

SOMERSET-PULASKI COUNTY AIRPORT BOARD

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-3
Basic Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16
Required Supplemental Information	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	17
Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-20

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, 2023, 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, 2023, 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.

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
Page 2

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.

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
Page 3

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 17 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 12, 2024 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 12, 2024

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET POSITION
June 30, 2023

Assets and Deferred Outflows of Resources

Current assets	
Cash and cash equivalents	\$ 175,938
Accounts receivable	59,034
Current portion of lease receivable	32,256
Inventories	<u>45,251</u>
Total current assets	312,479
Noncurrent assets	
Noncurrent portion of lease receivable	97,316
Right of use assets-operating leases	46,398
Nondepreciable capital assets	3,927,493
Depreciable capital assets	19,589,186
Accumulated depreciation	<u>(8,532,485)</u>
Total noncurrent assets	<u>15,127,908</u>
Total Assets	<u>15,440,387</u>
Deferred Outflows of Resources	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 15,440,387</u></u>

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities	
Accounts payable	\$ 49,329
Accrued expenses	256,581
Security deposits	-
Current portion of operating lease liability	20,106
Current portion of financing obligations	<u>97,583</u>
Total current liabilities	423,599
Noncurrent liabilities	
Operating lease liability	26,292
Lease payable	400,000
Notes payable	<u>327,847</u>
Total Noncurrent liabilities	<u>754,139</u>
Total liabilities	<u>1,177,738</u>
Deferred Inflows of Resources	
Leases	<u>129,572</u>
Net Position	
Investment in capital assets, net of related debt	14,276,186
Restricted	-
Unrestricted	<u>(143,109)</u>
Total net position	<u>14,133,077</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 15,440,387</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, 2023

Operating revenues	
Fuel sales	\$ 1,068,134
Hangar rent	215,764
Other income	18,606
Other rent	<u>23,100</u>
Total operating revenues	<u>1,325,604</u>
Operating expenses	
Depreciation	537,145
Amortization of right of use assets	14,555
Cost of sales	836,451
Facilities/equipment maintenance	135,792
Equipment rental	7,983
Payroll	219,402
Insurance	80,199
Utilities	81,167
Legal and accounting	39,469
Miscellaneous	14,552
Telephone	16,091
Office	11,112
Weather service	6,949
Uniforms	15,098
Project expense	165,330
Auto expenses	23,442
Payroll taxes	<u>17,331</u>
Total operating expenses	<u>2,222,068</u>
Operating income (loss)	(896,464)
Nonoperating revenues (expenses)	
Contributions	-
Grants	762,901
Recovery of bad debt	19,933
Interest income	5,122
Interest expense	<u>(37,368)</u>
Total nonoperating revenues (expenses)	750,588
Change in net position	(145,876)
Net position, beginning of year	<u>14,278,953</u>
Net position, end of year	<u><u>\$ 14,133,077</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, 2023

Cash flows from operating activities	
Cash receipts from customers	\$ 1,144,173
Cash payments for goods and services	(854,176)
Cash payments for operating expenses	(572,105)
Cash payments for personnel expenses	<u>(220,640)</u>
Net cash provided by (used in) operating activities	<u>(502,748)</u>
Cash flows from noncapital financing activities	
Proceeds from contributions	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>-</u>
Cash flows from capital and related financing activities	
Cash received from capital grant	762,901
Acquisition of capital assets	(335,496)
Proceeds from notes payable	100,000
Payments on operating lease liabilities	(14,555)
Debt service principal payments	(102,088)
Debt service interest	<u>(37,368)</u>
Net cash provided by (used in) capital and related financing activities	<u>373,394</u>
Cash flows from investing activities	
Interest income	<u>5,122</u>
Net cash provided by (used in) capital and related financing activities	<u>5,122</u>
Net increase (decrease) in cash and cash equivalents	(124,232)
Cash and cash equivalents, beginning of year	<u>300,170</u>
Cash and cash equivalents, end of year	<u><u>\$ 175,938</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (896,464)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	537,145
Amortization of right of use assets	14,555
Recovery of bad debts	19,933
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable	44,757
(Increase) decrease in inventories	17,725
Increase (decrease) in accounts payable	(177,566)
Increase (decrease) in accrued expenses	(3,502)
Increase (decrease) in deferred revenue	(41,331)
Increase (decrease) in security deposits	<u>(18,000)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (502,748)</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, 2023

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, 2023

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 year end. There were no amounts receivable under grants at June 30, 2023.

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, 2023.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Assets, Liabilities and Net Position, concluded

5. Lease Receivable and Related Deferred Inflows of Resources.

Leases of hangar property with initial terms in excess of one year are reported as 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. The Board has one leasing arrangement subject to this accounting treatment as all other leases are short-term.

6. 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

7. Right of Use Assets and Lease Payable

The Board leases a fuel truck. The arrangements are evaluated at inception to determine if they are a lease. Operating leases are included in right of use (ROU) operating lease assets, current portion of operating lease liabilities and long-term operating lease liabilities on the statement of net position.

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

7. Right of Use Assets and Lease Payable

ROU assets represent the Board's right to use an underlying asset for the lease term and lease liabilities represent the Board's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the Board uses their incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating ROU assets also includes any lease payments made and excludes any lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

None of the lease agreements contain any material residual value guarantees or material restrictive covenants.

The Board has elected to apply the short-term lease exemption to short-term leases.

8. 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.

9. 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, 2023

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.

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, 2023, all \$175,938 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, 2023

3. CAPITAL ASSETS

A summary of changes in the Airport Board's capital assets is as follows for the year ended June 30, 2023:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 3,747,130	\$ -	\$ -	\$ 3,747,130
Projects in progress	1,361,887	-	1,181,524	180,363
Totals	<u>5,109,017</u>	<u>-</u>	<u>1,181,524</u>	<u>3,927,493</u>
Capital Assets, Depreciated				
Buildings and improvements	6,105,335	110,491	-	6,215,826
Infrastructure	10,553,771	1,197,373	3,500	11,747,644
Equipment	922,806	209,152	-	1,131,958
Vehicles	493,757	-	-	493,757
Totals	<u>18,075,669</u>	<u>1,517,016</u>	<u>3,500</u>	<u>19,589,185</u>
Accumulated Depreciation				
Building	1,895,043	133,029	-	2,028,072
Infrastructure	5,196,494	328,874	-	5,525,368
Equipment	623,307	46,912	-	670,219
Vehicles	280,495	28,330	-	308,825
Totals	<u>7,995,339</u>	<u>537,145</u>	<u>-</u>	<u>8,532,484</u>
Capital Assets Being Depreciated, Net	<u>10,080,330</u>	<u>979,871</u>	<u>3,500</u>	<u>11,056,701</u>
Capital Assets, Net	<u><u>\$ 15,189,347</u></u>	<u><u>\$ 979,871</u></u>	<u><u>\$ 1,185,024</u></u>	<u><u>\$ 14,984,194</u></u>

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 completed during the year ended June 30, 2023 at a total cost of \$1,163,774.

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 completed during the year ended June 30, 2023 at a total cost of \$219,000.

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, 2023 and \$180,363 of an estimated total project cost of \$183,667 had been spent through that date.

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2023**

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, 2023 was \$430,000. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest</u>
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	35,000	16,233
June 30, 2029 – June 30, 2033	220,000	51,740
June 30, 2034	<u>50,000</u>	<u>6,812</u>
	<u>\$430,000</u>	<u>\$161,213</u>

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, 2023 was \$114,330.

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, 2023 was \$69,750.

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, 2023 was \$118,992.

On July 15, 2022, the Somerset-Pulaski County Airport Board entered into a loan agreement with a local bank for the purpose of financing hangar renovations. The loan is for \$100,000 with a 4.00% interest rate for a period of 54 months. The principal balance as of June 30, 2023 was \$92,357.

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2023**

4. LONG-TERM DEBT, Concluded

B. Notes Payable, continued

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

	<u>Principal</u>	<u>Interest</u>
June 30, 2024	\$ 88,482	\$ 10,514
June 30, 2025	90,780	8,216
June 30, 2026	93,395	5,601
June 30, 2027	85,857	2,889
June 30, 2028	36,916	439
	<u>\$395,430</u>	<u>\$ 27,659</u>

C. Changes in Long-Term Debt

Long-term debt activity for the year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	\$372,518	\$100,000	\$77,088	\$395,430
Lease payable	455,000	-	25,000	430,000
	<u>\$819,768</u>	<u>-</u>	<u>102,088</u>	<u>\$825,430</u>

5. LEASING ACTIVITIES

The Airport Board has an operating lease for a fuel truck. The lease has a remaining lease term of 2 years and 3 months and includes an option to extend the lease. For the year ended June 30, 2023, the components of lease expense were operating lease costs of \$14,555 and short term lease costs of \$7,983. Operating lease cash flows fixed payments were \$16,200 and the liability reduction was \$14,555. The discount rate used to calculate the lease components was 4.00%.

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.

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2023**

7. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30 2023, the Airport Board had the following related party transactions:

The Airport Board paid \$6,998 to a local business owned by a board member for service and maintenance of the airport security system.

The Airport Board paid \$1,644 to a local business owned by a board member for repairs and maintenance to airport facilities.

The Airport Board borrowed \$100,000 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 various loan obligation was \$66,087, including interest.

8. LEASE REVENUE

The Airport Board leases property and hangars to various business and individuals. Lease revenue under these agreements was \$238,864 for the year ended June 30, 2023. The cost and accumulated depreciation of the leased property was \$2,392,604 and \$636,359, respectively, at June 30, 2023. None of the leases have remaining noncancelable terms that extend beyond June 30, 2023, 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 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. The total lease revenue inflows recognized during the fiscal year under this arrangement was \$31,235 and interest income recognized was \$4,765. 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, 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>\$129,572</u>	<u>\$ 8,428</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, 2023**

10. SUBSEQUENT EVENTS

The Airport Board has evaluated and considered the need to recognize or disclose subsequent events through September 12, 2024, 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, 2023 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, 2023**

	Original Budget	Revisions	Revised Budget	Actual	Variance - Positive (Negative)
Operating receipts					
Fuel sales	\$ 544,350	\$ -	\$ 544,350	\$ 1,068,134	\$ 523,784
Hangar rent	200,000	-	200,000	215,764	15,764
Other income	8,000	-	8,000	18,606	10,606
Other rent	26,000	-	26,000	23,100	(2,900)
Total operating receipts	<u>778,350</u>	<u>-</u>	<u>778,350</u>	<u>1,325,604</u>	<u>547,254</u>
Operating expenditures					
Capital expenditures	-	-	-	335,496	335,496
Cost of sales	291,850	-	291,850	836,451	544,601
Facilities/equipment maintenance	104,000	-	104,000	135,792	31,792
Equipment rental	-	-	-	22,538	22,538
Payroll	155,000	-	155,000	219,402	64,402
Insurance	65,000	-	65,000	80,199	15,199
Utilities	65,000	-	65,000	81,167	16,167
Legal and accounting	40,000	-	40,000	39,469	(531)
Miscellaneous	10,500	-	10,500	14,552	4,052
Telephone	17,000	-	17,000	16,091	(909)
Office	-	-	-	11,112	11,112
Weather service	-	-	-	6,949	6,949
Uniforms	8,000	-	8,000	15,098	7,098
Project expense	150,000	-	150,000	165,330	15,330
Auto expenses	15,000	-	15,000	23,442	8,442
Payroll taxes	15,000	-	15,000	17,331	2,331
Total operating expenditures	<u>936,350</u>	<u>-</u>	<u>936,350</u>	<u>2,020,419</u>	<u>1,084,069</u>
Operating surplus (deficit)	(158,000)	-	(158,000)	(694,815)	(536,815)
Nonoperating receipts (expenditures)					
Contributions	240,000	-	240,000	-	(240,000)
Grants	-	-	-	762,901	762,901
Recovery of bad debt	-	-	-	-	-
Interest income	-	-	-	5,122	5,122
Debt payment	(82,000)	-	(82,000)	(139,456)	(57,456)
Total nonoperating receipts (expenditures)	<u>158,000</u>	<u>-</u>	<u>158,000</u>	<u>628,567</u>	<u>470,567</u>
Net surplus (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,248)</u>	<u>\$ (66,248)</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	\$ (66,248)
Capital expenditures	335,496
Depreciation	(537,145)
Bad debts-net of recoveries	19,933
Principal portion of debt payment	102,088
Change in net position per the statement of activities	<u>\$ (145,876)</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, 2023, 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 12, 2024.

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
Page 2

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.

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.

To the Members of the Board and Management
To the Members of Pulaski County Fiscal Court
Somerset-Pulaski County Airport Board
Page 3

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 12, 2024