

SOMERSET-PULASKI COUNTY AIRPORT BOARD

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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Randall D. Turpin, CPA, PLLC

225 Parkers Mill Road
Somerset, Kentucky 42501

Phone: 606-451-1550
Fax: 606-451-0194
Email: rdt1869@aol.com

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

Opinions

I have audited the accompanying financial statements of the business-type activities and the major fund of the Somerset-Pulaski County Airport Board, a component unit of Pulaski County Fiscal Court, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Somerset-Pulaski County Airport Board's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Somerset-Pulaski County Airport Board as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Somerset-Pulaski County Airport Board, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Somerset-Pulaski County Airport Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Somerset-Pulaski County Airport Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Somerset-Pulaski County Airport Board's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

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To the Members of Pulaski County Fiscal Court
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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 16 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 September 22, 2023 on my consideration of the Somerset-Pulaski County Airport Board's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Somerset-Pulaski County Airport Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Somerset-Pulaski County Airport Board's internal control over financial reporting and compliance.



Somerset, Kentucky
September 22, 2023

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET POSITION
June 30, 2022

Assets and Deferred Outflows of Resources

Current assets	
Cash and cash equivalents	\$ 300,170
Accounts receivable	103,791
Grants receivable	-
Current portion of lease receivable	31,235
Inventories	<u>62,976</u>
Total current assets	498,172
Noncurrent assets	
Noncurrent portion of lease receivable	129,572
Nondepreciable capital assets	4,942,348
Depreciable capital assets	18,242,338
Accumulated depreciation	<u>(7,995,339)</u>
Total noncurrent assets	<u>15,318,919</u>
Total Assets	<u>15,817,091</u>
Deferred Outflows of Resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 15,817,091</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities	
Accounts payable	\$ 226,895
Accrued expenses	263,587
Security deposits	18,000
Deferred revenue	41,331
Current portion of financing obligations	<u>92,850</u>
Total current liabilities	642,663
Noncurrent liabilities	
Lease payable	430,000
Notes payable	<u>304,668</u>
Total Noncurrent liabilities	<u>734,668</u>
Total liabilities	<u>1,377,331</u>
Deferred Inflows of Resources	
Leases	<u>160,807</u>
Net Position	
Investment in capital assets, net of related debt	14,491,401
Restricted	-
Unrestricted	<u>(212,448)</u>
Total net position	<u>14,278,953</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,817,091</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, 2022

Operating revenues

Fuel sales	\$ 812,602
Hangar rent	209,146
Other income	17,191
Other rent	<u>29,350</u>
Total operating revenues	<u>1,068,289</u>

Operating expenses

Depreciation	484,579
Cost of sales	607,756
Facilities/equipment maintenance	123,674
Equipment rental	3,465
Payroll	189,605
Insurance	64,324
Utilities	69,155
Legal and accounting	122,864
Miscellaneous	13,000
Telephone	14,924
Office	7,964
Weather service	1,100
Uniforms	11,842
Project expense-environmental	26,750
Bad debts	13,000
Auto expenses	34,759
Payroll taxes	<u>14,269</u>
Total operating expenses	<u>1,803,030</u>

Operating income (loss) (734,741)

Nonoperating revenues (expenses)

Contributions	468,750
Grants	121,549
Loan forgiveness	75,000
Gain/loss on sale of assets	-
Interest income	4,289
Interest expense	<u>(37,368)</u>
Total nonoperating revenues (expenses)	632,220

Change in net position (102,521)

Net position, beginning of year 14,381,474

Net position, end of year \$ 14,278,953

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, 2022

Cash flows from operating activities

Cash receipts from customers	\$ 987,768
Cash payments for goods and services	(627,952)
Cash payments for operating expenses	(254,231)
Cash payments for personnel expenses	<u>(205,983)</u>

Net cash provided by (used in) operating activities (100,398)

Cash flows from noncapital financing activities

Proceeds from contributions	<u>468,750</u>
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Net cash provided by (used in) noncapital financing activities 468,750

Cash flows from capital and related financing activities

Cash received from capital grant	121,549
Acquisition of capital assets	(364,294)
Proceeds from notes payable	142,057
Debt service principal payments	(59,307)
Debt service interest	<u>(37,368)</u>

Net cash provided by (used in) capital and related financing activities (197,363)

Cash flows from investing activities

Interest income	<u>4,289</u>
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Net cash provided by (used in) capital and related financing activities 4,289

Net increase (decrease) in cash and cash equivalents 175,278

Cash and cash equivalents, beginning of year 124,892

Cash and cash equivalents, end of year \$ 300,170

**Reconciliation of operating income to net cash
provided by (used in) operating activities**

Operating income (loss)	\$ (734,741)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	484,579
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable	(63,329)
(Increase) decrease in grants receivable	-
(Increase) decrease in inventories	(30,704)
Increase (decrease) in accounts payable	146,649
Increase (decrease) in accrued expenses	55,817
Increase (decrease) in deferred revenue	41,331
Increase (decrease) in security deposits	<u>-</u>

Net cash provided by (used in) operating activities \$ (100,398)

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

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022**

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, 2022.

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, 2022.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Assets, Liabilities and Net Position, concluded

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 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.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Concluded

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.

F. Adoption of New Accounting Standard

In June, 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which replaced existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to recognize an intangible right-to-use lease assets and corresponding lease liability on the balance sheet. Lease assets represent the government's right to use an underlying asset for the lease term and lease liabilities represent the government's obligation to make lease payments arising from the lease. The new guidance requires the government to classify leases as short-term or long-term lease, with classification affecting the pattern of expense recognition in the statement of activities. In addition, the new standard requires enhanced disclosure surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. The Airport Board evaluated its leasing arrangements and determined there were no leases as lessee that the new accounting standard treatment was applicable to as all leases were short-term. Likewise, Statement No. 87 changed the way that lessors recognize income by requiring them to report a lease receivable for the current value of the future lease payments to be received as well as a corresponding deferred inflow of resources. The lease receivable is discounted at either the interest rate implicit in the lease or the government's normal rate for similar arrangements. As lease payments are received, lease revenue and interest income are recognized as well as a decrease in the carrying amount of the deferred inflow of resources. One leasing arrangement as lessor of the Airport Board was affected by the new standard as all other leases were short-term.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022

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, 2022, all \$286,579 of the Airport Board's bank balance was insured by FDIC coverage.

3. CAPITAL ASSETS

A summary of changes in the Airport Board's capital assets is as follows for the year ended June 30, 2022:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated				
Land	\$ 3,747,130	\$ -	\$ -	\$ 3,747,130
Projects in progress	1,365,015	357,644	360,772	1,361,887
Totals	<u>5,112,145</u>	<u>357,644</u>	<u>360,772</u>	<u>5,109,017</u>
Capital Assets, Depreciated				
Buildings and improvements	5,863,278	242,057	-	6,105,335
Infrastructure	10,435,056	118,715	-	10,553,771
Equipment	922,806	-	-	922,806
Vehicles	487,107	6,650	-	493,757
Totals	<u>17,708,247</u>	<u>367,422</u>	<u>-</u>	<u>18,075,669</u>
Accumulated Depreciation				
Building	1,760,787	134,256	-	1,895,043
Infrastructure	4,914,815	281,679	-	5,196,494
Equipment	582,328	40,979	-	623,307
Vehicles	252,830	27,665	-	280,495
Totals	<u>7,510,760</u>	<u>484,579</u>	<u>-</u>	<u>7,995,339</u>
Capital Assets Being Depreciated, Net	<u>10,197,487</u>	<u>(117,157)</u>	<u>-</u>	<u>10,080,330</u>
Capital Assets, Net	<u><u>\$ 15,309,632</u></u>	<u><u>\$ 240,487</u></u>	<u><u>\$ 360,772</u></u>	<u><u>\$ 15,189,347</u></u>

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022**

3. CAPITAL ASSETS, Concluded

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, 2022 and \$1,163,024 of an estimated total project cost of \$1,200,000 had been spent through that date.

During the fiscal year ended June 30, 2022, 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, 2022 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, 2022, the Airport Board received a grant from the Federal Aviation Administration to install AWOS equipment. This project was in process at June 30, 2022 and \$180,363 of an estimated total project cost of \$183,667 had been spent through that date.

4. 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, 2022 was \$455,000. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest</u>
June 30, 2023	\$ 25,000	\$ 25,707
June 30, 2024	30,000	24,325
June 30, 2025	30,000	22,713
June 30, 2026	30,000	20,844
June 30, 2027	35,000	18,546
June 30, 2028 – June 30, 2032	205,000	57,360
June 30, 2033 – June 30, 2034	<u>100,000</u>	<u>15,200</u>
	<u>\$455,000</u>	<u>\$184,695</u>

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022

4. LONG-TERM DEBT, Concluded

B. Notes Payable

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, 2022 was \$140,791.

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 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, 2022 was \$89,750.

On March 26, 2021, the Somerset-Pulaski County Airport Board entered into a loan agreement with a local bank for the purpose of financing hangar renovations undertaken during the year ended June 30, 2022. The loan is for \$142,000 with a 3.75% interest rate for a period of seven years. The principal balance as of June 30, 2022 was \$141,977.

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

	<u>Principal</u>	<u>Interest</u>
June 30, 2023	\$ 67,850	\$ 9,018
June 30, 2024	69,402	7,464
June 30, 2025	71,175	5,691
June 30, 2026	72,992	3,875
June 30, 2027	66,540	1,993
June 30, 2028	<u>24,559</u>	<u>296</u>
	<u>\$372,518</u>	<u>\$ 28,337</u>

C. Changes in Long-Term Debt

Long-term debt activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	\$339,768	\$142,057	\$109,307	\$372,518
Lease payable	<u>480,000</u>	<u>-</u>	<u>25,000</u>	<u>455,000</u>
	<u>\$819,768</u>	<u>-</u>	<u>40,232</u>	<u>\$827,518</u>

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2022

5. 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.

6. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30 2022, the Airport Board had the following related party transactions:

The Airport Board paid \$1,793 to a local business owned by a board member for service and maintenance of the airport security system.

The Airport Board borrowed \$142,057 for a hangar upgrade project from a bank where a board member is a loan officer. Total payments to the bank during the year on this loan obligation was \$4,466, including interest.

In the previous year, the Airport Board had borrowed funds to purchase 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 \$28,868, including interest.

7. LEASE REVENUE

The Airport Board leases property and hangars to various business and individuals. Lease revenue under these agreements was \$209,146 for the year ended June 30, 2022. The cost and accumulated depreciation of the leased property was \$2,282,113 and \$581,401, respectively, at June 30, 2022. None of the leases have remaining noncancelable terms that extend beyond June 30, 2022, 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 fixed-payment, long-term lease with a tenant in March, 2021. The lease term is for 66 months and begins when the renovations to the hangar involved is completed. This renovations are discussed in more detail in Note 4. The renovations were completed and the hangar was occupied by the tenant in October, 2021. The total lease revenue inflows recognized during the fiscal year under this arrangement was \$20,273 and interest income recognized was \$3,727. The discount rate used was 3.25% Future minimum rental payments under this agreement are as follows:

	<u>Principal</u>	<u>Interest</u>
June 30, 2023	\$ 31,235	\$ 4,765
June 30, 2024	32,256	3,744
June 30, 2025	33,330	2,670
June 30, 2026	34,429	1,571
June 30, 2027	<u>29,557</u>	<u>443</u>
	<u>\$160,807</u>	<u>\$13,193</u>

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Concluded
FOR THE YEAR ENDED JUNE 30, 2022**

8. 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.

9. SUBSEQUENT EVENTS

The Airport Board has evaluated and considered the need to recognize or disclose subsequent events through September 22, 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, 2022 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, 2022**

	Original Budget	Revisions	Revised Budget	Actual	Variance - Positive (Negative)
Operating receipts					
Fuel sales	\$ 350,000	\$ -	\$ 350,000	\$ 812,602	\$ 462,602
Hangar rent	180,000	-	180,000	209,146	29,146
Other income	-	-	-	17,191	17,191
Other rent	26,000	-	26,000	29,350	3,350
Total operating receipts	<u>556,000</u>	<u>-</u>	<u>556,000</u>	<u>1,068,289</u>	<u>512,289</u>
Operating expenditures					
Capital expenditures	-	-	-	356,079	356,079
Cost of sales	224,500	-	224,500	607,756	383,256
Facilities/equipment maintenance	104,000	-	104,000	123,674	19,674
Equipment rental	29,000	-	29,000	3,465	(25,535)
Payroll	155,000	-	155,000	189,605	34,605
Insurance	65,000	-	65,000	64,324	(676)
Utilities	65,000	-	65,000	69,155	4,155
Legal and accounting	40,000	-	40,000	122,864	82,864
Miscellaneous	10,500	-	10,500	13,000	2,500
Telephone	17,000	-	17,000	14,924	(2,076)
Office	-	-	-	7,964	7,964
Weather service	-	-	-	1,100	1,100
Uniforms	8,000	-	8,000	11,842	3,842
Project expense-environmental	-	-	-	26,750	26,750
Auto expenses	15,000	-	15,000	34,759	19,759
Payroll taxes	15,000	-	15,000	14,269	(731)
Total operating expenditures	<u>748,000</u>	<u>-</u>	<u>748,000</u>	<u>1,661,530</u>	<u>913,530</u>
Operating surplus (deficit)	(192,000)	-	(192,000)	(593,241)	(401,241)
Nonoperating receipts (expenditures)					
Contributions	200,000	-	200,000	468,750	268,750
Grants	-	-	-	121,549	121,549
Loan forgiveness	-	-	-	75,000	75,000
Interest income	-	-	-	4,289	4,289
Debt payment	(53,000)	-	(53,000)	(96,675)	(43,675)
Total nonoperating receipts (expenditures)	<u>147,000</u>	<u>-</u>	<u>147,000</u>	<u>572,913</u>	<u>425,913</u>
Net surplus (deficit)	<u>\$ (45,000)</u>	<u>\$ -</u>	<u>\$ (45,000)</u>	<u>\$ (20,328)</u>	<u>\$ 24,672</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, bad debts, 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	\$ (20,328)
Capital expenditures	356,079
Depreciation	(484,579)
Bad debts	(13,000)
Principal portion of debt payment	59,307
Change in net position per the statement of activities	<u>\$ (102,521)</u>

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

SUPPLEMENTAL INFORMATION

Randall D. Turpin, CPA, PLLC

225 Parkers Mill Road
Somerset, Kentucky 42501

Phone: 606-451-1550
Fax: 606-451-0194
Email: rdt1869@aol.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the 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 business-type activities and the major fund of the Somerset-Pulaski County Airport Board as of and for the year ended June 30, 2022, 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 September 22, 2023.

Report on 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 opinions 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. I identified 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
Somerset-Pulaski County Airport Board
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Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the Somerset-Pulaski County Airport Board's response to the findings identified in my audit and described above. The Somerset-Pulaski County Airport Board's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the response.

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
September 22, 2023