,972 as of June 30, 2019 and 2018 and deposits in financial institutions were \$249,609 and \$109,066, respectively. Established policies require the Airport to follow the investments policies utilized by the City of Elizabethton, Tennessee.

Custodial Credit Risk

Financial instruments that potentially subject the Airport to concentrations of credit risk are primarily cash. The Airport's bank deposits are maintained in banks insured by the Federal Deposit Insurance Corporation up to \$250,000 and remaining amount of balances is covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department. The Tennessee Bank Collateral Pool (the "pool") is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss. The Airport's deposits in financial institutions were entirely insured or collateralized in accordance with state statute at June 30, 2019 and 2018.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 3 – Restricted Assets**

The grants awarded by the Tennessee Department of Transportation, described in Note 10, require that the Airport match the state funds in an amount ranging from 5% to 10% of the total grant awarded. The full amount of the local match is paid to the Tennessee Department of Transportation and is presented on the balance sheet as Local Grant Deposits. When grant disbursements are paid by the grantor agency, a portion of the disbursement represents a return of the Airport's deposits to be expended on the capital project. When the grant is closed, any unused deposits will be returned to the Airport. For the years ended June 30, 2019 and 2018, local grant matching deposits held by the state were \$44,660 and \$52,501, respectively.

**Note 4 – Capital Assets**

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance 6/30/18	Additions	Retirements/ Transfers	Balance 6/30/19
Capital assets not being depreciated:				
Land	\$ 5,239,338	\$ 22,140	\$ -	\$ 5,261,478
Construction in progress	1,321,979	55,603	(17,251)	1,360,331
Total capital assets not being depreciated	6,561,317	77,743	(17,251)	6,621,809
Capital assets being depreciated:				
Land improvement	5,561,984	71,018	-	5,633,002
Hangars and terminal building	2,832,725	51,488	-	2,884,213
Major moveable equipment	453,026	-	-	453,026
Total capital assets being depreciated	8,847,735	122,506	-	8,970,241
Accumulated depreciation:				
Land improvements	(1,265,569)	(143,393)	-	(1,408,962)
Hangars and terminal building	(1,255,636)	(90,190)	-	(1,345,826)
Major movable equipment	(412,896)	(18,868)	-	(431,764)
Total accumulated depreciation	(2,934,101)	(252,451)	-	(3,186,552)
Net capital assets being depreciated	5,913,634	(129,945)	-	5,783,689
Capital assets, net	\$ 12,474,951	\$ (52,202)	\$ (17,251)	\$ 12,405,498

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 4 – Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance 6/30/17	Additions	Retirements/ Transfers	Balance 6/30/18
Capital assets not being depreciated:				
Land	\$ 5,128,448	\$ 110,890	\$ -	\$ 5,239,338
Construction in progress	169,603	1,436,311	(283,935)	1,321,979
Total capital assets not being depreciated	5,298,051	1,547,201	(283,935)	6,561,317
Capital assets being depreciated:				
Land improvement	5,278,049	283,935	-	5,561,984
Hangars and terminal building	2,822,825	9,900	-	2,832,725
Major moveable equipment	453,026	-	-	453,026
Total capital assets being depreciated	8,553,900	293,835	-	8,847,735
Accumulated depreciation:				
Land improvements	(1,131,494)	(134,075)	-	(1,265,569)
Hangars and terminal building	(1,166,017)	(89,619)	-	(1,255,636)
Major movable equipment	(391,120)	(21,776)	-	(412,896)
Total accumulated depreciation	(2,688,631)	(245,470)	-	(2,934,101)
Net capital assets being depreciated	5,865,269	48,365	-	5,913,634
Capital assets, net	<u>\$ 11,163,320</u>	<u>\$ 1,595,566</u>	<u>\$ (283,935)</u>	<u>\$ 12,474,951</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$244,607 and \$245,470, respectively.

**Note 5 – Deferred Revenue**

The Airport has instituted a bulk rate fuel program offering a discount of \$0.20 per gallon on pre-purchases of Jet A fuel in excess of 250 gallons. The motivation for the bulk rate fuel program is to encourage operators to base at the Airport, attract more corporate users, provide cash flow for the Elizabethton Municipal Airport, and increase fuel sales. As of June 30, 2019, seven customers were utilizing the bulk fuel program.

**ELIZABETHTON MUNICIPAL AIRPORT**  
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**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 6 – Long-term Debt**

On May 31, 2007, management entered into a \$1,350,000 loan agreement with Carter County Bank to obtain funds to purchase certain properties adjacent to the Airport including the Moody Aviation property. This agreement was renewed with a promissory note for the remaining principal balance of \$495,500 dated December 30, 2012. This loan was paid in full during the year ended June 30, 2018.

On July 28, 2017, management entered into a loan agreement with Carter County Bank for up to \$450,000 to pay the Airport’s portion of expenditures related to ramp expansion. Payments of interest only were made until January 28, 2019 at which time 240 monthly installments will be paid beginning February 28, 2019. Interest will be fixed at 2.570% through January 28, 2024 and will be variable thereafter. For the year ended June 30, 2018, the Airport received advances of \$400,000

A summary of long term debt as of June 30, 2019 is as follows:

Obligation	Principal Balance 6-30-18	Additions	Retirements	Principal Balance 6-30-19
Ramp Expansion - 2018	\$ 400,000	\$ -	\$ (7,762)	\$ 392,238
	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ (7,762)</u>	<u>\$ 392,238</u>

Principal and total interest due for the next five (5) years and thereafter in five (5) year increments until maturity are as follows:

Fiscal Year	Principal	Interest	Annual Payments
2020	\$ 18,871	\$ 10,026	\$ 28,897
2021	19,396	9,501	28,897
2022	19,908	8,990	28,898
2023	20,432	8,465	28,897
2024	20,950	7,948	28,898
2025 - 2029	113,430	31,056	144,486
2030 - 2034	129,204	15,284	144,488
2035 - 2038	50,047	1,225	51,272
Totals	<u>\$ 392,238</u>	<u>\$ 92,495</u>	<u>\$ 484,733</u>

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 7 – Pension Plan – Legacy Plan**

**General Information about the Pension Plan**

Plan description

Employees of Elizabethton Municipal Airport are provided, through the City of Elizabethton, a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2018, there were three (3) active employees covered by the benefit terms. There were no inactive employees or beneficiaries either receiving or entitled to receive benefits. This plan is closed to new entrants.

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Of the current participants, one employee contributes 5% of salary and two employees are non-contributory. The Airport makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2019, the Actuarially Determined Contribution (ADC) for Elizabethton was \$20,763 based on a rate of 14.49 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the City of Elizabethton's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 7 – Pension Plan (continued)**

**Net Pension Liability (Asset)**

Pension liabilities (assets)

The City of Elizabethton’s net pension liability (asset) was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. The Airport’s net pension liability (asset) was calculated based upon its pro-rata participation in the plan.

Actuarial assumptions

The total pension liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 7 – Pension Plan (continued)**

**Net Pension Liability (Asset) (continued)**

Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Airport will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability (Asset)**

	<b>Total Pension Liability (Asset)</b>	<b>Increase (Decrease) Plan Fiduciary Net Position</b>	<b>Net Pension Liability (Asset)</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) – (b)</b>
<b>Balance at 6/30/17</b>	\$ 544,331	\$ 477,202	\$ 67,129
<b>Changes for the year:</b>			
Service cost	10,319	-	10,319
Interest	34,385	-	34,385
Differences between expected and actual experience	(13,187)	-	(13,187)
Changes in assumptions	-	-	-
Contributions- employer	-	19,562	(19,562)
Contributions – employee	-	1,750	(1,750)
Net investment income	-	33,910	(33,910)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(307)	307
Other changes	-	-	-
<b>Net changes</b>	<b>31,517</b>	<b>54,915</b>	<b>(23,398)</b>
<b>Balance at 6/30/18</b>	<b>\$ 575,848</b>	<b>\$ 532,117</b>	<b>\$ 43,731</b>



**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 7 – Pension Plan (continued)**

**Changes in the Net Pension Liability (Asset) (continued)**

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Airport calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Airport's net pension liability (asset)	\$ 104,492	\$ 43,731	(\$ 7,301)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension expense

For the year ended June 30, 2019, the Airport recognized pension expense of \$10,124.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2019, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 2,090	\$ 16,451
Net difference between projected and actual earning on pension plan investments	(6,587)	(715)
Changes in assumptions	18,603	-
Contributions subsequent to the measurement date of June 30, 2018	20,763	-
Total	\$ 34,869	\$ 15,736

The amount shown above as “Contributions subsequent to the measurement date of June 30, 2018” will be recognized as a reduction to net pension liability in the following measurement period.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 7 – Pension Plan (continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Deferred outflows of resources and deferred inflows of resources (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>	
2020	2,022
2021	(1,105)
2022	(4,285)
2023	(909)
2024	676
Thereafter	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**Note 8 – Pension Plan – Hybrid with Cost Controls**

**General Information about the Pension Plan**

Plan description

Employees of Elizabethton Municipal Airport are provided, through the City of Elizabethton – Hybrid Plan with Cost Controls, a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 60 and vested or pursuant to the rule of 80 in which the member's age and service credit total 80. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 8 – Pension Plan – Hybrid with Cost Controls (continued)**

**General Information about the Pension Plan (continued)**

Benefits provided (continued)

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Employees covered by benefit terms

At the measurement date of June 30, 2018, there were two (2) active employees covered by the benefit terms. There were no inactive employees or beneficiaries either receiving or entitled to receive benefits.

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Employees contribute 5% of salary. The Airport – Hybrid with Cost Controls makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees is reached. By law, employer contributions are required to be paid. The TCRS may intercept City of Elizabethton's state shared taxes if required employer contributions are not remitted. Employer contributions by the Airport – Hybrid with Cost Controls for the year ended June 30, 2019 to the Public Employee Retirement Plan were \$602 based on a rate of 1.36 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 8 – Pension Plan – Hybrid with Cost Controls (continued)**

**Net Pension Liability (Asset)**

The City of Elizabethton – Hybrid with Cost Controls’ net pension liability (asset) was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. The Airport – Hybrid with Cost Controls’ net pension liability (asset) was calculated based upon its pro-rata participation in the plan.

Actuarial assumptions

The total pension liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

**ELIZABETHTON MUNICIPAL AIRPORT**  
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**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 8 – Pension Plan – Hybrid with Cost Controls (continued)**

**Net Pension Liability (Asset) (continued)**

Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Airport will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability (Asset)**

	<b>Total Pension Liability (Asset)</b>	<b>Increase (Decrease) Plan Fiduciary Net Position</b>	<b>Net Pension Liability (Asset)</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) – (b)</b>
<b>Balance at 6/30/17</b>	\$ -	\$ -	\$ -
<b>Changes for the year:</b>			
Service cost	1,007	-	1,007
Interest	123	-	123
Differences between expected and actual experience	2,012	-	2,012
Changes in assumptions	-	-	-
Contributions- employer	-	1,073	(1,073)
Contributions – employee	-	1,342	(1,342)
Net investment income	-	262	(262)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(145)	145
Other changes	-	-	-
<b>Net changes</b>	<b>3,142</b>	<b>2,532</b>	<b>610</b>
<b>Balance at 6/30/18</b>	<b>\$ 3,142</b>	<b>\$ 2,532</b>	<b>\$ 610</b>

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 8 – Pension Plan – Hybrid with Cost Controls (continued)**

**Changes in the Net Pension Liability (Asset) (continued)**

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Airport calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Airport's net pension liability (asset)	\$ 157	\$ 610	\$ 942

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension expense

For the year ended June 30, 2019, the Airport recognized pension expense of (\$1,158).

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2019, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,790	\$ -
Net difference between projected and actual earning on pension plan investments	-	(22)
Changes in assumptions	(1)	-
Contributions subsequent to the measurement date of June 30, 2018	602	-
Total	\$ 2,391	\$ (22)

The amount shown above as “Contributions subsequent to the measurement date of June 30, 2018” will be recognized as a reduction to net pension liability in the following measurement period.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 8 – Pension Plan – Hybrid with Cost Controls (continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Deferred outflows of resources and deferred inflows of resources (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>	
2020	(79)
2021	(79)
2022	(79)
2023	(81)
2024	(83)
Thereafter	(478)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**Note 9 – TCRS Stabilization Trust**

**Legal Provisions.** The Elizabethton Municipal Airport is a member of the Tennessee Consolidated Retirement System (TCRS) Stabilization Reserve Trust. The Airport has placed funds into the irrevocable trust as authorized by statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the trust. Funds of trust members are held and invested in the name of the trust for the benefit of each member. Each member's funds are restricted for the payment of retirement benefits of that member's employees. Trust funds are not subject to the claims of general creditors of the Airport.

The trust is authorized to make investments as directed by the TCRS Board of Trustees. The Airport may not impose any restrictions on investments placed by the trust on their behalf.

**Investment Balances.** Assets of the TCRS, including the Stabilization Reserve Trust, are invested in the Tennessee Retiree Group Trust (TRGT). The TRGT is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool's underlying portfolio. Furthermore, TCRS had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 9 – TCRS Stabilization Trust (continued)**

Investments are reported at fair value or amortized which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value. Securities and securities transactions are recorded in the financial statements on a trade-date basis. The fair value of assets of the TRGT held at June 30, 2019, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to –principal market; and Level 1 assets or liabilities that are adjusted.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments using the Net Asset Value (“NAV”) per share have no readily determinable fair value and have been determined using amortized cost which approximates fair value.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety is categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management of the TRGT developed a fair value committee that worked in conjunction with the plan’s custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes so to be represented in the table below.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

US Treasury Bills, Bonds, Notes, and Futures classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Debt and debt derivative securities classified in Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 debt securities are valued using proprietary information, a single pricing source, or other unobservable inputs related to similar assets or liabilities.

Real estate investments classified in Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute (“MAI”), or its equivalent, every three (3) years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments in private mutual funds, traditional private equity funds, strategic lending funds and real estate funds that report using GAAP, the fair value, as well as the unfunded commitments, were determined using the prior quarter’s NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.



**ELIZABETHTON MUNICIPAL AIRPORT**  
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**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 9 – TCRS Stabilization Trust (continued)**

At June 30, 2019, The Airport had the following investments held by the trust on its behalf:

Investment	Weighted Average Maturity (days)	Maturities	Fair Value
Investments at Fair Value:			
U.S. Equity	N/A	N/A	\$ 380
Developed Market International Equity	N/A	N/A	171
Emerging Market International Equity	N/A	N/A	49
U.S. Fixed Income	N/A	N/A	245
Real Estate	N/A	N/A	123
Short-term Securities	N/A	N/A	12
Investments at Amortized Cost using the NAV:			
Private Equity and Strategic Lending	N/A	N/A	245
Total			<u>\$ 1,225</u>

Investments by Fair Value Level	Fair Value 6/30/19	Fair Value Measurements Using			Amortized Cost
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV
U.S. Equity	\$ 380	\$ 380	\$ -	\$ -	-
Developed Market International Equity	171	171	-	-	-
Emerging Market International Equity	49	49	-	-	-
U.S. Fixed Income	245	-	245	-	-
Real Estate	123	-	-	123	-
Short-term Securities	12	-	12	-	-
Private Equity and Strategic Lending	245	-	-	-	245
Total	<u>\$ 1,225</u>	<u>\$ 600</u>	<u>\$ 257</u>	<u>\$ 123</u>	<u>\$ 245</u>

**ELIZABETHTON MUNICIPAL AIRPORT**  
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**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 9 – TCRS Stabilization Trust (continued)**

**Risks and Uncertainties.** The trust's investments include various types of investment funds, which in turn invest in any combination of stock, bonds and other investments exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments securities will occur in the near term and that such changes could materially affect the amounts reported for trust investments.

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Airport does not have the ability to limit trust investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Airport does not have the ability to limit the credit ratings of individual investments made by the trust.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of the county's investment in a single issuer. The Airport places no limit on the amount the trust may invest in one issuer.

**Custodial Credit Risk.** Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Pursuant to the trust agreement, investments are held in the name of the trust for the benefit of The Airport to pay retirement benefits of the Airport employees.

For further information concerning the Airport's investments with the TCRS Stabilization Reserve Trust, audited financial statements of the Tennessee Consolidated Retirement System may be obtained at <https://comptroller.tn.gov/content/dam/cot/sa/advanced-search/disclaimer/2019/ag18092.pdf>

**Note 10 – Capital Grants Awarded**

The Airport has been awarded the following cost reimbursement grant contracts from the Tennessee Department of Transportation for capital improvements. Each grant contains a local match requirement ranging from 5-10% of the total grant. The Airport submits payment of the matching funds to the Tennessee Department of Transportation prior to receiving any disbursements from the grant. Accordingly, all subsequent grant disbursements received by the Airport represent a revenue portion and a pro-rata return of matching funds. As of June 30, 2019, the following grants remain open and are available for future capital expenditures:

- The Runway Extension Environmental Assessment and Runway Design grant was awarded November 16, 2014 and expires November 15, 2019. The total grant is in the amount of \$250,000 (with \$12,500 local share paid by the Airport) and is partially funded by federal funds (CFDA #20.106). For the year ended June 30, 2019, the Airport received disbursements of \$8,250 and recognized revenue of \$7,838. For the year ended June 30, 2018, the Airport received disbursements of \$109,546 and recognized revenue of \$104,069. As of June 30, 2019, grant funds in the amount of \$40,470 remain available for future expenditures.
- The Runway Extension R/W 24 grant awarded March 31, 2017 in the amount of \$1,354,000 was increased to \$1,423,000 (with total of \$169,900 local share paid by the Airport) during the year ended June 30, 2018 and is partially funded by federal funds (CFDA #20.106). For the year ended June 30, 2019, the Airport received disbursements of \$48,029 and recognized revenue of \$43,226 under this grant. For the year ended June 30, 2018, the Airport received disbursements of \$1,278,644 and recognized revenue of \$1,129,008 under this grant. As of June 30, 2019, grant funds in the amount of \$96,327 remain available for future expenditures.
- Hangar Door Replacement grant was awarded March 20, 2018 in the amount of \$150,000 (with \$7,500 local share paid by the Airport) and is partially funded by federal funds (CFDA #20.106). For the year ended June 30, 2019, the Airport received disbursements of \$19,990 and recognized revenue of \$18,990. No disbursements or revenue were recognized from this grant for the year ended June 30, 2018. This project was closed during the year ended June 30, 2019 and the Airport received a refund of its local share in the amount of \$6,500.

**ELIZABETHTON MUNICIPAL AIRPORT**  
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**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 10 – Capital Grants Awarded (continued)**

- Terminal Renovations grant was awarded March 20, 2019 in the amount of \$150,000 (with \$7,500 local share paid by the Airport) and is partially funded by federal funds (CFDA #20.106). For the year ended June 30, 2019, the Airport received disbursements of \$32,036 and recognized revenue of \$30,434. No disbursements or revenue were recognized from this grant for the year ended June 30, 2018. Grant funds in the amount of \$117,964 remain available for future expenditures as of June 30, 2019.
- Powerline Relocation grant was awarded December 27, 2017 in the amount of \$98,500 (with \$4,925 local share paid by the Airport) and is partially funded by federal funds (CFDA #20.106). For the year ended June 30, 2019, the Airport received disbursements of \$7,574 and recognized revenue of \$7,195 under this grant. For the year ended June 30, 2018, the Airport received disbursements of \$4,220 and recognized revenue of \$4,009 under this grant. As of June 30, 2019, grant funds in the amount of \$86,706 remain available for future expenditures.
- Airport Layout Final Revision grant was awarded July 1, 2017 in the amount of \$8,175 (with \$409 local share paid by the Airport). For the year ended, June 30, 2019, the Airport received disbursements of \$3,389 and recognized revenue of \$3,219. For the year ended June 30, 2018, the Airport received disbursements of \$4,786 and recognized revenue of \$4,547 under this grant. This grant has been fully expended and is closed.
- ADA Compliance Terminal Renovation grant was awarded May 6, 2019 in the amount of \$252,457 (with \$12,623 local share paid by the Airport) and is partially funded by federal funds (CFDA #20.106). As of June 30, 2019, no disbursements have been received and no revenue has been recognized under this grant.
- A new Hangar Door Replacement grant was awarded May 6, 2019 in the amount of \$123,532 (with \$6,176 local share paid by the Airport) and is partially funded by federal funds (CFDA #20.106). As of June 30, 2019, no disbursements have been received and no revenue has been recognized under this grant.
- Obstruction Removal Preliminary Engineering grant was awarded June 6, 2019 in the amount of \$18,897 (with \$945 local share paid by the Airport). As of June 30, 2019, no disbursements have been received and no revenue has been recognized under this grant.
- Easement Acquisition grant was awarded July 7, 2019 in the amount of \$63,000 (with \$3,150 local share paid by the Airport). As of June 30, 2019, no disbursements have been received and no revenue has been recognized under this grant.

**Note 11 – Major Customers**

For the fiscal years ended June 30, 2019 and 2018, one customer comprised 23% and 20% of total sales, respectively. For the fiscal years ended June 30, 2019 and 2018, one customer comprised 16% and 33% of non-grant accounts receivables, respectively.

**Note 12 – Maintenance Grant**

The Airport received grant funds from Tennessee Division of Aeronautics providing for a partial reimbursement of qualifying maintenance expenditures. The Airport recognized operating revenues from this grant in the amount of \$14,300 for each of the years ended June 30, 2019 and 2018.

**ELIZABETHTON MUNICIPAL AIRPORT**  
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**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 13 – Operating Leases**

The Airport entered into a lease agreement for a fuel truck beginning February 1, 2019, at a monthly rate of \$800, for a 60-month lease period ending January 30, 2023. Total leased equipment expense amounted to \$9,600 for the year ended June 30, 2019.

The following is the required minimum lease payments for the lease periods ending:

Year Ending June 30	Amount
2020	\$ 9,600
2021	9,600
2022	9,600
2023	5,600
	<u>\$ 34,400</u>

**Note 14 – Related Party Transactions**

The airport Conducts transactions with businesses and individuals identified as related parties. The following is a summary of those transactions for the years ended June 30, 2019 and 2018.

- Two of the airport commissioners also serve on the board of the financial institution where the Airport maintains its bank deposits accounts and long-term debt as described in Note 6. Interest rates paid on deposit balances and notes payable were the prevailing rates offered to the public.
- Certain commissioners and other related parties rent hangar space and purchase fuel, at the same prevailing market rates, including discounts for bulk prepayment, which are available to all aircraft owners and operators. Revenues from fuel purchases and hangar rent from related parties for the years ended June 30, 2019 and 2018 were \$71,406 and \$96,642, respectively.
- The Airport purchases utilities from Elizabethton Electric Department and Elizabethton Water & Sewer which are enterprise funds of the City of Elizabethton, of which the Airport is a component unit. The Airport paid regular market rates for these services. Utilities purchased for the years ended June 30, 2019 and 2018 were \$43,091 and \$38,819, respectively.
- Flight school operations are outsourced to a company which is 50% owned by a member of management. This company pays the Airport 5% of all flight school revenues. For the years ended June 30, 2019 and 2018, the Airport received revenues from the flight school in the amount of \$6,090 and \$3,130, respectively.
- The Airport received appropriations from the City of Elizabethton in the amount of \$145,000 for each of the years ended June 30, 2019 and 2018.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Notes to the Financial Statements (continued)**  
**For Years Ended June 30, 2019 and 2018**

**Note 15 – Risk Management**

The Elizabethton Municipal Airport purchases commercial insurance for the risks of losses to which it is exposed. These risks include general liability, premise liability, moving aircraft, commission indemnity, fueling excess liability, worker's compensation, and environmental. Settled claims have not exceeded this commercial coverage in the past five fiscal years. It is the policy of the Airport to pay minor damages to aircraft caused during ground movement of aircraft by staff.

In addition, the City of Elizabethton, Tennessee is a member of the Tennessee Municipal League Risk Management Pool (TML Pool). Coverage for the Elizabethton Municipal Airport by the City includes property and casualty. The TML Pool is a non-profit, risk sharing organization of Tennessee municipalities and local public agencies. Tennessee Statute governing the formation of the pooling and risk sharing arrangement dictates that the pool has the ability to assess members. Contributions (premiums) from members are used in part to purchase reinsurance to cover losses that exceed the Pool's loss fund.

**Note 16 – Subsequent Events**

The City of Elizabethton, through which the Airport carries employee health insurance, moved to a Health Reimbursement Account (HRA) beginning July 1, 2019. In this arrangement, the employees would be responsible for the first \$2,000 of deductible and would be able to access their health reimbursement account for 80% of the next \$3,000. This creates a maximum liability of \$2,400 per employee per year. Management has no estimate of what actual expenditures will be of this potential liability, but has segregated funds into a separate bank to cover HRA expenses as they arise. As of June 30, 2019, the Airport has a balance of \$7,500 in this separate account. This account has no restriction per statute, contract, or other board designation and is included in the cash balance in the Statement of Net Position.

As detailed in Note 10, the Airport was awarded a grant in the amount of \$63,000 by the Tennessee Department of Transportation subsequent to June 30, 2019.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Required Supplementary Information**  
**Schedule of Changes in Elizabethton Municipal Airport's Proportionate Share**  
**in City of Elizabethton's Net Pension Liability (Asset) And Related Ratios\***  
**Based on Participation in the Public Employee Pension Plan of TCRS**  
**Last Fiscal Year Ended June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Pro-rata pension liability (asset)</b>					
Service cost	\$ 8,550	\$ 8,006	\$ 7,819	\$ 13,568	\$ 10,319
Interest	28,532	27,491	27,475	44,718	34,385
Changes in benefit terms	-	-	-	-	-
Differences between actual & expected experience	(2,200)	(3,309)	(4,342)	2,776	(13,187)
Change of assumptions	-	-	-	24,713	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-
<b>Net change in pro-rata pension liability (asset)</b>	<u>34,882</u>	<u>32,188</u>	<u>30,952</u>	<u>85,775</u>	<u>31,517</u>
<b>Pro-rata pension liability (asset) - beginning</b>	<u>360,534</u>	<u>395,416</u>	<u>427,604</u>	<u>458,556</u>	<u>544,331</u>
<b>Pro-rata pension liability (asset) - ending (a)</b>	<u><u>395,416</u></u>	<u><u>427,604</u></u>	<u><u>458,556</u></u>	<u><u>544,331</u></u>	<u><u>575,848</u></u>
<b>Pro-rata plan fiduciary net position</b>					
Contributions - employer	17,946	19,299	18,740	25,049	19,562
Contributions - employee	1,442	1,500	1,591	1,600	1,750
Net investment income	48,004	8,159	7,801	58,230	33,910
Benefit payments, including refunds of employee contributions	-	-	-	-	-
Administrative expense	(137)	(168)	(244)	(409)	(307)
Other	-	-	-	-	-
<b>Net change in pro-rata fiduciary net position</b>	<u>67,255</u>	<u>28,790</u>	<u>27,888</u>	<u>84,470</u>	<u>54,915</u>
<b>Pro-rata plan fiduciary net position - beginning</b>	<u>268,799</u>	<u>336,054</u>	<u>364,844</u>	<u>392,732</u>	<u>477,202</u>
<b>Pro-rata plan fiduciary net position - ending (b)</b>	<u><u>336,054</u></u>	<u><u>364,844</u></u>	<u><u>392,732</u></u>	<u><u>477,202</u></u>	<u><u>532,117</u></u>
<b>Net Pension Liability (asset) - ending (a)-(b)</b>	<u><u>\$ 59,362</u></u>	<u><u>\$ 62,760</u></u>	<u><u>\$ 65,824</u></u>	<u><u>\$ 67,129</u></u>	<u><u>\$ 43,731</u></u>
<b>Pro-rata plan fiduciary net position as a percentage of pro-rata pension liability</b>	84.99%	85.32%	85.65%	87.67%	92.41%
<b>Covered payroll</b>	\$ 122,833	\$ 133,188	\$ 129,331	\$ 131,000	\$ 135,000
<b>Net pension liability (asset) as percentage of covered payroll</b>	48.33%	47.12%	50.90%	51.24%	32.39%

**Notes to Schedule:**

Changes in assumptions. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

\* GASB requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**  
**Required Supplementary Information**  
**Schedule of Airport Contributions\***  
**Based on Participation in the Public Employee Pension Plan of TCRS**  
**Last Fiscal Year Ended June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 17,946	\$ 19,299	\$ 18,740	\$ 18,982	\$ 19,562	\$ 20,763
Contributions in relation to the actuarially determined contribution	<u>17,946</u>	<u>19,299</u>	<u>18,740</u>	<u>18,982</u>	<u>19,562</u>	<u>20,763</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 122,833	\$ 133,188	\$ 129,331	\$ 131,000	\$ 135,000	\$ 143,295
Contributions as a percentage of covered payroll	14.61%	14.49%	14.49%	14.49%	14.49%	14.49%

\* GASB requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed

**Notes to Schedule**

*Valuation Date:*

Actuarially determined contribution rates for fiscal year 2019 were calculated based on the June 30, 2017 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by Year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.50 percent
Salary increases	Graded salary ranges from 8.92 to 3.44 percent based on age, including inflation, averaging 4.00%
Investment Rate of Return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living adjustments	2.25 percent

*Changes of Assumptions:*

In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Required Supplementary Information**  
**Schedule of Changes in Elizabethton Municipal Airport's Proportionate Share**  
**in City of Elizabethton's Net Pension Liability (Asset) And Related Ratios\***  
**Based on Participation in the Public Employee Pension Plan of TCRS - Hybrid**  
**Last Fiscal Year Ended June 30**

	<b>2018</b>
<b>Pro-rata pension liability (asset)</b>	
Service cost	\$ 1,007
Interest	123
Changes in benefit terms	2,012
Differences between actual & expected experience	-
Change of assumptions	-
Benefit payments, including refunds of employee contributions	-
<b>Net change in pro-rata pension liability (asset)</b>	<b>3,142</b>
<b>Pro-rata pension liability (asset) - beginning</b>	<b>-</b>
<b>Pro-rata pension liability (asset) - ending (a)</b>	<b>3,142</b>
 <b>Pro-rata plan fiduciary net position</b>	
Contributions - employer	1,073
Contributions - employee	1,342
Net investment income	262
Benefit payments, including refunds of employee contributions	-
Administrative expense	(145)
Other	-
<b>Net change in pro-rata fiduciary net position</b>	<b>2,532</b>
 <b>Pro-rata plan fiduciary net position - beginning</b>	<b>-</b>
<b>Pro-rata plan fiduciary net position - ending (b)</b>	<b>2,532</b>
 <b>Net Pension Liability (asset) - ending (a)-(b)</b>	<b>\$ 610</b>
 <b>Pro-rata plan fiduciary net position as a percentage of pro-rata pension liability</b>	<b>80.59%</b>
 <b>Covered payroll</b>	<b>\$ 26,833</b>
<b>Net pension liability (asset) as percentage of covered payroll</b>	<b>2.27%</b>

**Notes to Schedule:**

\* GASB requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.



**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**  
**Required Supplementary Information**  
**Schedule of Airport Contributions\***  
**Based on Participation in the Public Employee Pension Plan of TCRS - Hybrid**  
**Last Fiscal Year Ended June 30**

	<b>2018</b>	<b>2019</b>
Actuarially determined contribution	\$ 1,073	\$ 602
Contributions in relation to the actuarially determined contribution	1,073	602
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 26,833	\$ 44,250
Contributions as a percentage of covered payroll	4.00%	1.36%

\* GASB requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

**Notes to Schedule**

*Valuation Date:*

Actuarially determined contribution rates for fiscal year 2019 were calculated based on the June 30, 2017 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by Year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.50 percent
Salary increases	Graded salary ranges from 8.92 to 3.44 percent based on age, including inflation, averaging 4.00%
Investment Rate of Return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living adjustments	2.25 percent

*Changes of Assumptions:*

In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**  
**Schedule of Changes in Long-term Debt by Individual Issue**  
**June 30, 2019**

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2018	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2019
<u>OTHER LOANS PAYABLE</u>									
Airport Repairs and Runway Expansion	\$ 400,000	2.57%	7/28/2017	1/28/2039	\$ 400,000	\$ -	\$ 7,762	\$ -	\$ 392,238
Total Other Loans Payable					<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ 7,762</u>	<u>\$ -</u>	<u>\$ 392,238</u>

See Independent Auditors' Report

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the Year Ended June 30, 2019**

<u>Federal Grantor / Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Other Federal</u>	<u>Contract Number</u>	<u>Federal Awards</u>	<u>State Awards</u>	<u>Federal &amp; State Awards</u>
U.S. Department of Transportation / State of Tennessee, Department of Transportation: Passed through TN Department of Transportation Division of Aeronautics	20.106	-	TAD 10-555-0135.04	\$ 7,425	\$ 413	\$ 7,838
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106	-	TAD 10-555-0539.17	40,825	2,401	43,226
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106	-	TAD 10-555-0142.18	6,816	379	7,195
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106	-	TAD 10-555-0140.18	17,991	999	18,990
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106	-	TAD 10-555-0141.18	28,832	1,602	30,434
Total CFDA 20.106				<u>101,889</u>	<u>5,794</u>	<u>107,683</u>
TN Department of Transportation Division of Aeronautics	N/A	-	TAD 10-555-0743.18	-	3,219	3,219
TN Department of Transportation Division of Aeronautics	N/A	-	TAD 10-555-0444.19	-	14,300	14,300
<b>Total Federal and State Awards</b>				<u><u>\$ 101,889</u></u>	<u><u>\$ 23,313</u></u>	<u><u>\$ 125,202</u></u>

Basis of Presentation:

Note 1: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarized the expenditures of Elizabethton Municipal Airport under programs of the federal and state governments for the year ended June 30, 2019. The schedule is presented using the accrual basis of accounting.

See Independent Auditors' Report.

# Lewis & Associates, P.C.

— Certified Public Accountants —

Princeton Professional Building  
136 Princeton Road  
Johnson City, TN 37601

P: 423-926-5138  
Fax: 423-926-3949  
LewisCPAs.com

## **INDEPENDENT AUDITORS' 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 City Council & Airport Commission  
City of Elizabethton, Tennessee  
Elizabethton Municipal Airport  
Elizabethton, Tennessee

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 Elizabethton Municipal Airport (the Airport), a component unit of the City of Elizabethton, Tennessee as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Elizabethton Municipal Airport's basic financial statements, and have issued our report thereon dated November 7, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion 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.



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### **Internal Control over Financial Reporting (continued)**

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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatements, 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*.

### **Elizabethton Municipal Airport's Response to Findings**

Elizabethton Municipal Airport's response to the finding identified in our audit is described in the accompanying schedule of findings and responses and management corrective action plan. Elizabethton Municipal Airport's response and management corrective action plan were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on their response or plan.

### **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, the communication is not suitable for any other purpose.

*Lewis & Associates, P.C.*

Johnson City, Tennessee

November 7, 2019

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2019**

<b>Prior Year Finding Number</b>	<b>Finding Title</b>	<b>Status</b>
2018-001	Reconciling Accounts (original finding #2015-004)	Repeated

**ELIZABETHTON MUNICIPAL AIRPORT**  
**A Component Unit of the City of Elizabethton, Tennessee**

**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2019**

**ITEM 2019-001: Reconciling Accounts (repeated, original #2015-004)**

**CONDITION:** Not all significant general ledger account balances had been properly reconciled to actual amounts or underlying documentation.

**CRITERIA:** Reconciling general ledger accounts to third-party documents (such as loan statements) or to sub-ledgers (such as valuation reports) constitutes a key internal control activity to detect and correct errors in the accounting records. Management is responsible for the accuracy of the financial statements and the underlying accounting information; the Airport commissioners are responsible for overseeing management regarding the accuracy of the financial statements and the underlying accounting information.

**CAUSE OF CONDITION:** Due to the Airport's small staff, the resources dedicated to the accounting function are limited. Furthermore, some software items and related procedures are not properly set-up in the accounting program. For example, certain discounts allowed on the sale of aviation fuel are not correctly adjusting inventory and cost of goods sold.

**POTENTIAL EFFECT OF CONDITION:** This resulted in potential material misstatements of financial statements, requiring extensive audit adjustments. In cases where the misstatement is detected and corrected, limited accounting resources are used to correct misstatements which could have been easily avoided.

**RECOMMENDATION:** We recommend key transactions be reviewed / corrected to insure that all transactions are being properly posted in the accounting software. Once that has been addressed, practices should be implemented as part of weekly or month-end procedures to verify the accuracy of key accounts, particularly accounts receivable, accounts payable (including those related to construction or grant reimbursements), and inventory.

**AIRPORT'S RESPONSE:** Management concurs with this finding and will begin developing procedures to implement auditor's recommendation.



**Elizabethton Municipal Airport  
Management Corrective Action Plan  
Year Ended**

Elizabethton Municipal Airport respectfully submits the following corrective action plan for the year ended June 30, 2019.

**Independent Auditors:** Lewis & Associates, P.C., 136 Princeton Road, Johnson City, Tennessee 37601

**Responsible official for corrective action plan:** Dan Cogan, Chief Operating Officer

**Anticipated Completion of Corrective Action:** By June 30, 2020

The findings from the June 30, 2019 Schedule of Findings and Responses are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**2019-001      Reconciling Accounts –Material Weakness**

Independent auditors' recommendation

We recommend key transactions be reviewed / corrected to insure that all transactions are being properly posted in the accounting software. Once that has been addressed, practices should be implemented as part of weekly or month-end procedures to verify the accuracy of key accounts, particularly transactions related to inventory. QuickBooks should be set-up to accurately track inventory value and cost of goods sold. This will also entail revising invoicing procedures to properly account for sales tax.

Action taken or planned

We concur with all findings and will schedule a time to consult with our outside accountant to address this finding. We will correct our QuickBooks to 1) consolidate our fuel inventory items to JetA and AvGas only; 2) create proper sales tax codes; and 3) revise prices of invoice items to exclude sales tax.

  
\_\_\_\_\_  
Dan Cogan  
Chief Operating Officer