

SOMERSET-PULASKI COUNTY AIRPORT BOARD

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
Somerset, Kentucky

I have audited the accompanying financial statements of the Somerset-Pulaski County Airport Board (Airport Board), a component unit of Pulaski County Fiscal Court, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Airport Board'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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
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Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Board as of June 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. My opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 13 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 6, 2023 on my consideration of the Somerset-Pulaski County Airport Board's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Board's internal control over financial reporting and compliance.



Somerset, Kentucky
July 6, 2023

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET POSITION
June 30, 2021

Assets and Deferred Outflows of Resources

Current assets	
Cash and cash equivalents	\$ 124,892
Accounts receivable	40,461
Grants receivable	-
Inventories	<u>32,272</u>
Total current assets	197,625
Noncurrent assets	
Nondepreciable capital assets	5,112,145
Depreciable capital assets	17,708,247
Accumulated depreciation	<u>(7,510,760)</u>
Total noncurrent assets	<u>15,309,632</u>
Total Assets	<u>15,507,257</u>
Deferred Outflows of Resources	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 15,507,257</u></u>

Liabilities, Deferred Inflows or Resources and Net Position

Current liabilities	
Accounts payable	\$ 80,246
Accrued expenses	207,769
Security deposits	18,000
Current portion of financing obligations	<u>133,931</u>
Total current liabilities	439,946
Noncurrent liabilities	
Lease payable	455,000
Notes payable	<u>230,837</u>
Total Noncurrent liabilities	<u>685,837</u>
Total liabilities	<u>1,125,783</u>
Deferred Inflows of Resources	<u>-</u>
Net Position	
Investment in capital assets, net of related debt	14,489,864
Restricted	-
Unrestricted	<u>(108,390)</u>
Total net position	<u>14,381,474</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 15,507,257</u></u>

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

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

Operating revenues	
Fuel sales	\$ 308,809
Hangar rent	160,455
Other income	13,060
Other rent	<u>22,950</u>
Total operating revenues	<u>505,274</u>
Operating expenses	
Depreciation	475,536
Cost of sales	226,195
Facilities/equipment maintenance	74,275
Equipment rental	4,381
Payroll	127,910
Insurance	65,393
Utilities	55,551
Legal and accounting	88,584
Miscellaneous	15,310
Telephone	16,331
Office	7,480
Weather service	3,500
Uniforms	8,301
Auto expenses	9,612
Payroll taxes	<u>22,210</u>
Total operating expenses	<u>1,200,569</u>
Operating income (loss)	(695,295)
Nonoperating revenues (expenses)	
Contributions	152,541
Grants	391,531
Loan forgiveness	41,494
Gain/loss on sale of assets	1,105
Interest expense	<u>(36,730)</u>
Total nonoperating revenues (expenses)	549,941
Change in net position	(145,354)
Net position, beginning of year	<u>14,526,828</u>
Net position, end of year	<u><u>\$ 14,381,474</u></u>

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

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities	
Cash receipts from customers	\$ 494,027
Cash payments for goods and services	(233,695)
Cash payments for operating expenses	(189,029)
Cash payments for personnel expenses	<u>(132,435)</u>
Net cash provided by (used in) operating activities	<u>(61,132)</u>
Cash flows from noncapital financing activities	
Proceeds from contributions	<u>152,541</u>
Net cash provided by (used in) noncapital financing activities	<u>152,541</u>
Cash flows from capital and related financing activities	
Cash received from capital grant	391,531
Proceeds from sale of fixed assets	11,000
Acquisition of capital assets	(661,721)
Proceeds from PPP loan	20,747
Proceeds from notes payable	280,000
Debt service principal payments	(40,232)
Debt service interest	<u>(36,730)</u>
Net cash provided by (used in) capital and related financing activities	<u>(35,405)</u>
Net increase (decrease) in cash and cash equivalents	56,004
Cash and cash equivalents, beginning of year	<u>68,888</u>
Cash and cash equivalents, end of year	<u><u>\$ 124,892</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (695,295)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	475,536
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable	1,813
(Increase) decrease in grants receivable	135,386
(Increase) decrease in inventories	(7,501)
Increase (decrease) in accounts payable	(57,142)
Increase (decrease) in accrued expenses	68,071
Increase (decrease) in security deposits	<u>18,000</u>
Net cash provided by (used in) operating activities	<u><u>\$ (61,132)</u></u>

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

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Somerset-Pulaski County Airport Board (the Airport Board) is a special governmental unit established pursuant to KRS Chapter 183.132 in 1948 as a non-taxing district. The Airport Board has the responsibility for the administration and management of the Lake Cumberland Regional Airport, a public use, full service general aviation airport. The purpose of the Airport Board is to provide adequate resources and availability for air travel in and out of the Pulaski County area. The accounting policies of the Airport Board conform to accounting principles generally accepted in the United States of America applicable to enterprise funds of governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Somerset-Pulaski County Airport Board is a component unit of the Pulaski County Fiscal Court. The financial statements of the Airport Board include the funds, agencies, boards, and entities for which the Airport Board is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 19, was determined on the basis of the Airport Board's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. The Airport Board has no component units. The Airport Board was determined to be a component unit of Pulaski County Fiscal Court (Fiscal Court) due to the fact that the County Judge has the power to appoint a significant portion of the Board members, Fiscal Court provides a significant portion of the Airport Board's annual funding and the Airport Board is required to report to Fiscal Court annually.

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

The Airport Board is reported as an enterprise fund. An enterprise fund is used to account for operations that recover the cost of services provided from user charges. Accordingly, the accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities are recognized in the Statement of Net Position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Therefore, deferred revenues are only reported for receipts and prepayments or revenues collected in advance.

The accompanying Statement of Revenues, Expenses, and Changes in Net Position reports revenues and expenses as either operating or non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the ongoing operations. The principal revenues of the Airport Board are charges to customers for hangar and other rents and sales of aviation fuel. Operating expenses include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All other revenue and expenses not meeting this definition are reported as non-operating revenues and expenses. Grant receipts are recorded as non-operating revenues when all eligibility requirements are met under the appropriate grant terms. This

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

normally occurs as amounts are expended and become reimbursable from the granting agency or, if already received, are earned by being expended in accordance with the grant agreement.

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

C. Assets, Liabilities and Net Position

1. Deposits and Investments

Cash and cash equivalents include cash on hand and demand deposits. Cash and cash equivalents are stated at actual cost which approximates fair value. Kentucky Revised Statute 66.480 permits the Airport Board to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

For purposes of the statement of cash flows, the Airport Board considers all highly liquid investments (both restricted and unrestricted) with an original maturity of 90 days or less to be cash equivalents.

2. Accounts Receivable

Accounts receivable consist primarily of amounts due for credit fuel sales as well as a small amount of hangar rent in arrears.

Accounts receivable are stated at face amount, which approximates fair market value.

The Airport Board does not maintain an allowance for doubtful accounts due to the fact that all receivables are normally collected within 60 days and there has been no history of any uncollectible amounts.

3. Grants Receivable

Grants receivable consist of amounts due on spend and reimburse grants where the expenditures had occurred by June 30, 2021.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Assets, Liabilities and Net Position, continued

4. Inventories

Inventories primarily consist of aviation fuel and logs for resale. Inventories are valued at the lower of cost or market as of June 30, 2021.

5. Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings, building improvements, furniture, office equipment, machinery, equipment, and infrastructure assets, that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the financial statements. Such assets are recorded at historical cost or estimated historical costs when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress are not depreciated. Interest cost incurred during construction is capitalized. Capital assets and infrastructure are depreciated using the straight-line method over the estimated useful life of the asset.

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Useful Life Years</u>
Land improvements/infrastructure	\$25,000	10-50
Buildings and improvements	\$25,000	25-50
Machinery and equipment	\$5,000	5-15
Vehicles	\$5,000	5-15

6. Security Deposits

Security deposits are recorded for amounts paid on hangar leases to be held by the Board until the satisfactory conclusion of the lease arrangement at which time, barring any unpaid rent or damages noted, the security deposit will be returned to the tenant.

7. Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position is reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by the outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Concluded

C. Assets, Liabilities and Net Position, concluded

7. Net Position

imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets.

D. Budgeting

The Airport Board follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets are adopted on the cash basis. The Airport Board has elected not to record encumbrances, thus, all budget appropriations lapse at year end. In June, the Airport Board adopts the annual fiscal year budget. Once approved, the Airport Board may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

E. Other Accounting Policies

1. 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 reported amounts of assets, deferred outflows, liabilities, deferred inflows 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.

2. Encumbrances

Encumbrance accounting is not used by the Airport Board.

2. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a depository institution failure the Airport Board's deposits may not be returned to it. The Airport Board does not have a deposit policy for custodial credit risk beyond that specified in KRS 66.480. Certain bank accounts may exceed the federally insured limits from time to time. The Airport Board has not experienced losses on such accounts and believes they are not exposed to any significant risk. As of June 30, 2021, all \$124,892 of the Airport Board's bank balance was insured by FDIC coverage.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021

3. CAPITAL ASSETS

A summary of changes in the Airport Board's capital assets is as follows for the year ended June 30, 2021:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 3,386,078	\$ 361,052	\$ -	\$ 3,747,130
Projects in progress	1,262,345	102,670	-	1,365,015
Totals	<u>4,648,423</u>	<u>463,722</u>	<u>-</u>	<u>5,112,145</u>
Capital Assets, Depreciated				
Buildings and improvements	5,863,278	-	-	5,863,278
Infrastructure	10,435,056	-	-	10,435,056
Equipment	904,806	18,000	-	922,806
Vehicles	346,687	180,000	39,580	487,107
Totals	<u>17,549,827</u>	<u>198,000</u>	<u>39,580</u>	<u>17,708,247</u>
Accumulated Depreciation				
Building	1,630,255	130,532	-	1,760,787
Infrastructure	4,632,688	282,127	-	4,914,815
Equipment	541,951	40,377	-	582,328
Vehicles	260,015	22,500	29,685	252,830
Totals	<u>7,064,909</u>	<u>475,536</u>	<u>29,685</u>	<u>7,510,760</u>
Capital Assets Being Depreciated, Net	<u>10,484,918</u>	<u>(277,536)</u>	<u>9,895</u>	<u>10,197,487</u>
Capital Assets, Net	<u>\$ 15,133,341</u>	<u>\$ 186,186</u>	<u>\$ 9,895,000</u>	<u>\$ 15,309,632</u>

During the fiscal year ended June 30, 2019, the Airport Board received a grant from the Federal Aviation Administration to update their Airport Land Plan. This project was in process at June 30, 2021 and \$118,715 of an estimated total project cost of \$132,778 had been spent through that date.

During the fiscal year ended June 30, 2020, the Airport Board received a grant from the Kentucky Transportation Cabinet Department of Aviation to install LED lighting for the runways. This project was in process at June 30, 2021 and \$1,139,420 of an estimated total project cost of \$1,200,000 had been spent through that date.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021

3. CAPITAL ASSETS, Concluded

During the fiscal year ended June 30, 2020, the Airport Board received a grant from the Federal Aviation Administration to purchase snow removal equipment. The purchase was funded 90% by the Federal Aviation Administration, 7.5% by the Kentucky Transportation Cabinet Department of Aviation and the remaining 2.5% coming from local sources. This project was in process at June 30, 2021 and \$15,000 of an estimated total project cost of \$212,000 had been spent through that date.

During the fiscal year ended June 30, 2021, the Airport Board began a project to renovate one of the hangars to meet the needs of a future tenant who had committed to a long-term lease arrangement with the Board for the hangar pending the successful completion of renovations. This project was in process at June 30, 2021 and \$91,880 of an estimated total project cost of \$234,657 had been spent through that date.

4. PPP LOAN

During the year ended June 30, 2020, the Airport Board applied for and received a Paycheck Protection Program loan for \$20,747. During the year ended June 30, 2021, the Airport Board applied for and received a second round Paycheck Protection Program loan for \$20,747. Both of the loans have been forgiven by the Small Business Administration and the financial statements reflect the associated loan forgiveness income.

5. LONG-TERM DEBT

A. Lease Payable

On April 24, 2014, the Somerset-Pulaski County Airport Board entered into a capital lease with a national bank for the purpose of financing the construction of a new T-Hangar. The lease is for \$610,000 with scheduled interest rates ranging from 3.75% to 6.00% for a period of 20 years. The lease agreement requires semi-annual payments of interest and annual payments of principal. The principal balance as of June 30, 2021 was \$480,000. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest</u>
June 30, 2022	\$ 25,000	\$ 26,960
June 30, 2023	25,000	25,707
June 30, 2024	30,000	24,325
June 30, 2025	30,000	22,713
June 30, 2026	35,000	20,844
June 30, 2027 – June 30, 2031	195,000	67,406
June 30, 2032 – June 30, 2034	<u>145,000</u>	<u>23,700</u>
	<u>\$480,000</u>	<u>\$211,655</u>

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021

5. LONG-TERM DEBT, Concluded

B. Notes Payable

On August 9, 2011, the Somerset-Pulaski County Airport Board entered into a loan agreement with a local non-profit organization for the purpose of remodeling the airport terminal. The loan is for \$75,000 with a 0% interest rate for a period of ten years. The principal balance as of June 30, 2021 was \$75,000, all of which is short-term debt.

On September 10, 2020, the Somerset-Pulaski County Airport Board entered into a loan agreement with a local bank for the purpose of purchasing a new jet fuel truck. The loan is for \$180,000 with a 3.25% interest rate for a period of seven years. The principal balance as of June 30, 2021 was \$164,768.

On April 1, 2021, the Somerset-Pulaski County Airport Board entered into a loan agreement with a local non-profit organization for the purpose of financing the hangar renovations undertaken during the year ended June 30, 2021. The loan is for \$100,000 with a 0% interest rate for a period of 5 years with payments beginning in January, 2022. The principal balance as of June 30, 2021 was \$100,000.

Future principal and interest requirements on the above three loan agreements are:

	<u>Principal</u>	<u>Interest</u>
June 30, 2022	\$108,931	\$ 4,937
June 30, 2023	44,721	4,147
June 30, 2024	45,527	3,341
June 30, 2025	46,378	2,490
June 30, 2026	47,248	1,620
June 30, 2027 – June 30, 2028	<u>46,963</u>	<u>757</u>
	<u>\$339,768</u>	<u>\$ 17,292</u>

C. Changes in Long-Term Debt

Long-term debt activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	\$ 75,000	\$280,000	\$ 15,232	\$339,768
Lease payable	<u>505,000</u>	<u>-</u>	<u>25,000</u>	<u>480,000</u>
	<u>\$580,000</u>	<u>-</u>	<u>40,232</u>	<u>\$819,768</u>

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2021

6. LEGAL CONTINGENCIES

The Airport Board is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Airport Board officials and legal counsel believe these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially affect the Airport Board's financial position.

7. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30 2021, the Airport Board had the following related party transactions:

The Airport Board paid \$3,527 to a local business owned by a board member for service and maintenance of the airport security system.

The Airport Board borrowed \$180,000 for a new jet fuel truck from a bank where a board member is a loan officer. Total payments to the bank during the year on this loan obligation was \$22,531, including interest.

8. OPERATING LEASE REVENUE

The Airport Board leases property and hangars to various business and individuals. Lease revenue under these agreements was \$183,405 for the year ended June 30, 2021. The cost and accumulated depreciation of the leased property was \$2,040,056 and \$530,185, respectively, at June 30, 2021. None of the leases have remaining noncancelable terms that extend beyond June 30, 2021, except as noted below. All of the other leases are treated as month-to-month leases and are cancelable with 30 days written notice by either party.

The Airport Board entered into a long-term lease with a tenant in March, 2021. The lease term is for 66 months and begins when the renovations to the hanger involved is completed. This renovations are discussed in more detail in Note 4. The renovations were completed and the hanger was occupied by the tenant in October, 2021. Future minimum rental payments under this agreement are as follows:

June 30, 2022	\$ 27,000
June 30, 2023	36,000
June 30, 2024	36,000
June 30, 2025	36,000
June 30, 2026	36,000
June 30, 2027	<u>27,000</u>
	<u>\$198,000</u>

9. RISK MANAGEMENT

The Airport Board is exposed to various form of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, employee injury, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Concluded
FOR THE YEAR ENDED JUNE 30, 2021

10. SUBSEQUENT EVENTS

The Airport Board has evaluated and considered the need to recognize or disclose subsequent events through July 6, 2023, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2021 have not been evaluated by the Airport Board.

REQUIRED SUPPLEMENTAL INFORMATION

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
REQUIRED SUPPLEMENTARY BUDGET COMPARISON
FOR THE YEAR ENDED JUNE 30, 2021**

	Original Budget	Revisions	Revised Budget	Actual	Variance - Positive (Negative)
Operating receipts					
Fuel sales	\$ 300,000	\$ -	\$ 300,000	\$ 308,809	\$ 8,809
Hangar rent	180,000	-	180,000	160,455	(19,545)
Other income	8,000	-	8,000	13,060	5,060
Other rent	26,000	-	26,000	22,950	(3,050)
Total operating receipts	514,000	-	514,000	505,274	(8,726)
Operating expenditures					
Project expenditures	597,000	-	597,000	661,721	64,721
Cost of sales	186,150	-	186,150	226,195	40,045
Facilities/equipment maintenance	107,500	-	107,500	74,275	(33,225)
Equipment rental	-	-	-	4,381	4,381
Payroll	145,000	-	145,000	127,910	(17,090)
Insurance	65,000	-	65,000	65,393	393
Utilities	65,000	-	65,000	55,551	(9,449)
Legal and accounting	40,000	-	40,000	88,584	48,584
Miscellaneous	6,000	-	6,000	15,310	9,310
Telephone	16,000	-	16,000	16,331	331
Office	2,500	-	2,500	7,480	4,980
Weather service	-	-	-	3,500	3,500
Uniforms	8,000	-	8,000	8,301	301
Auto expenses	15,000	-	15,000	9,612	(5,388)
Payroll taxes	15,000	-	15,000	22,210	7,210
Total operating expenditures	1,268,150	-	1,268,150	1,386,754	118,604
Operating surplus (deficit)	(754,150)	-	(754,150)	(881,480)	(127,330)
Nonoperating receipts (expenditures)					
Contributions	240,000	-	240,000	152,541	(87,459)
Grants	597,000	-	597,000	391,531	(205,469)
Loan forgiveness	-	-	-	41,494	41,494
Gain/loss on sale of assets	-	-	-	11,000	11,000
Debt payment	(82,850)	-	(82,850)	(76,962)	5,888
Total nonoperating receipts (expenditures)	754,150	-	754,150	519,604	(234,546)
Net surplus (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (361,876)</u>	<u>\$ (361,876)</u>

Note: The Airport Board adopts their budget on the cash basis which approximates accounting principles generally accepted in the United States of America except for the treatment of capital purchases, depreciation, gain/loss on sale of assets and debt principal payments. A reconciliation of the net surplus (deficit) above to change in net position on the statement of activities is as follows:

Net surplus (deficit) above	\$ (361,876)
Project expenditures	661,721
Depreciation	(475,536)
Gain/loss on sale of assets	(9,895)
Principal portion of debt payment	40,232
Change in net position per the statement of activities	<u>\$ (145,354)</u>

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

SUPPLEMENTAL INFORMATION

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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 Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
Somerset, Kentucky

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Somerset-Pulaski County Airport Board as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Somerset-Pulaski County Airport Board's basic financial statements and have issued my report thereon dated July 6, 2023.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Somerset-Pulaski County Airport Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Somerset-Pulaski County Airport Board's internal control. Accordingly, I do not express an opinion on the effectiveness of the Somerset-Pulaski County Airport Board'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.

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
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My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described below, that I consider to be significant deficiencies.

As part of the audit, management requested my firm prepare a draft of the financial statements, including the related notes to financial statements. Management reviewed, approved and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements. The absence of this control procedure is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the Airport Board's internal control.

To provide oversight of the financial statement preparation services at an appropriate level, I recommend that management establish effective review policies and procedures and consider obtaining additional expertise in these areas.

Management's Response: Management agrees with the finding and has considered the options available in relation to financial statement preparation. Management feels that, at this time, due to the relatively small size of the staff and the costs involved, it would be cost prohibitive to employ internal personnel to prepare the financial statements and notes.

During the performance of the audit engagement procedures, I noted management had not adjusted all account balances to reflect appropriate year-end balances. This is a necessary step to ensure the financial statements are fairly stated. I proposed adjustments to the financial statements to correct various balances and management agreed with and subsequently posted the adjustments. The effect of these adjustments on the financial statements is, in my judgment, significant. Because the potential exists that a material misstatement of the Airport Board's financial statements that is more than inconsequential but less than material could occur and not be prevented or detected by the Airport Board's internal control, I concluded there is a significant deficiency in the Airport Board's control policies and procedures.

To properly ensure that accounts reflect proper balances and agree to supporting information, I recommend that management establish effective review policies and procedures and consider obtaining additional expertise in these areas.

Management's Response: Management agrees with the finding and has taken steps to obtain additional outside assistance with the accounting for the Airport Board. Management feels that, at this time, due to the relatively small size of the staff and the costs involved, it would be cost prohibitive to employ internal personnel in this capacity, but believes the additional outside assistance obtained will alleviate this deficiency in future years.

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Somerset-Pulaski County Airport Board's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Somerset-Pulaski County Airport Board's Response to Findings

Somerset-Pulaski County Airport Board's response to the findings identified in my audit is included above. Somerset-Pulaski County Airport Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Somerset, Kentucky
July 6, 2023