

**MUHLENBERG COUNTY AIRPORT
399 AIRPORT ROAD
GREENVILLE, KENTUCKY**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
FOR YEAR-ENDED JUNE 30, 2016
AND
INDEPENDENT AUDITOR'S REPORT**

Muhlenberg County Airport

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MUHLENBERG COUNTY AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the Muhlenberg County Airport (the Airport) audit report presents analysis of the Airport's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Airport's financial statements which follow this section.

Financial highlights - The net assets of the Airport's governmental activities increased as a result of this year's operations by \$1,943,026.

The Airport received the following grant funding during the year:

Runway Improvements – For year ending June 30, 2015, the Airport received a grant from the U.S. Department of Transportation, Federal Aviation Administration for the purpose of airport development or noise program implementation. The total amount of the grant award was \$1,950,000. The total amount received for the year ending June 30, 2016 was \$1,593,710. In association with the above grant, the Airport received a grant from the Kentucky Transportation Cabinet, Department of Aviation. The total amount received for the year ending June 30, 2016 was \$492,275. For the year ending June 30, 2016, the Airport had expended \$2,152,507.

Bond Repayment –The Airport received a grant from the Kentucky Transportation Cabinet, Kentucky Department of Aviation for the repayment of principal and interest of bonds payable. The Airport is responsible for the semi-annual interest payments when they become due. The amount received from the Kentucky Department of Transportation, Department of Aviation for the year ending June 30, 2016 was \$99,612.

Using this annual report - Most governmental entities would report one set of financial statements for the fund level and one set of financial statements for the government wide level. However, GASB 34 permits the reporting of the fund financial statements and government wide financial statements on a single statement with adjustments for special purpose governmental entities such as the Airport.

The adjustment column on page 3 and 4 of the audit report shows the adjustments necessary to convert fund financial statements to government wide financial statements. See page 5 of the audit report for a reconciliation of the financial statements and an explanation of the adjustments.

Reporting the Airport as a fund - The columns labeled Governmental Fund Balance Sheet on page 3 and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance on page 4 report the information about the Airport on a fund level as required by GASB 34.

The Governmental Fund Balance Sheet includes assets and liabilities of the Airport on a modified accrual basis of accounting. The Statement of Revenues, Expenditures and Changes in Fund Balance include revenues and expenses of the Airport on the modified accrual basis. The modified accrual basis of accounting measures cash and all other financial assets that can be converted into cash.

Reporting the Airport as a whole - The column labeled Statement of Net Position on page 3 and the column labeled Statement of Activities on page 4 report information about the Airport as a whole as required by GASB 34.

The Statement of Net Position includes all assets and liabilities of the Airport on a full accrual basis of accounting. The Statement of Activities includes all revenues and expenses of the Airport on a full accrual basis of accounting. The full accrual basis of accounting is similar to the accounting used by most private-sector companies. On the full accrual basis of accounting, all current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MUHLENBERG COUNTY AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

The Airport as a whole

Assets

Cash	\$ 727,477
Accounts Receivable	5,049
Accounts Receivable-FAA	12,600
Accounts Receivable-Ky. Transportation Department	1,050
Capital Assets	8,860,047
Land	502,309
Accumulated Depreciation	<u>(2,491,449)</u>
Total Assets	\$ <u>7,617,083</u>

Liabilities

Accounts Payable	14,000
Payroll Tax Payable	1,755
Sales Tax Payable	520
Bonds Payable-Current	90,000
Bonds Payable-Long Term	<u>180,000</u>
Total Liabilities	<u>286,275</u>

Deferred inflows of resources-prepaid hangar rent	<u>550</u>
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Net Position

Net Investment in Capital Assets	6,600,907
Unassigned	<u>729,351</u>
Total Net Position	\$ <u>7,330,258</u>

Expenditures/Expenses

Total Federal Grant Expenditures/Expenses	\$
Total State Grant Expenditures/Expenses	14,612
Total Local Fund Expenditures/Expenses	<u>512,663</u>
Total Expenditures/Expenses	<u>527,275</u>

Program Revenues

Total Federal Grants	1,593,710
Total State Grants	<u>591,887</u>

Total Program Revenues	<u>2,185,597</u>
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Excess (deficiency) of Revenues over Net Program Expense	1,658,322
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Total Local Source Revenues	<u>284,704</u>
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Change in Net Position	1,943,026
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Net Position – Beginning of Year	<u>5,387,232</u>
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Net Position – End of Year	\$ <u>7,330,258</u>
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MUHLENBERG COUNTY AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Capital Assets - At June 30, 2016, the Airport had \$6,870,906 invested in capital assets, net of accumulated depreciation.

Contacting the Airport's Financial Management - This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Airport at 399 Airport Road, Greenville, KY 42345.

INDEPENDENT AUDITOR'S REPORT

To the Airport Board
Muhlenberg County Airport

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Muhlenberg County Airport as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Muhlenberg County Airport'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.

Auditor's Responsibility

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 from material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Muhlenberg County Airport as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-iii and 10-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 we obtained during our audit of

the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Airport's financial statements that collectively comprise the Muhlenberg County Airport's basic financial statements. The accompanying Schedule of Expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of the Muhlenberg County Airport'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 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 Muhlenberg County Airport's internal control over financial reporting and compliance.

Goldston, Pate & Co. CPAs, Inc.

Central City, Kentucky
March 6, 2017

MUHLENBERG COUNTY AIRPORT
GOVERNMENTAL FUND BALANCE SHEET and STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Fund Balance Sheet</u>	<u>Adjustments (See page 8)</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Current assets			
Cash	\$ 727,477	\$	\$ 727,477
Accounts receivable	5,049		5,049
Grants receivable-FAA	12,600		12,600
Grants receivable-Ky Transportation Cabinet	1,050		1,050
Total current assets	746,176		746,176
Noncurrent assets			
Capital assets		8,860,047	8,860,047
Land		502,309	502,309
Accumulated depreciation		(2,491,449)	(2,491,449)
Total noncurrent assets		6,870,907	6,870,907
Total assets	\$ 746,176	6,870,907	7,617,083
<u>LIABILITIES</u>			
Current liabilities			
Accounts payable	\$ 14,000		14,000
Payroll and withholding tax payable	1,755		1,755
Sales tax payable	520		520
Bonds payable-current		90,000	90,000
Total current liabilities	16,275	90,000	106,275
Long-term liabilities			
Bonds payable		180,000	180,000
Total liabilities	16,275	270,000	286,275
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Prepaid hangar rent	550		550
<u>FUND BALANCE/NET POSITION</u>			
Fund Balance			
Unassigned fund balance	729,351	(729,351)	
Total liabilities and fund balance	\$ 746,176		
NET POSITION			
Net investment in capital assets		6,600,907	6,600,907
Unrestricted		729,351	729,351
Total net position		\$ 7,330,258	\$ 7,330,258

The accompanying notes are an integral part of these financial statements

MUHLENBERG COUNTY AIRPORT
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE and STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Governmental Fund</u>		
	<u>Statement of Revenues,</u>		
	<u>Expenditures and</u>		
	<u>Changes in</u>	<u>Adjustments</u>	<u>Statement of</u>
	<u>Fund Balance</u>	<u>(See page 8)</u>	<u>Activities</u>
Expenditures/Expenses			
Federal Grants			
Taxiway	\$ 1,593,710	\$ (1,593,710)	\$
State Grants			
Taxiway	492,275	(492,275)	
Terminal loan repay-principal	85,000	(85,000)	
Terminal loan repay-interest	14,062		14,062
Terminal loan repay-fees	550		550
Total state grant expenditures/expenses	591,887	(577,275)	14,612
Local Sources			
Taxiway	66,522	(66,522)	
Salaries	49,050		49,050
Payroll tax	5,507		5,507
Unemployment insurance	320		320
Advertising & marketing	256		256
Utility expense	14,695		14,695
Insurance	6,382		6,382
Depreciation expense		314,829	314,829
Maintenance and repairs	10,033		10,033
Dues and memberships	575		575
Sales tax	5,589		5,589
Supplies	97,008		97,008
Travel and training	1,279		1,279
Professional fees	5,313		5,313
Small Items	1,412		1,412
Miscellaneous expense	415		415
Total local funds expenditures/expenses	264,356	248,307	512,663
Total Expenditures/Expenses	2,449,953	(1,922,678)	527,275
Program Revenues			
Federal Grants			
FAA grant-taxiway	1,593,710		1,593,710
State Grants			
State grant-taxiway	492,275		492,275
State grant-terminal loan	99,612		99,612
Total state grants	591,887		591,887
Total program revenues	2,185,597		2,185,597
Excess (deficiency) of revenues over expenditures/net program expense	(264,356)	1,922,678	1,658,322
General Revenues			
Local Source			
Tax revenues	127,881		127,881
Interest income	2,177		2,177
Lease income	6,879		6,879
Hangar rent	37,060		37,060
Fuel sales	109,736		109,736
Refunds	896		896
Miscellaneous	75		75
Total local source revenue	284,704	-	284,704
Change in Fund Balance/Net Position	20,348	1,922,678	1,943,026
Fund Balance/Net Position - Beginning of Year	709,003	4,678,229	5,387,232
Fund Balance/Net Position - End of Year	\$ 729,351	\$ 6,600,907	7,330,258

The accompanying notes are an integral part of these financial statement

MUHLENBERG COUNTY AIRPORT
RECONCILIATION OF FUND FINANCIAL STATEMENTS TO
GOVERNMENT WIDE FINANCIAL STATEMENTS
JUNE 30, 2016

Reconciliation of Change in Fund Balance to Change in Net Position

Net Change in Fund Balance - Governmental Fund Financial Statements \$ 20,348

Governmental Funds report the purchase of capital assets as expenditures. In the Statement of Net Activities, those capital expenditures are recorded as fixed assets in the Statement of Net Position, and their cost of those capital assets is allocated over the estimated useful life of the assets. This is the amount of capital expenditures for the year ending June 30, 2016 and the difference in reporting these items on the governmental fund financial statements and the government-wide financial statements. 2,152,507

Governmental Funds report the purchase of capital assets as expenditures. In the Statement of Net Activities, those capital expenditures are recorded as fixed assets in the Statement of Net Position, and their cost of those capital assets is allocated over the estimated useful life of the assets through depreciation. This is the amount of depreciation expense for the year ending June 30, 2016 and the difference in reporting these items on the governmental fund financial statements and the government-wide financial statements. (314,829)

Government Funds report loan payments as expenditures. In the Statement of Net Activities, only the interest is recorded. The principal amount of the loan payment is recorded in the Statement of Net Position to reduce the corresponding liability. This is the amount of loan payments paid for the year ending June 30, 2016 and the difference in reporting these items on the governmental fund financial statements and the government-wide financial statements. 85,000

Change in Net Position - Government Wide Financial Statements \$ 1,943,026

Reconciliation of Fund Balance to Net Position

Fund Balance - Governmental Fund Financial Statements \$ 729,351

Governmental Funds report the purchase of capital assets as expenditures. Governmental Funds also report loan proceeds as other financing sources. Governmental Funds report loan payments as expenditures. In the Statement of Net Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The resulting liability from the loan proceeds are reported as liabilities on the Statement of Net Position. The loan payments are recorded to reduce liabilities on the Statement of Net Position. This is the difference in reporting these items on the governmental fund financial statements and the government wide financial statements. 6,600,907

Statement of Net Position - Government Wide Financial Statements \$ 7,330,258

The accompanying notes are an integral part of these financial statement

MUHLENBERG COUNTY AIRPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

The Muhlenberg County Airport, (the Airport) was established during the 1920s in order to provide travel, and mail services to Muhlenberg County. The Airport has grown into an operation that serves the surrounding tri-state area, individual and corporate clients from all over the United States, as well as promoting the advancement of Muhlenberg County. The Airport manager is responsible for the daily operations of the Airport and the board of directors oversees the Airport manager. Muhlenberg County Fiscal Court approves all projects of the Airport and approves board members from a list of names submitted by the Airport board.

Financial Statements

The financial statements of the Airport have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing accounting procedures for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

In June 1999, the Governmental Accounting Standards Board approved Statement No. 34, *Basic Financial Statements -- and Management's discussion and Analysis--for State and Local Governments*. Certain significant changes in the Statement include the following: (1) a Management Discussion and Analysis section providing an analysis of the Airport's overall financial position and results of operations; (2) financial statements prepared using full accrual accounting for all of the Airport's activities, including infrastructure, if any; and (3) a change in the fund financial statements to focus on the major funds. These are reflected in the accompanying financial statements (including notes to financial statements).

These financial statements include the financial activity of the Airport only.

The Airport's basic financial statements include both government wide and fund financial statements, on a single statement, as permitted by GASB 34 for a special purpose government. The Airport is engaged in only governmental type activities.

Government wide financial statements - The activities in the government wide financial statements (Statement of Net Position and Statement of Activities) measure and report using the economic resources measurement focus and are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Fund financial statements - The governmental fund financial statements (Balance Sheet and Statement of Revenues, Expenditure and Changes in Fund Balance) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

MUHLENBERG COUNTY AIRPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure that the Airport will not be able to recover the value of its deposits that are in the possession of the financial institution. At year-end, the carrying amount and the balance per bank of the Airport's deposits was as follows:

	<u>Carrying</u> <u>Amount</u>	<u>Balance</u> <u>Per Bank</u>
Old National Bank Checking	\$ 216,740	\$ 215,957
Old National Bank Savings	\$ 91,236	\$ 91,236
Commonwealth Community Bank Savings	\$ 419,501	\$ 419,501

The balances at Old National Bank were fully collateralized by the Federal Depository Insurance Corporation and collateral pledged. The balance at Commonwealth Community Bank were under-collateralized by \$69,501.

3. Capital Assets

The majority of capital assets consist of land, runways, and buildings, which are recorded at cost. This includes costs relating to the acquisition and development of assets such as appraisal fees, consulting fees, engineering fees, and other costs. Depreciation recorded on the government wide financial statements was \$314,829.

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
Capital Assets	\$6,707,540	\$2,152,507	\$ -	\$8,860,047
Land	502,309			502,309
Accumulated Depreciation	<u>(2,176,620)</u>	<u>(314,829)</u>	-	<u>(2,491,449)</u>
Totals	<u>\$5,033,229</u>	<u>\$ 1,837,678</u>	<u>\$ -</u>	<u>\$6,870,907</u>

MUHLENBERG COUNTY AIRPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2016

4. Fund Balance

In accordance with GASB Statement No. 54, fund balances are classified as follows, if applicable:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of the state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by Board of Directors resolution.

Assigned—Amounts that are designated by the Chairman for a specific purpose but are not spendable until a budget ordinance is passed by the Board of Directors.

Unassigned—All amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Airport considers restricted funds to have been spent first. If applicable, when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Airport considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

5. Income Tax Status

The Airport is exempt from federal and state income taxes and, accordingly, the financial statements include no provision for such taxes.

6. Budgetary Comparison Financial Statements

GASB 34 requires the reporting of budgetary comparison schedules if a budget is legally adopted for the general fund or special revenue funds. This schedule is found at page 10-11.

7. Legal Action Pending

There is no pending or threatened litigation as of June 30, 2016.

8. Risk Management

Muhlenberg County Airport, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport carries commercial insurance for these risks. Settlement claims, if any, resulting from these risks would not be expected to exceed commercial insurance coverage.

MUHLENBERG COUNTY AIRPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2016

9. Bonds Payable

On September 18, 2007, in conjunction with the Kentucky Public Agency Development Trust and Kentucky Department of Aviation, the Airport received bond proceeds in the amount of \$860,000, less administrative costs, for the purpose of Airport improvements.

The Kentucky Department of Aviation provides funds to the Airport for the repayment of this debt; however, the Airport is responsible for the semi-annual interest payments and the annual principal payments.

Assuming no bonds are called prior to maturity, the minimum obligations of the Airport for each of the next five years for debt services (principal and interest) are as follows:

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	\$ 90,000	\$10,125	\$100,125
2018	<u>180,000</u>	<u>4,050</u>	<u>184,050</u>
TOTALS	<u>\$ 70,000</u>	<u>\$14,175</u>	<u>\$284,175</u>

MUHLENBERG COUNTY AIRPORT
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	BUDGETARY BASIS	BUDGET TO GAAP DIFFERENCE	GAAP
Expenditures/Expenses					
Federal Grants					
Taxiway	\$ -	\$ -	\$ -	\$ 1,593,710	\$ 1,593,710
Total federal grant expenditures/expenses			.	1,593,710	1,593,710
State Grants					
Taxiway				492,275	492,275
Terminal loan repay-principal	80,000	85,000	85,000		85,000
Terminal loan repay-interest	18,000	14,062	14,062		14,062
Terminal loan repay-fees				550	550
Total state grant expenditures/expenses	98,000	99,062	99,062	492,825	591,887
Local Sources					
Taxiway				66,522	66,522
Salaries	45,000	43,224	49,050		49,050
Payroll tax	3,500	3,307	3,752	1,755	5,507
Kentucky unemployment	500	320	320		320
Casual Labor		272			
Advertising & marketing	500	256	256		256
Utility expense	15,000	13,647	14,767	(72)	14,695
Insurance	10,000	271	6,382		6,382
Maintenance and repairs	15,000	9,579	10,033		10,033
Dues and memberships	800	575	575		575
Sales tax	12,500	6,444	5,859	(270)	5,589
Supplies	123,000	85,161	97,567	(559)	97,008
Professional fees	7,000	5,313	5,313		5,313
Training and travel	3,000	1,253	1,279		1,279
Small items			1,412		1,412
Capital assets	3,363,000	2,187,586	2,202,936	(2,202,936)	
Miscellaneous expense			1,938	(1,523)	415
Reserve for transfer	17,200	725,175			
Total local funds expenditures/expenses	3,616,000	3,082,383	2,401,439	(2,137,083)	264,356
Total Expenditures/Expenses	3,714,000	3,181,445	2,500,501	(50,548)	2,449,953

MUHLENBERG COUNTY AIRPORT
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	BUDGETARY BASIS	BUDGET TO GAAP DIFFERENCE	GAAP
Program Revenues					
Federal Grants					
Federal grant-taxiway			1,620,870	(27,160)	1,593,710
Total federal grants	-	-	1,620,870	(27,160)	1,593,710
State Grants					
State grant-taxiway	1,685,000	1,607,055	537,541	(45,266)	492,275
State grant-terminal loan	1,100,000	636,002	99,612		99,612
Total state grants	2,785,000	2,243,057	637,153	(45,266)	591,887
Total program revenues	2,785,000	2,243,057	2,258,023	(72,426)	2,185,597
Excess (deficiency) of revenues over expenditures/net program expense	(929,000)	(938,388)	(242,478)	(21,878)	(264,356)
General Revenues					
Local Source					
Muhlenberg County Fiscal Court					
Tax revenues	107,000	122,004	127,881		127,881
Interest income	1,000	1,637		2,177	2,177
Lease income	8,000	6,879	6,879		6,879
Hangar rent	33,000	31,460	37,740	(680)	37,060
Fuel sales	130,000	99,144	118,539	(8,803)	109,736
Refunds		896	896		896
Miscellaneous income		75	75		75
Carry over from prior year	650,000	676,293			
Total local source revenue	929,000	938,388	292,010	(7,306)	284,704
Change in Fund Balance			49,532	(29,184)	20,348
Fund Balance - Beginning of Year			709,003		709,003
Fund Balance - End of Year	\$ -	\$ -	\$ 758,535	\$ (29,184)	\$ 729,351

MUHLENBERG COUNTY AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title:</u>	<u>Federal CFDA Number</u>	<u>Other Award Number</u>	<u>From Pass-Through Awards</u>	<u>From Direct Awards</u>	<u>Total</u>
U.S. Department of Transportation					
Federal Aviation Administration					
Airport Improvement Program	20.106	3-21-0020-015-2014	\$ -	\$ 1,490,210	\$ 1,490,210
Airport Improvement Program	20.106	3-21-0020-016-2015		103,500	103,500
Total U.S. Department of Transportation			<u>-</u>	<u>1,593,710</u>	<u>1,593,710</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ -</u>	<u>\$ 1,593,710</u>	<u>\$ 1,593,710</u>

Note 1 - Basis of Presentation: The accompanying schedule of expenditures of federal awards includes the federal award activity of the Muhlenberg County Airport under programs of the government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirement for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the County Airport, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Muhlenberg County Airport.

Note 2 - Summary of Significant Accounting Policies: Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized on the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Muhlenberg County Airport has not elected the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

**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 GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Muhlenberg County Airport
Greenville, Kentucky

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 the governmental activities of the Muhlenberg County Airport, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Muhlenberg County Airport's basic financial statements and have issued our report thereon dated March 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Muhlenberg County Airport'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 Muhlenberg County Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Muhlenberg County Airport'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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. **[2016-1]**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg County Airport's financial statements are free from 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*.

Muhlenberg County Airport's Response to Findings

Muhlenberg County Airport's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Muhlenberg County Airport's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Goldston, Pate & Co. CPAs, Inc.
Central City, Kentucky
March 6, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Airport Board
Muhlenberg County Airport

Report on Compliance for Each Major Federal Program

We have audited the Muhlenberg County Airport's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Muhlenberg County Airport's major federal programs for the year ended June 30, 2016. Muhlenberg County Airport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Muhlenberg County Airport's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Muhlenberg County Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Muhlenberg County Airport's compliance.

Opinion on Each Major Federal Program

In our opinion, the Muhlenberg County Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Muhlenberg County Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Muhlenberg County Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Muhlenberg County Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely

basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Goldston, Pate & Co. CPAs, Inc.
Central City, Kentucky
March 6, 2017

MUHLENBERG COUNTY AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unmodified opinion on whether the financial statements of the Muhlenberg County Airport were prepared in accordance with GAAP.
2. No material weaknesses were reported in the 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 *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Muhlenberg County Airport were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the Muhlenberg County Airport expresses an unmodified opinion on all major federal programs.
6. There are no audit findings required to be reported in accordance with 2 CFR section 200.516(a).
7. The programs tested as a major program include: Federal Aviation Administration, Airport Improvement Program CFDA 20.106.
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. The Muhlenberg County Airport was not determined to be a low-risk auditee.

MUHLENBERG COUNTY AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED JUNE 30, 2016

FINDINGS—INTERNAL CONTROLS OVER FINANCIAL REPORTING

SIGNIFICANT DEFICIENCY

2016-1 Lack of Segregation of Duties over Financial Reporting

Condition: Internal control over financial reporting could be strengthened with improved segregation of duties.

Criteria: Internal controls should be in place that provides reasonable assurance that recaptured funds are timely requested and only spent for approved purposes.

Cause: Small staff size and limited resources prevent a proper segregation of duties over financial reporting.

Effect: Without proper segregation of duties, the organization is at a greater risk of theft of assets and fraudulent financial reporting.

Recommendation: Due to the limited size and resources of the Airport, hiring additional staff is not an option; however, procedures should be implemented to strengthen internal control over financial reporting.

Response: The Airport agrees with the finding and will consider adding additional controls to strengthen its internal control structure.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings or questioned costs which are required to be reported by 2 CFR section 200.516(a) of the Uniform Guidance.