

REPORT OF THE AUDIT OF THE
SOMERSET -PULASKI COUNTY AIRPORT BOARD
A COMPONENT UNIT OF THE
PULASKI COUNTY FISCAL COURT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011



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**REPORT OF THE AUDIT OF THE
SOMERSET-PULASKI COUNTY AIRPORT BOARD
A COMPONENT UNIT OF THE
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**For The Fiscal Year Ended
June 30, 2011**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SOMERSET-PULASKI COUNTY AIRPORT BOARD

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Somerset-Pulaski County Airport Board (Airport Board), a component unit of the Pulaski County Fiscal Court for fiscal year ended June 30, 2011.

We have issued an unqualified opinion on the financial statements of the Airport Board.

Financial Condition:

The Airport Board had total net cash and cash equivalents of \$333,566 with total net assets of \$15,370,141. The Airport Board had total debt principal of \$51,699 with \$17,912 due within the next year.

Report Comments:

- 2011-01 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties
- 2011-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
- 2011-03 The Somerset-Pulaski County Airport Board Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Deposits:

The Airport Board's deposits as of June 2, 2011 were exposed to custodial risk as follows:

- Uncollateralized and Uninsured - \$85,312

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Don Bandy, Somerset-Pulaski County Airport Board Chairman
Members of the Somerset-Pulaski County Airport Board
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Somerset-Pulaski County Airport Board (Airport Board), a component unit of the Pulaski County Fiscal Court as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Airport Board. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Airport Board as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2012 on our consideration of the Airport Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Honorable Don Bandy, Somerset-Pulaski County Airport Board Chairman
Members of the Somerset-Pulaski County Airport Board
Members of the Pulaski County Fiscal Court

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Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2011-01 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties
- 2011-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
- 2011-03 The Somerset-Pulaski County Airport Board Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 3, 2012

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET ASSETS**

June 30, 2011

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SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET ASSETS

June 30, 2011

Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 333,566
Account Receivable	33,221
Inventory	1,543
Inventory - Fuel	25,075
Total Current Assets	<u>393,405</u>
Noncurrent Assets:	
Capital Assets:	
Land	3,367,808
Construction In Progress	21,478
Buildings	3,727,637
Other Equipment	327,884
Vehicles	126,191
Infrastructure	7,497,670
Total Noncurrent Assets	<u>15,068,668</u>
Total Assets	<u>15,462,073</u>
Liabilities	
Current Liabilities:	
Financing Obligations	17,912
Sales Tax Payable	2,048
Payroll Liabilities	1,865
Accrued Payroll	3,400
Deferred Revenue	21,195
Accrued Expenses	11,725
Total Current Liabilities	<u>58,145</u>
Noncurrent Liabilities:	
Financing Obligations	<u>33,787</u>
Total Noncurrent Liabilities	<u>33,787</u>
Total Liabilities	<u>91,932</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	15,016,969
Restricted	45,562
Unrestricted	307,610
Total Net Assets	<u>\$ 15,370,141</u>

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

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SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For The Year Ended June 30, 2011

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For The Year Ended June 30, 2011

Operating Revenues:	
Hangar Rent	\$ 111,731
Gasoline	338,007
Charts, Oil, & Other Income	18,582
Other Rent	17,928
Miscellaneous	381
Total Operating Revenues	<u>486,629</u>
Operating Expenses:	
Cost of Goods Sold	239,623
Utilities	47,129
Office Supplies	3,373
Legal and Accounting Expenses	9,038
Equipment Expense	6,250
Automobile Gas and Expenses	7,649
Advertising	1,991
Facilities Maintenance	18,712
Insurance	38,355
Janitorial Supplies	212
Payroll	93,475
Payroll Taxes	8,980
Postage & Shipping	868
Telephone	7,829
Security Expense	548
Travel and Training Expenses	1,861
Weather Service	8,292
Bank Charges	296
Miscellaneous	600
Bad Debt Expense	9,210
Depreciation Expense	433,648
Total Operating Expenses	<u>937,939</u>
Operating Income (Loss)	<u>(451,310)</u>
Nonoperating Revenues (Expenses):	
Interest Income	258
Contributions	163,762
Grants	73,810
Interest Expense	(1,221)
Total Nonoperating Revenues	<u>(1,221)</u>
(Expenses)	<u>236,609</u>
Change in Net Assets	(214,701)
Total Net Assets - Beginning	15,584,842
Total Net Assets - Ending	<u>\$ 15,370,141</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, 2011

SOMERSET-PULASKI COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2011

Cash Flows From Operating Activities:	
Cash received from customers	\$ 507,511
Cash payments for goods and services	(230,287)
Cash payments for operating expenses	(153,003)
Cash payments for personnel expenses	(98,927)
Net Cash Provided (Used) By Operating Activities	<u>25,294</u>
Cash Flows From Noncapital Financing Activities	
Interest Income	258
Proceeds from contributions	163,762
Cash payments for other	(63,738)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>100,282</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from financing obligation	35,000
Cash received from capital grants	73,810
Acquisition of capital assets	(75,880)
Debt service principal payments	(21,575)
Debt service interest	(1,221)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>10,134</u>
Net Increase (Decrease) in Cash and Cash Equivalents	135,710
Cash and Cash Equivalents - July 1, 2010	<u>197,856</u>
Cash and Cash Equivalents - June 30, 2011	<u>\$ 333,566</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, 2011
(Continued)

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**Reconciliation of Operating Income to
Net Cash Provided (Used) by Operating
Activities**

Operating Income (Loss)	\$ (451,310)
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:	
Depreciation Expense	433,648
Change in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	28,362
Inventories	1,022
Increase (Decrease) in Liabilities:	
Accounts Payable	8,442
Accrued Payroll	3,400
Deferred Revenue	1,730
Net Cash Provided (Used) By Operating Activities	<u>\$ 25,294</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The Airport Board presents its financial statements in conformity with accounting principles generally accepted in the United States of America for governments as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are reported using the economic resources measurements focus and the full accrual basis of accounting. All assets and liabilities are recognized on the Statement of net Assets. Revenues are recorded when earned and liabilities are recorded when incurred, regardless of timing of cash. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance.

B. 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 Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the Airport Board is financially accountable or the organization's exclusion would cause the Airport Board's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The Airport Board has no component units.

C. Financial Statements

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consist of capital assets, net of accumulated depreciation and further reduced by debt net of cash balances, for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - result from constraints place on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those net assets that do not meet the definition of restricted net assets or invested in capital assets.

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets 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 operating revenues of the Airport Board are charges to customers for hangar and other rent and sales of aviation fuel. Operating expenses include the cost of sales and services, selling and administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Financial Statements (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories primarily consist of aviation fuel and logs for resale. Inventories are valued at average cost as of June 30, 2011. Average cost for all items is updated continuously in the Airport Board's software.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the airport board to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and runways) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable business-type activities financial statements. Such assets are recorded at historical cost or estimated historical cost 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 incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

G. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

Note 2. Deposits

The Airport Board maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Airport Board did not have a written agreement with the bank.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 2, 2011, the Airport Board's bank balance was exposed to custodial risk as follows:

- Uncollateralized and Uninsured \$85,312

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,367,808			\$ 3,367,808
Construction In Progress	2,626,829	21,478	(2,626,829)	21,478
Total Capital Assets Not Being Depreciated	5,994,637	21,478	(2,626,829)	3,389,286
Capital Assets, Being Depreciated:				
Buildings	4,340,942			4,340,942
Other Equipment	522,348			522,348
Vehicles	266,847			266,847
Infrastructure	6,773,109	2,681,231		9,454,340
Total Capital Assets Being Depreciated	11,903,246	2,681,231		14,584,477
Less Accumulated Depreciation For:				
Buildings	(524,261)	(89,044)		(613,305)
Other Equipment	(175,034)	(19,430)		(194,464)
Vehicles	(110,916)	(29,740)		(140,656)
Infrastructure	(1,661,236)	(295,434)		(1,956,670)
Total Accumulated Depreciation	(2,471,447)	(433,648)		(2,905,095)
Total Capital Assets, Being Depreciated, Net	9,431,799	2,247,583		11,679,382
Government Activities Capital Assets, Net	\$ 15,426,436	\$ 2,269,061	\$ (2,626,829)	\$ 15,068,668

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

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Note 4. Long-term Debt

A. John Deere Mower

On July 17, 2006, the Somerset-Pulaski County Airport Board entered into a lease agreement with John Deere Credit Services for the purchase of a mower. The original loan amount was for \$10,552 with an interest rate of .25% per year with principal and interest to be paid monthly. As of June 30, 2011, the total principal balance outstanding was \$0.

B. Tractor

On January 8, 2008, the Somerset-Pulaski County Airport Board entered into a loan agreement with Community Trust Bank for the purchase of a tractor. The original loan amount was for \$17,776 with an annual interest rate of 5.33%. Principal and interest payments are due monthly. As of June 30, 2011, the total principal balance outstanding was \$0.

C. Airport Development Loan

On October 30, 2003, the Somerset-Pulaski County Airport Board entered into a loan agreement with the Kentucky Transportation Cabinet Division of Aeronautics, for airport development use. The Airport Board used the proceeds from the loan to help construct a corporate hangar. The original loan amount was for \$65,000 with an interest rate of 2.00% per year. Principal and interest are to be repaid in ten equal, consecutive annual installments of \$6,500, beginning November 24, 2004, and continuing annually thereafter on the 24th day of November until the maturity date of November 24, 2013. The total principal balance was \$19,500 as of June 30, 2011. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2012	\$ 6,500	\$ 390
2013	6,500	260
2014	6,500	130
Totals	<u>\$ 19,500</u>	<u>\$ 780</u>

D. Fuel Tanker Truck

On March 4, 2011, the Somerset-Pulaski County Airport Board entered into a loan agreement with the Branch Bank and Trust Company to help purchase a fuel tanker truck. The original loan amount was for \$35,000 with an interest rate of 2.92% per year. The agreement requires quarterly payments of principal and interest beginning June 4, 2011. The total principal balance was \$32,199 as of June 30, 2011. Future principal and interest requirements are:

SOMERSET-PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt (Continued)

D. Fuel Tanker Truck (Continued)

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2012	\$ 11,412	\$ 816
2013	11,749	479
2014	9,038	132
Totals	\$ 32,199	\$ 1,427

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 38,270	\$ 35,000	\$ 21,571	\$ 51,699	\$ 17,912
Long-term Liabilities	\$ 38,270	\$ 35,000	\$ 21,571	\$ 51,699	\$ 17,912

Note 5. Insurance

For the fiscal year ended June 30, 2011, the Somerset-Pulaski County Airport Board was insured through Wells Fargo Insurance Services.

Note 6. Related Party Transaction

During fiscal year ended June 30, 2011, the Airport Board paid \$6,120 to Vanhook Enterprises, Inc. for plumbing and electrical supplies and emergency services. Vanhook Enterprises, Inc. is owned by Richard Vanhook a board member. Because of the nature of the relationship, the transactions are considered related party transactions.

**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**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Don Bandy, Somerset-Pulaski County Airport Board Chairman
Members of the Somerset Pulaski County Airport Board
Members of the Pulaski County Fiscal Court

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

We have audited the financial statements of the Somerset-Pulaski County Airport Board (Airport Board), a discretely presented component unit of the Pulaski County Fiscal Court, as of and for the year ended June 30, 2011, and have issued our report thereon dated August 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we considered to be a significant deficiency.

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. We consider the deficiency described in the accompanying comments and recommendations as items 2011-01 to be a material weakness.



Internal Control Over Financial Reporting (Continued)

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. We consider the deficiency in the accompanying comments and recommendations as item 2011-02 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Airport Board's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as item 2011-03.

The Airport Board Chairman's responses to the findings identified in our audit are included in the comments and recommendations. We did not audit the Airport Board Chairman's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Somerset-Pulaski County Airport Board, and the Pulaski County Fiscal Court, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 3, 2012

**SOMERSET-PULASKI COUNTY AIRPORT BOARD
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

SOMERSET-PULASKI COUNTY AIRPORT BOARD
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2011

INTERNAL CONTROL – MATERIAL WEAKNESS

2011-01 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties

As a result of our audit, we noted the Somerset-Pulaski County Airport Board (Airport Board) has a lack of segregation of duties over all accounting functions. The airport manager is responsible for preparing invoices, collecting receipts, preparing and depositing the receipts, and posting to the ledgers. The manager also prepares, signs, and posts all disbursements including payroll.

Because a lack of adequate segregation of duties existed for the above-mentioned accounting functions, the following occurred:

- One instance in which customer was not properly billed for hangar rental.
- Three instances in which customers were not billed for hangar rental.
- Sales tax reports were not properly prepared resulting in an additional \$1,081 due to the Kentucky Department of Revenue.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds and in the recording and reporting of those receipts and disbursements. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, and preparing checks. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be provided over the person responsible for these duties. The person providing this oversight should document his or her review by initialing source documents.

Airport Board Management's Response: The Airport cannot segregate duties due to budget constraints; however we the Somerset Pulaski County Airport Board feel that there are adequate compensating controls over all accounting functions for Fiscal Year 2012 forward.

- a. *In response to the one instance in which a customer was not properly billed for hanger rental, the difference in what was billed versus what should have been billed amounts to \$25.00. Subsequently the customer has been billed and has paid the correct amounts thus forward.*
- b. *In response to the three customers that were not billed for hanger rentals, the first lessee was not billed through accounts receivable, however the customer paid the scheduled payment which reflects in a zero balance. The second and third instance, results in the lessee requesting to be changed from quarterly billing to Semi-Annual Billing, therefore rents were billed and paid leaving a zero balance at the end of Fiscal Year 2011.*
- c. *In response to the Sales Tax not being properly reported, the previous Airport Manager inadvertently computed the monthly sales tax incorrectly; the adjusted sales tax has since been paid.*

Auditor's reply:

- a. *Without adequate controls, an error could go undetected and uncorrected. Good internal controls would help ensure customers are properly billed.*
- b. *Auditors requested documentation from the Airport Board to verify customers in question had paid and payments were in fact deposited. Auditors did not receive documentation to support the Airport Board's responses.*

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY

2011-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits

During our test of daily receipts, we noted the Airport Board does not properly account for deposits. Customer payments are applied to the applicable invoice in the accounting system or sales receipts are used to record monies received from customers. However, there is no supporting documentation maintained for deposits to determine what type of payments make up the total funds deposited. Furthermore, there is no documentation maintained to show the funds received are reconciled and deposited in-tact daily and that receipts are accounted for in numerical order. Good internal controls dictate a cash receipts journal be maintained indicating the date money is received, a description of the revenue source, the revenue account code, the total amount and the fund(s) to which the amount is distributed. After applying customer payments, the accounting system utilized by the Airport allows the entity to record bank deposits using the deposit function. A deposit detail report can provide the information normally seen in a cash receipts journal. We recommend the Airport Board implement procedures to properly account for daily deposits and account for all receipts in numerical order. Furthermore, we recommend the Airport Board maintain documentation of the reconciliation of the cash drawer to the accounting system and to the daily deposit.

Airport Board Management's Response: Cash Receipts are recorded in the general ledger on the date in which it was received, with a description of the revenue source and coded to a general ledger account. There are copies of the deposit tickets maintained and copies within the bank statements and the deposits are reconciled monthly by our CPA. The Airport Board is maintaining reconciliation of the cash drawer daily.

Auditor's reply: Auditors requested a detail of deposits to determine if monies collected were deposited in-tact daily and all receipts were accounted for; however, we were not provided this documentation during the course of the audit. The controls mentioned above were not implemented until after the audit period and will be evaluated and tested during the next audit.

STATE LAWS AND REGULATIONS

2011-03 The Somerset-Pulaski County Airport Board Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 2, 2011, \$85,312 of the Airport Board's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend the Airport Board require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Airport Board enter into a written agreement with the depository institution to secure the Airport Board's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Airport Board Management's Response: The Airport Board is currently working with the Depository Institution to secure deposits