

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

Financial Statements and Supplemental Information
For the Years Ended June 30, 2018 and 2017

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, 2018

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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INDEPENDENT AUDITORS' REPORT

To the City Council & Airport Commission
City of Elizabethton, Tennessee
Elizabethton Municipal Airport
415 Highway 91
Elizabethton, TN 37643

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, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

Opinion

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, 2018 and 2017, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in Airport's Proportionate Share in Elizabethton's Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS, and Schedule of Airport Contributions Based on Participation in the Public Employee Pension Plan of TCRS on pages 5-8 and 28-29, respectively, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Elizabethton Municipal Airport's basic financial statements. The introductory section and supplemental information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and State Financial Assistance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and State Financial Assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018, 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 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.

Lewis & Associates, P.C.
Johnson City, Tennessee
December 19, 2018

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

Management's Discussion and Analysis
For Years Ended June 30, 2018 and 2017

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 year ended June 30, 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 2018, including gallons of fuel sold, hangar nights sold, vehicle storage fees, and airport user fees. Overall non-grant gross revenue increased by 9%. Total non-depreciation expenses were down slightly, with most items being on budget or slightly below budget.

The Airport recognized operating loss of \$30,166 for fiscal year 2018 compared to operating income of \$54,213 for fiscal year 2017. The decrease was caused primarily by increased depreciation expense from improvements placed in service in the prior year. Capital contributions were received from the State of Tennessee grants primarily for ongoing capital expansion projects in the amounts of \$1,357,155 and \$470,156 for fiscal years 2018 and 2017, respectively. Net income and capital contributions produced an increase in net position of \$1,318,172 in 2018 compared to \$521,389 in 2017. At the end of fiscal year 2018, the Airport had net position of \$12,338,585, an increase of 12% from \$11,020,413 at the close of fiscal year 2017.

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 supplementary 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 supplementary 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
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Management's Discussion and Analysis (continued)
For Year Ended June 30, 2018 and 2017

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 \$12,338,585 as of June 30, 2018. This represents an increase of \$1,318,172 (12%) from the prior year. The unrestricted net position was \$234,508.

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, 2018 and 2017:

	2018	2017
Current assets	\$ 389,731	\$ 291,983
Capital assets	12,474,951	11,163,320
Restricted assets	52,501	22,643
Other noncurrent assets	255	255
Deferred outflow of resources	43,124	37,760
Total assets and deferred outflow of resources	<u>12,960,562</u>	<u>11,515,961</u>
Current liabilities	138,014	407,813
Long-term liabilities	472,731	78,537
Deferred inflows of resources	11,232	9,198
Total liabilities and deferred inflows of resources	<u>621,977</u>	<u>495,548</u>
Net position:		
Net investment in capital assets	12,051,576	10,863,240
Restricted for capital improvements	52,501	22,643
Unrestricted	234,508	134,530
Total net position	<u>\$ 12,338,585</u>	<u>\$ 11,020,413</u>

The Airport's changes in net position were as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Operating revenues	\$ 1,069,390	\$ 979,305
Operating expenses	1,099,556	925,092
Income (loss) from operations	<u>(30,166)</u>	<u>54,213</u>
Non-operating revenues (expenses):		
Interest income	127	147
Interest (expense)	(8,944)	(3,127)
TDOT grants	1,357,155	470,156
Total non-operating revenues	<u>1,348,338</u>	<u>467,176</u>
Increase in net position	1,318,172	521,389
Net position, beginning of year	11,020,413	10,499,024
Net position, end of year	<u>\$ 12,338,585</u>	<u>\$ 11,020,413</u>

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Management's Discussion and Analysis (continued)
For Year Ended June 30, 2018 and 2017

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 62% of operating revenue. Airport leadership is actively recruiting new corporate customers and aviation related enterprises to base their operations from the Airport.

The Airport undertook a major expansion project during the 2018 fiscal year which will increase the runway length by 481 feet, for a total useable runway of 5,000 feet. It has been funded primarily through an Airport Improvement Program federal grant from the Department of Transportation. Included in that project will be a new turn around area at the approach end of runway 24 as well as crack repair and seal coating of the entire runway. This work should ensure runway integrity for the next 7 to 10 years. It is anticipated that the runway extension work will be completed in fiscal year 2019 and should positively impact the Airport services, growth, and finances for many years to come.

Airport leadership believes the runway extension is one of the most important development projects undertaken by the Airport in many years. The longer runway will not only add to the safety margin of all airport operations, but should have a direct positive effect on fuel sales allowing existing customers to upload larger quantities of fuel and increase their flight stage lengths. Additionally, it is anticipated that the extended runway will attract many new customers who have hitherto been restricted by their insurance carriers against using the shorter runways at Elizabethton Municipal Airport.

New grant money was also secured during the 2018 fiscal year for hangar door restoration, terminal upgrades related to Americans with Disabilities Act (ADA) compliance, and routine maintenance of the grounds and terminal.

The growth of Airport operations and complexity of the aircraft served created the need for more highly trained aviation service technicians. The Airport added one full time professional line service technicians to the staff in fiscal year 2018 to meet industry standards and customer needs.

Future expected developments at 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 of these projects will be eligible for funding from the Tennessee Department of Transportation Aeronautics Division.

Cash Flows

Net cash provided by operating activities during the year ended June 30, 2018 was \$180,894, a decrease of \$8,530 from 2017 operating cash flows. There was no net cash from noncapital financing activities during the year ended June 30, 2018. Net cash from capital and related financing activities resulted in cash outlays of \$133,429 for the fiscal year 2018, a decrease of \$130,657 from the prior year. Interest earned on savings account in the amount of \$127 provided net cash from investing activities.

Capital Assets and Debt Administration

Capital Assets: The Airport's investment in capital assets amounted to \$12,474,951 as of June 30, 2018, an increase of \$1,311,631. The increase was primarily generated by continuing capital expansion projects funded through state and federal grants. 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 \$1,321,979 consisting of ramp rehabilitation, airport layout plan, and runway extension projects.

Long-term Debt: The Airport had long-term debt in the amount of \$400,000 as of June 30, 2018, an increase of \$304,500 from the prior year, from a loan which was obtained in July 2017 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

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

Management's Discussion and Analysis (continued)
For Year Ended June 30, 2018 and 2017

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash	\$ 104,972	\$ 57,380
Accounts receivable	60,013	36,095
Inventory of fuel, oil, and supplies	42,870	37,180
Operating grants receivable	145,000	145,000
Capital contributions receivable	<u>36,876</u>	<u>16,328</u>
Total current assets	<u>389,731</u>	<u>291,983</u>
Noncurrent assets:		
Restricted asset:		
Grant local matching deposits	<u>52,501</u>	<u>22,643</u>
Other asset:		
Utility deposits	<u>255</u>	<u>255</u>
Capital assets:		
Land and land improvements	10,801,322	10,406,497
Hangars and terminal building	2,832,725	2,822,825
Major movable equipment	453,026	453,026
Construction in progress	1,321,979	169,603
Accumulated depreciation	<u>(2,934,101)</u>	<u>(2,688,631)</u>
Total capital assets, net	<u>12,474,951</u>	<u>11,163,320</u>
Total noncurrent assets	<u>12,527,707</u>	<u>11,186,218</u>
Total assets	<u><u>12,917,438</u></u>	<u><u>11,478,201</u></u>
Deferred outflows of resources		
Pension changes in investment earnings	23,562	12,711
Pension contributions after measurement date	<u>19,562</u>	<u>25,049</u>
Total deferred outflows of resources	<u><u>\$ 43,124</u></u>	<u><u>\$ 37,760</u></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 Net Position (Continued)
June 30, 2017 and 2016

	<u>2018</u>	<u>2017</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 58,713	\$ 48,154
Payroll taxes and other liabilities	8,123	12,951
Sales and use tax payable	3,873	965
Construction in progress payables	23,375	60,057
Retainage payable	-	144,523
Accrued interest	2,570	-
Compensated absences	11,658	11,868
Unearned bulk fuel and rental revenue	21,872	33,670
Notes payable - current portion	7,705	95,500
T-Hanger deposits	125	125
Total current liabilities	<u>138,014</u>	<u>407,813</u>
Long-term liabilities:		
Notes payable, net of current portion	392,295	-
Net pension liability	67,129	65,824
Compensated absences, net of current portion	13,307	12,713
Total long-term liabilities	<u>472,731</u>	<u>78,537</u>
Total liabilities	<u><u>610,745</u></u>	<u><u>486,350</u></u>
Deferred inflows of resources		
Pension changes in experience	<u>11,232</u>	<u>9,198</u>
Total deferred inflows of resources	<u><u>11,232</u></u>	<u><u>9,198</u></u>
Net Position		
Net investment in capital assets	12,051,576	10,863,240
Restricted for capital improvements	52,501	22,643
Unrestricted	<u>234,508</u>	<u>134,530</u>
Total net position	<u><u>\$ 12,338,585</u></u>	<u><u>\$ 11,020,413</u></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 Revenue, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue		
Sales of Jet-A fuel	\$ 554,059	\$ 474,005
Sales of aviation gasoline	109,434	117,377
Rental income	214,677	210,778
Other income	31,920	17,845
Operating grants	159,300	159,300
Total operating revenue	<u>1,069,390</u>	<u>979,305</u>
Operating expenses		
Purchase of Jet-A fuel	306,863	257,706
Purchase of aviation gasoline	79,176	79,750
Salaries and wages	250,075	240,109
Payroll taxes	19,163	18,554
Employee benefits	50,728	41,172
Repairs and maintenance	23,267	19,421
Utilities	46,586	42,140
Insurance	24,835	22,876
Office expenses	8,474	6,194
Supplies	5,234	3,531
Telephone and communications	5,791	6,074
Credit card fees	10,659	9,683
Travel and entertainment	2,585	2,346
Dues and subscriptions	1,925	2,943
Professional Services	10,957	10,902
Other expenses	7,769	5,276
Depreciation	245,469	156,415
Total operating expenses	<u>1,099,556</u>	<u>925,092</u>
Net operating income	(30,166)	54,213
Other income (expenses)		
Interest income	127	147
Interest expense	(8,944)	(3,127)
Total other income (expenses)	(8,817)	(2,980)
Capital contributions		
State of Tennessee	1,357,155	470,156
Total capital contributions	<u>1,357,155</u>	<u>470,156</u>
Change in net position	1,318,172	521,389
Net position - beginning of year	<u>11,020,413</u>	<u>10,499,024</u>
Net position - end of year	<u><u>\$ 12,338,585</u></u>	<u><u>\$ 11,020,413</u></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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from customers	\$ 874,374	\$ 826,026
Cash received from operating grants	159,300	159,332
Cash paid for goods and services	(603,089)	(558,112)
Cash paid to employees	(249,691)	(237,822)
Net cash provided by operating activities	<u>180,894</u>	<u>189,424</u>
Cash flows from capital and related financing activities		
Principal paid on notes	(95,500)	(100,000)
Proceeds from issuance of long-term debt	400,000	-
Interest paid on debt service	(6,374)	(3,127)
Cash received from state and local governments	1,306,749	525,159
Construction of capital assets in progress	(1,333,579)	(190,927)
Purchase of capital assets	(404,725)	(495,191)
Net cash used by capital and related financing activities	<u>(133,429)</u>	<u>(264,086)</u>
Cash flows from investing activities		
Interest income	127	147
Net cash provided by investing activities	<u>127</u>	<u>147</u>
Net increase (decrease) in cash	47,592	(74,515)
Cash - beginning of year	<u>57,380</u>	<u>131,895</u>
Cash - end of year	<u><u>\$ 104,972</u></u>	<u><u>\$ 57,380</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (30,166)	\$ 54,213
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	245,469	156,415
Changes in deferred outflows for pensions	(5,364)	(22,787)
Changes in deferred inflows for pensions	2,034	4,770
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(23,918)	6,053
(Increase) decrease in inventory of fuel, oil and supplies	(5,690)	5,602
Increase (decrease) in accounts payable	10,559	(29,138)
Increase (decrease) in sales and use tax payable	2,908	58
Increase (decrease) in accrued payroll taxes	(4,828)	8,744
Increase (decrease) in unearned bulk fuel and rental revenue	(11,798)	142
Increase (decrease) in pension assets and liabilities	1,305	3,064
Increase (decrease) in compensated absences	383	2,288
Net cash provided by operating activities	<u><u>\$ 180,894</u></u>	<u><u>\$ 189,424</u></u>

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, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies

General Information

The Elizabethton Municipal Airport (the “Airport”) is a general aviation facility providing aeronautic access to 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 nonoperating 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 nonoperating revenues and expenses.

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

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, 2018 and 2017, 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 Year Ended June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Pensions

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 the Airport's portion 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.

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 nonoperating 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.

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.

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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 \$104,972 and \$57,380 as of June 30, 2018 and 2017 and deposits in financial institutions were \$109,066 and \$66,556, 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, 2018 and 2017.

Note 3 – Restricted Assets

The grants awarded by the Tennessee Department of Transportation, described in Note 8, 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, 2018 and 2017, local grant matching deposits held by the state were \$52,501 and \$22,643, respectively.

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 4 – Capital Assets

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>

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 4 – Capital Assets (continued)

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance 6/30/16	Additions	Retirements/ Transfers	Balance 6/30/17
Capital assets not being depreciated:				
Land	\$ 4,539,250	\$ 589,198	\$ -	\$ 5,128,448
Construction in progress	3,435,614	500,718	(3,766,729)	169,603
Total capital assets not being depreciated	7,974,864	1,089,916	(3,766,729)	5,298,051
Capital assets being depreciated:				
Land improvement	2,100,518	3,177,531	-	5,278,049
Hangars and terminal building	2,751,833	70,992	-	2,822,825
Major moveable equipment	453,026	-	-	453,026
Total capital assets being depreciated	5,305,377	3,248,523	-	8,553,900
Accumulated depreciation:				
Land improvements	(1,085,785)	(45,709)	-	(1,131,494)
Hangars and terminal building	(1,077,725)	(88,292)	-	(1,166,017)
Major movable equipment	(368,706)	(22,414)	-	(391,120)
Total accumulated depreciation	(2,532,216)	(156,415)	-	(2,688,631)
Net capital assets being depreciated	2,773,161	3,092,108	-	5,865,269
Capital assets, net	<u>\$ 10,748,025</u>	<u>\$ 4,182,024</u>	<u>\$ (3,766,729)</u>	<u>\$ 11,163,320</u>

Depreciation expenses for the years ended June 30, 2018 and 2017 was \$245,469 and \$156,415, 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, 2018, five customers were utilizing the bulk fuel program.

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

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 are to be 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, 2018 is as follows:

Obligation	Principal Balance 6-30-17	Additions	Retirements	Principal Balance 6-30-18
Expansion Loan – 2007	\$ 95,500	\$ -	\$ (95,500)	\$ -
Ramp Expansion - 2018	-	400,000	-	400,000
	<u>\$ 95,500</u>	<u>\$ 400,000</u>	<u>\$ (95,500)</u>	<u>\$ 400,000</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
2019	\$ 7,705	\$ 10,307	\$ 18,012
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 - 2028	110,495	33,992	144,487
2029 - 2033	125,884	18,603	144,487
2034 - 2038	77,309	2,918	80,227
Totals	<u>\$ 400,000</u>	<u>\$ 102,802</u>	<u>\$ 502,802</u>

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 7 – Pension 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 www.treasury.state.tn.us/tcrs.

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 years of 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 2nd 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 in 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, 2017, 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.

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. 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, 2018, the Actuarially Determined Contribution (ADC) for Elizabethton was \$19,562 based on a rate of 14.49 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept 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 Year Ended June 30, 2018 and 2017

Note 7 – Pension Plan (continued)

Net Pension Liability (Asset)

The Airport's net pension liability (asset) was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of June 30, 2017 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 8.75 to 3.45 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, 2017 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.

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.

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:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
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%
		<hr/> 100%

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

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)

	Total Pension Liability (Asset) (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at 6/30/16	\$ 458,556	\$ 392,732	\$ 65,824
Changes for the year:			
Service cost	13,568	-	13,568
Interest	44,719	-	44,719
Differences between expected and actual experience	2,776	-	2,776
Changes in assumptions	24,712	-	24,712
Contributions- employer	-	25,049	(25,049)
Contributions – employee	-	1,600	(1,600)
Net investment income	-	58,230	(58,230)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(409)	409
Other changes	-	-	-
Net changes	<u>85,775</u>	<u>84,470</u>	<u>1,305</u>
Balance at 6/30/17	<u>\$ 544,331</u>	<u>\$ 477,202</u>	<u>\$ 67,129</u>

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Airport's net pension liability (asset)	\$ 127,555	\$ 67,129	\$ 16,398

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

Pension expense

For the year ended June 30, 2018, the Airport recognized pension expense of \$17,535.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2018, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,380	\$ 7,039
Net difference between projected and actual earning on pension plan investments	-	4,193
Changes in assumptions	21,182	-
Contributions subsequent to the measurement date of June 30, 2017	19,562	-
Total	<u>\$ 43,124</u>	<u>\$ 11,232</u>

The amount shown above as “Contributions subsequent to the measurement date of June 30, 2017” 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 Year Ended June 30, 2018 and 2017

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:

Year Ended June 30:	
2019	(455)
2020	5,060
2021	1,958
2022	(1,197)
2023	2,152
Thereafter	2,869

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

Payable to the Pension Plan

At June 30, 2018, the Airport reported a payable of \$2,121 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Note 8 – 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, 2018, the following grants remain open and are available for future capital expenditures:

- The Airport Layout Plan grant for \$100,000 (with \$10,000 paid by the Airport) was granted January 11, 2012. The Airport received no disbursement and recognized no revenue under this grant for the years ended June 30, 2018 and 2017. As of June 30, 2018, grant close-out was requested and unused matching funds of \$2,213 are refundable to the Airport.
- The Removal of Underground Tanks and Repair & Strengthening Main Terminal Ramp grant for \$3,317,698 (with \$198,885 paid by the Airport) has been closed. For the year ended June 30, 2018, the Airport received disbursements of and recognized revenue of \$17,138. For the year ended June 30, 2018, unused local matching funds in the amount of \$6,731 have been refunded to the Airport.
- The Land Acquisition (3.3 acres) grant for \$582,560 (with \$44,628 paid by the Airport) was increased to \$892,560 during the year ended June 30, 2017. For the year ended June 30, 2018, the Airport received disbursements of \$72,458 and recognized revenue of \$67,502. For the year ended June 30, 2017, the Airport received disbursements of \$160,406 and recognized revenue of \$152,386. As of June 30, 2018, funds of \$168,719 remain available for future expenditures. The grant is partially funded by federal funds (CFDA #20.106).

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 8 – Capital Grants Awarded (continued)

- The Land Acquisition for Runway Protection Zone grant in the amount of \$1,785,600 (with \$102,430 local share paid by the Airport) was increased to \$2,048,600 during the year ended June 30, 2017. For the year ended June 30, 2018, the Airport received disbursements of \$33,728 and recognized revenue of \$36,966. For the year ended June 30, 2017, the Airport received disbursements of \$248,129 and recognized revenue of \$235,723. As of June 30, 2018, funds of \$5,218 remain available for future 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, 2018, the Airport received disbursements of \$103,907 and recognized revenue of \$109,546. For the year ended June 30, 2017, the Airport received disbursements of \$75,471 and recognized revenue of \$71,697. As of June 30, 2018, grant funds in the amount of \$48,720 remain available for future expenditures.
- The Runway Extension R/W 24 grant was 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 ended June 30, 2018 and is partially funded by federal funds (CFDA #20.106). For the year ended June 30, 2018, the Airport received disbursements of \$1,266,804 and recognized revenue of \$1,278,644 under this grant.
- 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). As of June 30, 2018, no disbursements or revenue has been recognized from this grant.
- Terminal Renovations 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). As of June 30, 2018, no disbursements or revenue has been recognized from this grant.
- Powerline Relocation grant was awarded December 27, 2017 in the amount of \$98,700 (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, 2018, the Airport received disbursements and recognized revenue of \$4,220 under this grant. As of June 30, 2018, grant funds in the amount of \$94,480 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, 2018, the Airport recognized revenue of \$4,786 under this grant.

Note 9 – Major Customers

For the fiscal years ended June 30, 2018 and 2017, one customer comprised 20% of total sales in each year. For the year ended June 30, 2018, one customer comprised 33% of non-grant accounts receivable; no concentrations existed in accounts receivable for the year ended June 30, 2017.

Note 10 – 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, 2018 and 2017.

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 11 – Operating Leases

The Airport entered into a lease agreement for a fuel truck beginning February 1, 2018, at a monthly rate of \$800, for a 60-month lease period ending January 30, 2023. Total leased equipment expense amounted to \$2,400 for the year ended June 30, 2018.

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

Year Ending June 30	Amount
2019	\$ 9,600
2020	9,600
2021	9,600
2022	9,600
2023	5,600
	<hr/> \$ 44,000 <hr/>

Note 12 – 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, 2018 and 2017.

- 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, 2018 and 2017 were \$96,642 and \$97,552, 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, 2018 and 2017 were \$38,819 and \$38,011, 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, 2018 and 2017, the Airport received revenues from the flight school in the amount of \$3,130 and \$2,598, respectively.
- The Airport utilized legal services in relation to grant administration from a firm in which an airport commission member is a senior partner. Legal fees paid to this firm amounted to \$1,902 for the year ended June 30, 2017; no legal fees were paid for the year ended June 30, 2018.
- The Airport received appropriations from the City of Elizabethton in the amount of \$145,000 for each of the years ended June 30, 2018 and 2017.

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

Notes to the Financial Statements (continued)
For Year Ended June 30, 2018 and 2017

Note 13 – 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.

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

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.

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule for future fiscal years as information is available.

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>
Actuarially determined contribution	\$ 17,946	\$ 19,299	\$ 18,740	\$ 18,982	\$ 19,562
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>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 122,833	\$ 133,188	\$ 129,331	\$ 131,000	\$ 135,000
Contributions as a percentage of covered payroll	14.61%	14.49%	14.49%	14.49%	14.49%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively.
Years will be added to this schedule for future fiscal years as information is available.

Notes to Schedule

Valuation Date:

Actuarially determined contribution rates for fiscal year 2018 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	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.50 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	2.50 percent

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, 2018

Federal Grantor / Pass-Through Grantor	CFDA Number	Other Federal	Contract Number	Federal Awards	State Awards	Federal & State Awards
U.S. Department of Transportation / State of Tennessee, Department of Transportation: Passed through TN Department of Transportation Division of Aeronautics	20.106		TAD 10-555-0133.04	\$ 60,750	\$ 3,376	\$ 64,126
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106		TAD 10-555-0135.04	98,591	5,478	104,069
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106		TAD 10-555-0539.17	1,040,587	88,421	1,129,008
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	20.106		TAD 10-555-0142.18	3,798	211	4,009
Total CFDA 20.106				1,203,726	97,486	1,301,212
U.S. Department of Transportation / Passed through TN Department of Transportation Division of Aeronautics	Unknown	3-47-SBGP- 42, 45, 38	TAD 10-555-0731.04	10,454	5,827	16,281
TN Department of Transportation Division of Aeronautics	N/A		TAD 10-555-0734.04	-	35,115	35,115
TN Department of Transportation Division of Aeronautics	N/A		TAD 10-555-0743.18	-	4,547	4,547
TN Department of Transportation Division of Aeronautics	N/A		TAD 10-555-0439.18	-	14,300	14,300
Total Federal and State Awards				\$ 1,214,180	\$ 157,275	\$ 1,371,455

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, 2018. The schedule is presented using the accrual basis of accounting.

See Independent Auditors' Report.

Lewis & Associates, P.C.

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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 years ended June 30, 2018 and 2017, 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 December 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, 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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Tennessee Society of Certified Public Accountants • Virginia Society of Certified Public Accountants

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. [2018-001].

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 and corrective action plan to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs and management's corrective action plan. Elizabethton Municipal Airport's response and 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.

Lewis & Associates, P.C.
Johnson City, Tennessee
December 19, 2018

Lewis & Associates, P.C.

==== Certified Public Accountants ====

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Elizabethton Municipal Airport's (the Airport), a component unit of the City of Elizabethton, Tennessee, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Airport's major federal programs for the year ended June 30, 2018. Elizabethton Municipal Airport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Airport's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on Each Major Federal Program

In our opinion, Elizabethton Municipal Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Elizabethton Municipal Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lewis & Associates, P.C.

Lewis & Associates, P.C.
Johnson City, Tennessee
December 19, 2018

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

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

Findings – Financial Statement Audit

Finding 2017-001: Segregation of Duties

Criteria and Condition: Segregation of duties is a basic building block of sustainable risk management and internal control. The principle is based upon shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. For the auditee, one individual directly oversees all management and accounting functions.

Status: This issue has been corrected through the implementation of several mitigating controls. First, the Airport has hired an outside accountant to perform certain account reconciliations and various other accounting functions. Additionally, a procedure has been implemented which requires a commissioner to approve all reimbursements to this individual.

Finding 2017-002: Reconciling Accounts

Criteria and Condition: Reconciling general ledger accounts to third-party documents (such as bank statements) or to sub-ledgers (such as valuation or aging reports) constitutes a key internal control activity to detect and correct errors in the accounting records. Not all significant general ledger accounts balances had been properly reconciled to actual amounts or to reflect proper accounting treatment.

Status: This issue was partially corrected and has been repeated as a significant deficiency in the Schedule of Findings and Questioned Costs. The Airport did takes steps to correct this finding by hiring an outside accountant, but significant audit adjustments were required.

Finding 2017-003: Pension Contributions

Criteria and Condition: The Employee Retirement Income Security Act (ERISA) sets standards of conduct for those who manage employee benefit plans. The law requires that contributions be deposited in the plan as soon as it is reasonably possible to segregate them from the company's assets, but no later than the 15th business day of the month following the payday. Two employees became eligible to participate in the Airport's defined benefit pension plan, but employee contributions were not deposited into the plan.

Status: This issue was corrected. Airport management worked with plan administrators to resolve the issue and develop the understanding needed to properly set-up new employees and remit contributions.

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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Elizabethton Municipal Airport were prepared in accordance with GAAP.
2. The audit disclosed one significant deficiency and no instances of material weaknesses relating to the audit of the financial statements and reported in the *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*.
3. No instances of noncompliance material to the financial statements of Elizabethton Municipal Airport which would be required to be reported in accordance with *Government Auditing Standards* was disclosed during the audit.
4. The audit disclosed no significant deficiencies and no material weaknesses relating to the audit of major federal award programs which were reported in the *Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for Department of Transportation – Airport Improvement Program grant expresses an unmodified opinion.
6. The audit disclosed no findings required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program is Department of Transportation – Airport Improvement Program – CFDA No. 20.106.
8. The threshold used for distinguishing between Types A and B programs as defined by the Uniform Guidance was \$750,000.
9. Elizabethton Municipal Airport did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001 Reconciling Accounts

Condition: Not all significant general ledger account balances had been properly reconciled to actual amounts or reflect proper accounting treatment.

Criteria: Reconciling general ledger accounts to third-party documents or to sub-ledgers 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.

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

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2018

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Effect: 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 transactions related to grants, fixed assets, inventory and pensions. accounts receivable, accounts payable (including those related to construction or grant reimbursements), and inventory. A summary should be kept for each grant to track the status of each reimbursement request, including the status of construction in progress, to identify all associated payables and receivables. Procedures and software set-up should be reviewed to insure proper withholding and remittance of contributions.

Views of Responsible Officials and Planned Corrective Actions: 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, 2018.

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, 2019

The findings from the June 30, 2018 Schedule of Findings and Responses are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

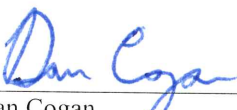
2018-001 Reconciling Accounts –Significant deficiency

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 grants, fixed assets, inventory and pensions. accounts receivable, accounts payable (including those related to construction or grant reimbursements), and inventory. A summary should be kept for each grant to track the status of each reimbursement request, including the status of construction in progress, to identify all associated payables and receivables. Procedures and software set-up should be reviewed to insure proper withholding and remittance of contributions.

Action taken or planned

We concur with all findings and have scheduled a time to meet with our outside accountant to address this finding. In this meeting, we will review all audit adjustments and implement procedures to prevent those errors in the future. Specifically, we will 1) review all recurring journal entries for accurate amounts; 2) review the set-up of pension related entries in our accounting and create descriptive payroll items; and 3) create a summary for each grant to track the status of payments, fund allocation, and status of construction in progress.



Dan Cogan
Chief Operating Officer

