

**Somerset - Pulaski County Airport Board**

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Audited Financial Statements

For the Year Ended June 30, 2013

## Contents

Independent Auditors' Report	1-2
Statement of Net Assets	3
Statement of Revenues, Expenses, and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-11
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 <i>Government Auditing Standards</i>	12-13
Findings and Responses	14

**Independent Auditors' Report**

Honorable Delynn Gibson, Somerset-Pulaski County Airport Board Chairman  
Members of the Somerset-Pulaski County Airport Board  
Members of the Pulaski County Fiscal Court

We have audited the accompanying financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the Airport Board's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Board as of June 30, 2013, the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2014, 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, 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* in considering the Airport Board's internal control over financial reporting and compliance.

*Evans, Harville, Atwell & Company, CPAs, PLLC*

July 25, 2014

**Somerset - Pulaski County Airport Board**  
**Statement of Net Assets**  
**June 30, 2013**

**Assets**

Current assets	
Cash and cash equivalents	\$ 133,572
Accounts receivable	19,403
Inventories	<u>56,411</u>
Total current assets	<u>209,386</u>
Noncurrent assets	
Property and equipment, net	<u>15,125,312</u>
Total assets	<u><u>\$ 15,334,698</u></u>

**Liabilities and net assets**

Current liabilities	
Accounts payable	\$ 53,789
Accrued expenses	7,232
Current portion of financing obligations	<u>15,538</u>
Total current liabilities	<u>76,559</u>
Noncurrent liabilities	
Financing obligations	<u>75,000</u>
Total liabilities	<u>151,559</u>
Net assets	
Investment in capital assets, net of related debt	15,034,774
Restricted	-
Unrestricted	<u>148,365</u>
Total net assets	<u>15,183,139</u>
Total liabilities and net assets	<u><u>\$ 15,334,698</u></u>

See accompanying notes to financial statements

**Somerset - Pulaski County Airport Board**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2013**

**Operating revenues**

Gasoline	\$ 367,925
Hanger rent	109,695
Other rent	16,725
Other income	<u>23,088</u>
Total operating revenues	<u>517,433</u>

**Operating expenses**

Depreciation	468,536
Cost of sales	330,896
Payroll	111,590
Facilities maintenance	88,350
Insurance	71,162
Utilities	48,618
Legal and accounting	36,502
Miscellaneous	22,681
Auto expenses	19,496
Telephone	13,534
Payroll taxes	10,931
Office supplies	<u>6,339</u>
Total operating expenses	1,228,635

**Operating income (loss)** (711,202)

**Nonoperating revenues (expenses)**

Contributions	180,237
Grants	561,647
Interest expense	<u>(739)</u>
Total nonoperating revenues (expenses)	741,145

**Change in net assets** 29,943

Net assets, beginning of year 15,153,196

Net assets, end of year \$ 15,183,139

See accompanying notes to financial statements

**Somerset - Pulaski County Airport Board**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

**Cash flows from operating activities**

Cash receipts from customers	\$ 542,411
Cash payments for goods and services	(284,261)
Cash payments for operating expenses	(318,026)
Cash payments for personnel expenses	<u>(121,449)</u>
Net cash provided (used) by operating activities	<u>(181,325)</u>

**Cash flows from noncapital financing activities**

Proceeds from contributions	<u>180,237</u>
Net cash provided (used) by noncapital financing activities	<u>180,237</u>

**Cash flows from capital and related financing activities**

Cash received from capital grant	561,647
Acquisition of capital assets	(574,496)
Debt service principal payments	(18,249)
Debt service interest	<u>(739)</u>
Net cash provided (used) by capital and related financing activities	<u>(31,837)</u>

Net increase (decrease) in cash (32,925)

Cash, beginning of year 166,497

Cash, end of year \$ 133,572

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

Operating income (loss)	\$ (711,202)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	468,536
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable	16,496
(Increase) decrease in inventories	8,482
(Decrease) increase in accounts payable	49,507
(Decrease) increase in accrued expenses	(11,044)
(Decrease) increase in deferred revenue	<u>(2,100)</u>

**Net cash provided (used) by operating activities** \$ (181,325)

See accompanying notes to financial statements

**Somerset - Pulaski County Airport Board**  
**Notes to Financial Statements**  
**June 30, 2013**

**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 and 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, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed 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 assets that do not meet the definition of restricted net assets or invested in capital assets.

**Somerset - Pulaski County Airport Board**  
**Notes to Financial Statements**  
**June 30, 2013**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Financial Statements (Continued)**

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 rents 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 revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

**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 reported period. Actual results could differ from those estimates.

**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.

**E. Accounts Receivable**

Accounts receivable consist primarily of amounts due for credit fuel sales. No allowance for uncollectible accounts has been provided as management considers all balances to be fully collectible.

**F. Inventories**

Inventories primarily consist of aviation fuel and logs for resale. Inventories are valued at average cost as of June 30, 2013. Average cost for all items is updated continuously in the Airport Board's software.

**Somerset - Pulaski County Airport Board**  
**Notes to Financial Statements**  
**June 30, 2013**

**1. Summary of Significant Accounting Policies (Continued)**

**G. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges), that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable 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.

	<u>Capitalization</u> <u>Threshold</u>	<u>Useful Life</u> <u>(Years)</u>
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

**H. 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.

**2. Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the Airport Board's deposits may not be returned. The Airport Board does not have a deposit policy for custodial credit risk. Certain bank accounts may exceed the federally insured limits from time to time. The Airport Board has not experienced losses in such accounts and believes they are not exposed to any significant credit risk. As of June 30, 2013, all \$136,896 of the Airport Board's bank balance was insured by the FDIC.

**Somerset - Pulaski County Airport Board**  
**Notes to Financial Statements**  
**June 30, 2013**

**3. Capital Assets**

Capital asset activity for the year ended June 30, 2013 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	<u>130,059</u>	<u>6,760</u>	<u>(130,059)</u>	<u>6,760</u>
Total capital assets not being depreciated	<u>3,497,867</u>	<u>6,760</u>	<u>(130,059)</u>	<u>3,374,568</u>
Capital assets, being depreciated:				
Buildings	4,484,812	51,801	-	4,536,613
Other equipment	594,207	299,151	-	893,358
Vehicles	346,687	-	-	346,687
Infrastructure	<u>9,454,340</u>	<u>346,842</u>	<u>-</u>	<u>9,801,182</u>
Total capital assets being depreciated	14,880,046	697,794	-	15,577,840
Less accumulated depreciation for:				
Buildings	(704,651)	(95,221)	-	(799,872)
Other equipment	(219,433)	(33,180)	-	(252,613)
Vehicles	(182,372)	(41,715)	-	(224,087)
Infrastructure	<u>(2,252,104)</u>	<u>(298,420)</u>	<u>-</u>	<u>(2,550,524)</u>
Total accumulated depreciation	<u>(3,358,560)</u>	<u>(468,536)</u>	<u>-</u>	<u>(3,827,096)</u>
Total capital assets, being depreciated, net	<u>11,521,486</u>	<u>229,258</u>	<u>-</u>	<u>11,750,744</u>
Government activities capital assets, net	\$ 15,019,353	\$ 236,018	\$ (130,059)	\$ 15,125,312

**Somerset - Pulaski County Airport Board**  
**Notes to Financial Statements**  
**June 30, 2013**

**4. Long-Term Debt**

**A. Airport Development Loan**

On October 30, 2003 the Airport Board entered into a loan agreement with a branch of Kentucky state government, 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 \$6,500 as of June 30, 2013. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest</u>
June 30, 2014	\$ 6,500	\$ 260

**B. Fuel Tanker Truck**

On March 4, 2011, the Airport Board entered into a loan agreement with a national bank 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 \$9,038 as of June 30, 2013. Future principal and interest requirements are:

	<u>Principal</u>	<u>Interest</u>
June 30, 2014	\$ 9,038	\$ 479

**C. Line of Credit – Terminal Remodel Project**

On August 9, 2011, the Somerset-Pulaski County Airport Board entered into a loan agreement with a local non-profit organization for the purpose of remodeling the airport terminal. The line is for up to \$75,000 with a 0% interest rate for a period of ten years. Terms of the loan agreement specify that borrower may pay any amount at any time for the duration of the agreement. The principal balance as of June 30, 2013 was \$75,000, all of which is long-term debt. Future principal and interest have no set schedule.

	<u>Principal</u>	<u>Interest</u>
June 30, 2021	\$ 75,000	\$ -

**Somerset - Pulaski County Airport Board**  
**Notes to Financial Statements**  
**June 30, 2013**

**4. Long-Term Debt (Continued)**

D. Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	\$ 108,787	\$ -	\$ (18,249)	\$ 90,538	\$ 15,538

**5. Related Party Transactions**

During fiscal year ended June 30, 2013, the Airport Board had the following related party transactions:

Airport Board paid \$1,290 to a local business for plumbing and electrical supplies. The local business is owned by a board member.

Airport Board paid \$3,974 to a local business for service and maintenance of the airport security system. The local business is owned by a board member.

**6. Subsequent Events**

The Airport Board's management evaluated the period from June 30, 2013 to July 25, 2014 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements. There were no events occurring during the evaluation period that require disclosure, and there were no events that require recognition in the financial statements.

**Independent Auditors' Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with *Government Auditing Standards***

Honorable Delynn Gibson, Somerset-Pulaski County Airport Board Chairman  
Members of the Somerset-Pulaski County Airport Board  
Members of the Pulaski County Fiscal Court

We have audited, in accordance with the 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 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated July 25, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Airport Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and responses as item 2012-01 to be a material weakness.

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 deficiencies described in the accompanying schedule of findings and responses as item 2013-01 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Airport Board's financial statements 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our 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.

*Evans, Harville, Atwell & Company, CPAs, PLLC*

July 25, 2014

**Somerset - Pulaski County Airport Board**  
**Findings and Responses**  
**June 30, 2013**

**2013-01 Bank Reconciliations and Related Transactions (Significant Deficiency)**

We noted the Somerset - Pulaski County Airport Board has improperly reconciled their monthly bank statements. The monthly reconciliations have been prepared in such a manner that all book transactions have been marked as cleared without consideration for outstanding items. Outstanding checks and deposits at the end of the month have not been reflected in the cash balance. While the cash balance has been materially correct, there have been discrepancies in the balance at month end.

As a result of improper reconciliations, contract fuel sales and credit card processing fees have not been accurately recorded on a monthly basis. This causes an understatement in revenues with a corresponding understatement of expenses.

To protect the Airport Board against inaccurate financial reporting, we recommend that the monthly bank reconciliations be prepared in a proper manner. We also recommend that the detail of all transactions affecting cash balances be recorded in the books of the Airport Board.

*Airport Board's Response: The outside accountant's process of preparing the monthly bank reconciliations will be changed to a proper manner with all transactions being recorded and outstanding items being reflected in the reconciliation.*

**2012-01 Lack of Adequate Segregation of Duties (Material Weakness)**

As result of our audit, we noted the Somerset - Pulaski County 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.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, 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 disbursing of funds, 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's Response: The airport cannot segregate duties due to budget constraints; however we feel that there are adequate compensating controls over all accounting functions.*