

West Memphis Municipal Airport

FINANCIAL REPORT

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the West Memphis Municipal Airport Commission
West Memphis, Arkansas

We have audited the accompanying statements of net assets of the West Memphis Municipal Airport, of the City of West Memphis, Arkansas, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the West Memphis Municipal Airport Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the West Memphis Municipal Airport and are not intended to represent fairly the financial position of the City of West Memphis, Arkansas, and the results of its operations and the cash flows of its proprietary and similar trust fund types, in conformity with accounting principles generally accepted in the United States of America. Also, as discussed in Note A to the financial statements, the Airport does not provide for depreciation on its property and equipment. Further, the Airport has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, except for not providing for depreciation on property and equipment and the omission of the management's discussion and analysis, the financial statements referred to above present fairly, in all material respects, the financial position of the West Memphis Municipal Airport, as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, on our consideration of the West Memphis Municipal Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the West Memphis Municipal Airport's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is as listed in the table of contents is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

West Memphis, Arkansas
June 28, 2012

Jackson, Howell & Associates, PLLC

**West Memphis Municipal Airport
STATEMENTS OF NET ASSETS
December 31**

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Restricted		
Cash and cash equivalents	\$ 580,562	\$ 635,534
Unrestricted:		
Cash	209,505	182,941
Receivables:		
State of Arkansas	10,692	-
Intergovernmental	34,038	8,575
Other	1,118	-
Inventory	59,195	64,396
Prepaid expenses	<u>11,582</u>	<u>11,582</u>
	<u>116,625</u>	<u>267,494</u>
TOTAL CURRENT ASSETS	906,692	903,028
NON-CURRENT ASSETS		
Capital assets		
Land	1,904,742	1,904,742
Buildings and improvements	21,240,349	20,493,526
Vehicles and equipment	<u>378,921</u>	<u>406,993</u>
	<u>23,524,012</u>	<u>22,805,261</u>
	<u>\$24,430,704</u>	<u>\$23,708,289</u>

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

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Restricted:		
Interest payable on bonds	\$ 15,933	\$ 16,550
Unrestricted:		
Payable, intergovernmental	59,280	20,243
Current maturities of long-term debt	<u>110,779</u>	<u>113,614</u>
	<u>170,059</u>	<u>133,857</u>
TOTAL CURRENT LIABILITIES	185,992	150,407
LONG-TERM DEBT (net of current maturities)		
Bonds payable	2,125,000	2,225,000
Note payable – City utility	200,169	210,948
Other note payable	<u>-</u>	<u>11,788</u>
	<u>2,325,169</u>	<u>2,447,736</u>
NET ASSETS		
Invested in capital assets, net of related debt	21,088,064	20,262,395
Restricted:		
Capital projects	226,669	231,345
Debt service	353,892	404,189
Unrestricted	<u>250,918</u>	<u>212,217</u>
	<u>21,919,543</u>	<u>21,110,146</u>
	<u>\$24,430,704</u>	<u>\$23,708,289</u>

West Memphis Municipal Airport
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
December 31

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Sales	\$ 1,345,166	\$ 1,300,255
Rentals	370,023	365,083
Sales tax revenue	<u>105,843</u>	<u>107,741</u>
	1,821,032	1,773,079
 OPERATING EXPENSES		
Fuel and oil	1,084,465	1,020,182
Salaries	243,404	243,225
Payroll taxes	18,228	18,152
Maintenance and repairs	96,410	62,938
Professional fees	19,800	19,300
Utilities	28,583	23,653
Insurance	69,768	50,569
Communications	6,299	5,998
Rental - equipment	2,410	1,576
Office expense	2,924	3,109
Supplies	3,239	2,635
Pension	13,098	12,655
Other	<u>44,972</u>	<u>29,760</u>
	<u>1,633,600</u>	<u>1,493,752</u>
OPERATING INCOME	187,432	279,327
 NON-OPERATING INCOME (EXPENSES)		
Interest	5,048	8,262
Interest on bonds	(96,830)	(100,535)
Interest - other	(7,591)	(7,947)
Insurance proceeds	<u>25,598</u>	<u>-</u>
	<u>(73,775)</u>	<u>(100,220)</u>
 NET INCOME BEFORE CONTRIBUTIONS AND DISPOSAL OF ASSETS	113,657	179,107
 CONTRIBUTIONS AND DISPOSAL OF ASSETS		
Disposal of equipment	(18,072)	(19,000)
Capital contributions	<u>713,812</u>	<u>33,822</u>
	<u>695,740</u>	<u>14,822</u>
Change in net assets	809,397	193,929
 NET ASSETS - BEGINNING OF YEAR	<u>21,110,146</u>	<u>20,916,217</u>
 NET ASSETS - END OF YEAR	<u>\$21,919,543</u>	<u>\$21,110,146</u>

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

**West Memphis Municipal Airport
STATEMENTS OF CASH FLOWS
For the Years Ended December 31**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$1,809,357	\$1,788,065
Payments to suppliers for goods and services	(1,345,958)	(1,262,073)
Payments to employees	<u>(243,404)</u>	<u>(243,225)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	219,995	282,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest	5,048	8,262
Capital expenditures	<u>(736,822)</u>	<u>(60,757)</u>
NET CASH USED IN INVESTING ACTIVITIES	(731,774)	(52,495)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:		
Payments on long-term debt	(125,402)	(105,932)
Interest paid on debt	(105,039)	(109,100)
Contributed capital	<u>713,812</u>	<u>96,357</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND FINANCING ACTIVITIES	<u>483,371</u>	<u>(118,675)</u>
NET INCREASE (DECREASE) IN CASH	(28,408)	111,597
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>818,475</u>	<u>706,878</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 790,067</u>	<u>\$ 818,475</u>

**West Memphis Municipal Airport
STATEMENTS OF CASH FLOWS
For the Years Ended December 31**

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 187,432	\$ 279,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in receivables	(11,675)	14,986
(Increase) decrease in inventory	5,201	(18,038)
Increase (decrease) in accounts payable	<u>39,037</u>	<u>6,492</u>
Total adjustments	<u>32,563</u>	<u>3,440</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 219,995</u>	<u>\$ 282,767</u>

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

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The West Memphis Municipal Airport (the "Airport") is a proprietary fund of the City of West Memphis. The West Memphis Municipal Airport Commission consists of seven members appointed by the Mayor and elected by the City Council. The Commission has full and complete authority to manage, operate, improve, extend and maintain the Municipal Airport and its related properties and facilities. The operations of the Airport include sales of fuel and rental of hangars for airplanes.

Governmental Accounting Standards

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board ("GASB") is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the Airport.

Private-sector accounting standards are established by the Financial Accounting Standards Board ("FASB"). FASB standards issued on or before November 30, 1989, are generally followed for the financial statements to the extent those standards do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, paragraph 7, governments have the option to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The Airport has elected to apply subsequent FASB standards.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Airport's financial statements are reported using the economic resource management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash Equivalents

The Airport considers all securities purchased with a maturity date of three months or less to be the equivalent of cash.

Accounts Receivable

Accounts receivable represents amounts due from customers under normal terms. Receivables arise from fuel sales. The Airport has entered into enforceable construction contracts to provide upgrades to infrastructure. Receivables arising from construction contracts are based on the accrual method.

The Airport does not maintain an allowance for estimated uncollectible accounts. When an account is determined to be uncollectible it is deducted from the accounts receivable and charged to uncollectible fees. All receivables deemed uncollectible at December 31 have been charged to uncollectible fees.

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventory

Fuel inventory is stated at the lower of cost or market using the first in, first out method (FIFO).

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost. Expenditures for maintenance and repairs are expensed when incurred. Additions, major improvements and replacements are capitalized.

Depreciation

The Airport does not provide for depreciation of its assets, which is not in accordance with accounting principles generally accepted in the United States of America.

Net Assets

Equity for proprietary fund financial statements is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As noted previously, the Airport does not depreciate assets, which is not in accordance with accounting principles generally accepted in the United States of America.
2. Restricted net assets - consists of net assets with constraints placed on the use either by (a) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Capital Contributions

Capital contributions are comprised of federal and state grants. The portion of the grants used for capital purposes are reflected as capital contributions in the statement of revenues, expenses and changes in net assets.

Classification of Revenues and Expense

As an enterprise (proprietary) fund, the Airport classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, non-operating revenue and non-operating expenses.

Operating revenues and expenses are deemed as revenues realized by the Airport in exchange for providing its primary services for fuel sales, rentals and sales tax revenue. Non-operating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources. Non-operating expenses include those related to debt costs.

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Shipping and Handling

The Airport reports shipping and handling fees paid as part of operating expenses.

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Airport purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on Airport properties, which includes earthquake and flood coverage. There were no significant reductions in insurance coverage in the current year. Additionally, there were no significant settlements, which exceeded insurance coverage for each of the past three years. The Airport employees were members of the City of West Memphis Employee Self-Insured Benefit Plan that was administered by CIGNA Healthcare Insurance Company through June 30, 2011. The City was required to maintain a benefit plan account which would be sufficient at all times to fund plan benefits and plan related expenses. On July 1, 2011, the City changed to a fully funded plan with United Healthcare.

Compensated Absences

Employees of the Airport are entitled to pay for compensated absences depending on job classification, length of service, and other factors. It is the Airport's policy to recognize the cost of compensated absences when actually paid to the employees.

Events Occurring After Reporting Date

The Airport has evaluated events and transactions that occurred between December 31, 2011, and June 28, 2012, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE B - CONCENTRATIONS OF CREDIT RISK

State law requires collateralization of all deposits with the federal depository insurance and other collateral in specific amounts to cover risk of loss. At December 31, 2011, the deposits of the Airport were sufficiently covered by federal depository insurance and additional pledged securities held by the City's agent in the City's name. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

NOTE C - RESTRICTED ASSETS

Restricted assets represent amounts required to be maintained by the Bond Ordinance for debt service, debt service reserve, and a depreciation fund.

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE D - GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	<u>Balance</u> <u>12/31/10</u>	<u>Addition</u>	<u>Deduction</u>	<u>Balance</u> <u>12/31/11</u>
Land	\$ 1,904,742	\$ -	\$ -	\$ 1,904,742
Buildings	4,053,906	-	-	4,053,906
Improvements	16,439,620	746,822	-	17,186,442
Vehicles and equipment	<u>406,993</u>	<u>-</u>	<u>28,071</u>	<u>378,922</u>
	<u>\$22,805,261</u>	<u>\$746,822</u>	<u>\$ 28,071</u>	<u>\$23,524,012</u>
	<u>Balance</u> <u>12/31/09</u>	<u>Addition</u>	<u>Deduction</u>	<u>Balance</u> <u>12/31/10</u>
Land	\$ 1,904,742	\$ -	\$ -	\$ 1,904,742
Buildings	4,053,906	-	-	4,053,906
Improvements	16,404,019	35,601	-	16,439,620
Vehicles and equipment	<u>400,837</u>	<u>25,156</u>	<u>19,000</u>	<u>406,993</u>
	<u>\$22,763,504</u>	<u>\$ 60,757</u>	<u>\$ 19,000</u>	<u>\$22,805,261</u>

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	<u>2011</u>	<u>2010</u>
Airport revenue bonds. The bonds are subject to redemption prior to maturity in inverse order of maturities beginning in 2008. Principal payments are due annually in increasing amounts over 20 years. Interest is payable semiannually. The bonds have various interest rates ranging from 3.80% to 4.45%. The bonds are special obligations of the airport and the City of West Memphis and are payable from and secured by a pledge of revenues of the airport remaining after payment of necessary and ordinary operating and maintenance costs.	\$2,225,000	\$2,320,000

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE E - LONG-TERM DEBT - CONTINUED

Note payable to West Memphis Utility Commission payable in monthly installments of \$1500. Interest rate is 3.5% beginning in August 2005. Maturity date is January 2027.	210,948	222,866
Non interest bearing note payable in monthly installments of \$558, final payment due October 2013, secured by equipment and improvements. The note was paid off in 2011.	-	18,484
	<u>2,435,948</u>	<u>2,561,350</u>
Less current portion	<u>110,779</u>	<u>113,614</u>
	<u>\$2,325,169</u>	<u>\$2,447,736</u>

Changes in long-term debt during the year ended December 31, 2011:

	Balance December 31 2010	Proceeds	Payments	Balance December 31, 2011
Bonds payable	\$2,320,000	\$ -	\$95,000	\$2,225,000
Note payable - City Utility	222,866	-	11,918	210,948
Other note payable	<u>18,484</u>	<u>-</u>	<u>18,484</u>	<u>-</u>
	<u>\$2,561,350</u>	<u>\$ -</u>	<u>\$125,402</u>	<u>\$2,435,948</u>

Future maturities on long-term debt are as follows:

<u>Year Ending</u>	<u>Amount</u>
2012	\$ 110,779
2013	116,173
2014	121,570
2015	126,981
2016	127,408
Thereafter	<u>1,833,037</u>
	<u>\$2,435,948</u>

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE F - CAPITAL CONTRIBUTIONS

The Airport has received capital contributions by means of federal and state grants as follows:

	<u>2011</u>	<u>2010</u>
Federal	\$655,212	\$33,822
State	<u>58,600</u>	<u>-</u>
Total Capital Contributions	<u>\$713,812</u>	<u>\$33,822</u>

NOTE G - DISPOSAL OF EQUIPMENT

During the year ended December 31, 2011, the Airport disposed of equipment and wrote off equipment and vehicles no longer in service. As noted in the audit opinion, the Airport does not depreciate capitalized assets. If depreciation had been recorded, the equipment would have had a zero basis when disposed. The disposal is shown as an adjustment to net assets.

NOTE H - OPERATING LEASE

The Airport entered into a refueler lease agreement with the fuel supplier on June 1, 2011. Under the terms of the agreement the Airport will pay \$.035 cents per gallon of fuel purchased from the fuel supplier. The agreement will remain in effect for five years and for an indefinite period thereafter unless either party terminates the agreement.

NOTE I - PENSION PLAN

On January 1, 1977, the City established a defined contribution pension plan for all non-uniformed employees. The City contributes 6% of each participant's annual salary, and employees can also contribute a voluntary amount of not less than 2% of his/her regular pay to the plan. Participants vest in the employer's contribution at a rate of 20% per year. Eligibility commences one year from date of employment.

Employees have the option to invest funds in their account. Employees are entitled only to the funds deposited by them and on their behalf, therefore, there is no unfunded liability.

The amount contributed to the pension plan and expensed by the Airport was \$12,821 and \$12,655 for 2011 and 2010 respectively.

NOTE J - CONTINGENCY

The City of West Memphis is involved in a number of lawsuits arising in the ordinary course of business. None of the lawsuits are directly related to the West Memphis Municipal Airport.

West Memphis Municipal Airport
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE K - MAJOR VENDORS

Purchases of fuel for the year ended December 31, 2011, include purchases from two major vendors.

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Purchases from:				
Vendor A	\$484,805	44.88%	\$ -	-
Vendor B	595,434	55.12%	1,015,884	100%
 Accounts Payable:				
Vendor A	\$ -	-	-	-
Vendor B	-	-	-	-

COMPLIANCE SECTION

West Memphis Municipal Airport
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

<u>Federal Grantor/Pass through Grantor/ Disbursements/Program Title</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation Federal Aviation Administration</u>			
Airport Improvement Program	20.106	3-05-0065-022-2010	\$111,737
Airport Improvement Program	20.106	3-05-0065-023-2011	<u>543,475</u>
Total 20.106			<u>\$655,212</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$655,212</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the West Memphis Municipal Airport and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

**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 West Memphis Municipal Airport Commission
West Memphis, Arkansas

We have audited the financial statements of the West Memphis Municipal Airport (the "Airport") of the City of West Memphis, Arkansas, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 28, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non compliance 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the West Memphis Municipal Airport Commission, management, federal and state regulatory and oversight bodies and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

West Memphis, Arkansas
June 28, 2012

Jackson, Howell & Associates, PLLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the West Memphis Municipal Airport Commission
West Memphis, Arkansas

Compliance

We have audited the compliance of the West Memphis Municipal Airport (the "Airport"), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Airport's major federal program is identified in the summary of the audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audits.

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 OMB Circular A-133, *Audits of State, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

In our opinion, the Airport's complied, in all material respects, with the requirements referred to above that are could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the West Memphis Airport Commission, management, federal regulatory and oversight bodies and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

West Memphis, Arkansas
June 28, 2012

Jackson Howell & Associates, PLLC

West Memphis Municipal Airport
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section I - Summary of Audit Results

1. The Independent Auditors' Report on the financial statements of West Memphis Municipal Airport (the "Airport"), dated June 28, 2012, expressed an unqualified opinion.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the 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* (report dated June 28, 2012).
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to the Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 (report dated June 28, 2012).
5. The Independent Auditors' Report on Compliance with Requirements Applicable to the Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133, dated June 28, 2012, expressed an unqualified opinion.
6. There were no audits findings relative to the major federal awards program that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Airport's major program was the Airport Improvement Program (CFDA 20.106).
8. The threshold of \$300,000 was used to distinguish between Type A and Type B Programs as those terms are defined in OMB Circular A-133.
9. The Airport did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Findings - Financial Statements Audit

None

Section III - Findings and Questioned Costs - Major Federal Awards

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no findings in the prior audit.

June 28, 2012