

DANVILLE-BOYLE COUNTY AIRPORT BOARD
DANVILLE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Financial Section:	
Independent Auditor's Report on the Financial Statements	1-2
Management's Discussion & Analysis	3-10
Financial Statements:	
Governmental Fund Balance Sheet/Statement of Net Position	11
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund	13
Notes to the Financial Statements	14-19
Compliance:	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Schedule of Findings and Responses	22

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Independent Auditor's Report

To the Board of Directors
Danville-Boyle County Airport Board
Danville, Kentucky 40422

Report on the Financial Statements

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

Auditor's 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Danville-Boyle County Airport Board as of June 30, 2016, and the changes in its financial position, and the budgetary comparison of the General Fund 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 on pages 3–10 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, on our consideration of the Danville-Boyle County 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 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 Danville-Boyle County Airport Board's internal control over financial reporting and compliance.

Robinson, Hughes & Christopher, PSC

January 25, 2017

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

As management of the Danville-Boyle County Airport Board, we offer this narrative to help our readers review the accompanying annual financial statements for the year ended June 30, 2016. We have prepared this overview and analysis of the Board's financial activities to add additional information to the financial schedules and the note disclosures.

Financial Highlights

- As of June 30, 2016, the Board's assets exceeded liabilities by \$5,377,898 (net position). This amount includes \$5,178,945 of resources that are invested in capital assets, net of related debt. \$112,968 of these resources are unrestricted and are available to fund the Board's outstanding obligations and future programs. \$85,985 of these resources are restricted to use for debt service.
- Net assets decreased by \$58,846. The primary reason for this decrease is due to depreciation expense (a non-cash expense) of \$246,953 during the year. Gross margins on fuel sales were 25% in the current year versus 17% in the prior year. This improvement is primarily related to the fact that fuel prices continued to decline as they did in the preceding year while prices charged dropped at a lesser rate.
- As of the close of the fiscal year, the Board reported ending fund balances of \$199,453, an increase of \$18,319 for the year. As noted above, the primary reason for the increase was due to continuing improvement in gross margins on fuel sales.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$111,347, or 21.2% of general fund expenditures (excluding capital outlay which is funded primarily by state and federal grants and the majority of the debt service which is funded by state grants).

The Board maintains two operating bank accounts, which is where all local, state, and federal grant income is deposited, in addition to all other revenues. From this fund, all expenses are budgeted and paid. The Board also maintains various trust accounts which are restricted for construction projects (as applicable) and debt service payments on the related debt.

The Board owns one certificate of deposit as of June 30, 2016. This certificate is unrestricted and is kept as reserve funds. However, it is pledged as collateral for the Board's operating line of credit which is used (as needed) to purchase fuel for resale.

Strengths of the Board include:

- a. The majority of its debt is being repaid with assistance from the state in the form of "debt assistance" grants.
- b. The airport is used as a base of operation for several substantial fuel consuming customers.
- c. The board of directors is comprised of very knowledgeable individuals who collectively possess many years of experience overseeing airport operations.
- d. The Board has been very successful over the years securing state and federal grants to fund improvement projects at the Airport.

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

Overview of the Financial Statements

This discussion and analysis are intended to introduce the Board's basic financial statements. Basic financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide additional information that our readers can use to analyze our finances.

Government-wide Financial Statements

The government-wide financial statements are designed to provide our readers with an overview of the Board's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities.

The *statement of net position* presents information on all the Board's assets and liabilities, including capital assets in the governmental funds. The difference between assets and liabilities is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as transactions occur, regardless of when the related cash flows are reported. Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

Government-wide statements contain only one category: *governmental activities* that are principally supported by fuel sales, intergovernmental revenues, hangar rental income, and other lease income. The Board is a single-purpose governmental entity that oversees the operation of the Danville-Boyle County Airport.

The government-wide statements are found on pages 11-12 of this report.

Fund Financial Statements

Funds are used in governmental accounting to separate resources that are designated for specific programs or activities. The Danville-Boyle County Airport Board, like other state and local governments uses fund accounting to demonstrate compliance with the laws, regulations, and contractual agreements that establish the authority for the Board's programs and services. Governments use three types of funds: governmental, proprietary, and fiduciary funds. The Board has no proprietary or fiduciary funds.

Governmental funds are used to account for the Board's basic services, the same services that are included in the governmental activities on the government-wide statements. However, the information in the fund statements is measured differently. Governmental funds focus on current financial resources rather than economic resources. Therefore, the statements include the short-term resources, such as cash, investments, and receivables that will be collected in the next few months, and liabilities that will be retired with these monies. This information is important for assessing the Board's current financial resources.

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

The fund statements are combined with the government-wide statements due to the simplified nature of the Board's operations. An adjustments column explains the difference between the governmental funds in the fund statements and the governmental activities found in the government-wide financial statements. This adjustments column will explain the adjustments necessary to add the long-term resources and obligations for the government-wide statements to the current picture presented in the fund statements.

The Danville-Boyle County Airport Board maintains one governmental fund, the general fund. Accordingly, the General Fund is also considered a major governmental fund.

This fund is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The Board adopts budgets for its general fund in accordance with Kentucky Revised Statutes. A budgetary comparison schedule for the General Fund has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-13 of this report.

Notes to the Financial Statements

Notes provide additional information that is essential to a full understanding of the information included in the financial schedules. Notes provide additional details about the balances and transactions in the Board's financial statements and are presented on pages 14-19.

Government-wide Financial Analysis

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current and other assets	\$ 220,725	\$ 305,870
Capital assets, net of depreciation	5,448,945	5,617,110
	<hr/>	<hr/>
Total assets	5,669,670	5,922,980
	<hr/>	<hr/>
Current liabilities	111,772	216,236
Long term liabilities	180,000	270,000
Total liabilities	<hr/> 291,772	<hr/> 486,236
Net position:		
Invested in capital assets, net of related debt	5,178,945	5,262,110
Restricted	85,985	85,980
Unrestricted	112,968	88,654
	<hr/>	<hr/>
Total Net Position	\$ 5,377,898	\$ 5,436,744

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

The Board's net position invested in capital assets (e.g., land & improvements, buildings and equipment, net of related debt) represents 96.3% and 96.8% of total net position, respectively as of June 30, 2016 and 2015. The Board uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

The second statement in the government-wide statements is the Statement of Activities. The table below outlines the major components of this statement.

	June 30, 2016	June 30, 2015
Revenues:		
Hangar Rent	\$ 95,700	\$ 91,075
FBO and Other Lease Income	9,900	8,200
Fuel and Related Sales	413,385	480,516
Interest	71	112
Miscellaneous Income	1,831	2,377
Grants	207,473	703,155
Total Revenues	728,360	1,285,435
Expenses:		
Cost of Fuel Sold	311,247	396,671
Payroll and Related Expense	101,357	94,475
Office Expense	1,769	1,771
Improvements & Repairs	54,442	35,611
Legal & Accounting	17,670	17,525
Utilities & Telephone	26,421	26,903
Insurance	8,966	8,483
Miscellaneous	3,768	2,376
Depreciation and Amortization	246,953	229,210
Interest Expense	14,613	18,569
Total Expenses	787,206	831,594
Increase (decrease) in net position	\$ (58,846)	\$ 453,841

During the fiscal year ended June 30, 2015, work commenced on an obstruction mitigation project which is being funded primarily by federal and state grants. Total expenditures on this project amounted to \$40,743 during the fiscal year. During the fiscal year ended June 30, 2016, expenditures on this project amounted to \$30,460. This project is still in process as of June 30, 2016. Total expenditures to date on this project are \$71,203.

During the fiscal year ended June 30, 2014, work commenced on a fuel farm project which is being funded primarily by federal and state grants. Total expenditures on this project amounted to \$29,693 during that year. During the fiscal year ended June 30, 2015, expenditures on this project amounted to \$542,411. During the fiscal year ended June 30, 2016, expenditures on this project amounted to \$48,328. This project was completed in August 2015 at a total cost of \$620,432.

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

For the fiscal years ended June 30, 2015 and 2016, expenses were very consistent with the following notable exceptions.

1. Cost of fuel sold was \$85,424 lower than the prior year. As noted previously, fuel prices have continued to fall which has resulted in lower fuel costs for the Board even as the number of gallons sold increases. The board sold 43,935 gallons of Avgas and 79,245 gallons of jet fuel during the fiscal year ended June 30, 2015. It sold 55,808 gallons of Avgas and 78,168 gallons of jet fuel during the fiscal year ended June 30, 2016.
2. Improvements and repairs expense increased by \$18,831 over the prior year. The main reason for the increase was a) gate repairs in the amount of \$9,920, and b) roof repairs in the amount of \$5,800.
3. Depreciation expense increased by \$17,743. This increase is due to certain projects being completed during the current and prior years which are now being depreciated.

Financial Analysis of the Government's Funds

The measurement principles in the governmental fund statements are different than the government-wide statements. Fund statements focus on current resources, while the government-wide statements present the long-term view. The first statement in the fund financial statements is the governmental fund balance sheet. The table below summarizes this statement:

	June 30, 2016	June 30, 2015
Cash and investments	\$ 91,141	\$ 53,626
Other current assets	43,599	166,264
Restricted cash and equivalents	85,985	85,980
Total assets	220,725	305,870
Accounts payable and accrued liabilities	21,272	124,736
Revolving line of credit	-	-
Total liabilities	21,272	124,736
Fund balances:		
Unassigned	111,347	93,035
Non-spendable	2,121	2,119
Restricted for debt service	85,985	85,980
Total fund balances	\$ 199,453	\$ 181,134

The Board has a line of credit available that it uses to purchase fuel if needed. However, due to the Board's financial strength over the past four years, it has taken very few draws on this line of credit, especially during the fiscal year ended June 30, 2015. The line of credit was paid in full as of June 30, 2015. There were no draws on the line of credit during the year ended June 30, 2016. The accounts payable as of June 30, 2015 was much higher because it had \$98,726 of contractor payables included in the balance. There were no contractor payables due as of June 30, 2016.

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

The second statement in the fund financial statements is the statement of governmental fund revenues, expenditures, and changes in fund balances. The table on the following page summarizes this statement.

	June 30, 2016	June 30, 2015
Revenues:		
Hangar Rent	\$ 89,700	\$ 85,075
FBO and Other Lease Income	9,900	8,200
Fuel and Related Sales	413,385	480,516
Interest	71	112
Miscellaneous Income	1,831	2,377
Grants	207,473	703,155
Total Revenues	722,360	1,279,435
Expenses:		
Cost of Fuel Sold	311,247	396,671
Payroll and Related Expense	101,357	94,475
Office Expense	1,769	1,771
Improvements & Repairs	54,442	35,611
Legal & Accounting	17,670	17,525
Utilities & Telephone	26,421	26,903
Insurance	8,966	8,483
Miscellaneous	3,768	2,376
Capital Outlay/Special Projects	78,788	638,194
Debt Service	99,613	98,569
Total Expenses	704,041	1,320,578
Excess (deficiency) of revenues over expenditures	\$ 18,319	\$ (41,143)

The "Financial Highlights" section of this report has already addressed the major differences in the fund financial statements from year to year. Also, the preceding page has explained reasons for increases or decreases in certain expenses compared to the prior year.

General Fund Budgetary Highlights

Budgetary comparison schedules include information about both the original budget and the amended budget. Generally, budgets are amended to add projects that were not anticipated when the budget was first adopted. Revenue budgets are usually estimated lower to allow budgetary flexibility for additional projects.

Significant revenue variances include grant revenues from federal and state agencies. The variances occur every year due to the timing differences between when projects are budgeted and when they are started. These timing differences also account for budget variances in the "special project expenditure" category because these expenditures are primarily funded by grant revenues. Also, fuel sales were less than budgeted due to falling fuel prices during the fiscal year.

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

Significant expenditure variances include 1) Improvements and repairs, and 2) cost of fuel sold. Improvements and repairs was \$25,511 less than budget because the Board budgets this expense using a “worst case” scenario; thus, it is not unusual for this item to be less than the budgeted amount. Cost of fuel sold was \$67,853 under budget for the year because fuel prices continued to fall during the current fiscal year.

Capital Assets

The Board invests substantial resources in capital assets that support the services provided to the public.

Capital Assets

The Board’s capital assets, net of accumulated depreciation, are summarized below:

	June 30, 2016	June 30, 2015
Land & Improvements	\$ 2,846,677	\$ 3,019,784
Buildings	1,791,747	1,838,234
Equipment	739,318	146,244
Construction in Process	71,203	612,848
Total	\$ 5,448,945	\$ 5,617,110

Additional information on the Board’s capital assets can be found in the notes to the financial statements.

Long Term Debt

The principal outstanding on the Board’s long-term debt is summarized in the following table.

	June 30, 2016	June 30, 2015
KPAD Capital Lease	\$ 270,000	\$ 355,000
Total	\$ 270,000	\$ 355,000

The Board’s outstanding debt decreased \$85,000 and \$80,000 during the fiscal years ended June 30, 2016 and 2015, respectively, in accordance with the scheduled amortization of the debt.

Danville-Boyle County Airport Board
Management Discussion and Analysis
For the Year Ended June 30, 2016

The Outlook for Next Year

Operating revenues and expenditures through November 30, 2016 have remained very consistent with the past two fiscal years and are expected to remain consistent through the end of the current fiscal year. Gross margins on fuel sales have remained consistent with the margins realized during the year ended June 30, 2016. Historically, margins on fuel sales tend to improve as the cost of fuel decreases. The Board will continue to monitor fuel expenditures on an on-going basis and will move to adjust pricing to its customers as necessary. The Kentucky Department of Aviation has committed to provide grant funding to the Board for the purpose of paying the debt service on the KPAD lease obligation over the life of the lease.

Requests for Information

This financial report is designed to provide our customers, creditors and other interested parties with a general overview of the Danville-Boyle County Airport Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Caldwell, treasurer, at 547 Dogwood Drive, Danville, KY 40422, telephone number (859) 583-9840, or Craig A. Butler, CPA, at 131 N. 4th Street, Danville, KY 40422, telephone number (859) 936-0201.

BASIC FINANCIAL STATEMENTS

DANVILLE-BOYLE COUNTY AIRPORT BOARD
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION
JUNE 30, 2016

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 71,165	\$ -	\$ 71,165
Certificates of deposit	19,976	-	19,976
Due from governmental agencies	-	-	-
Receivables, no allowance necessary:			
Accounts	7,422	-	7,422
Fuel tax	10,458	-	10,458
Prepaid insurance	2,121	-	2,121
Inventory	23,598	-	23,598
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	85,985	-	85,985
Capital assets, net	-	5,448,945	5,448,945
Total assets	\$ 220,725	5,448,945	5,669,670
LIABILITIES			
Accounts payable	16,492	-	16,492
Accrued liabilities	4,780	-	4,780
Unearned rental income	-	500	500
Long-term liabilities:			
Due within one year	-	90,000	90,000
Due after one year	-	180,000	180,000
Total liabilities	21,272	270,500	291,772
FUND BALANCES/NET POSITION			
Fund Balances:			
Unassigned	111,347	(111,347)	-
Non-spendable	2,121	(2,121)	-
Restricted for construction and debt service	85,985	(85,985)	-
Total fund balances	199,453	(199,453)	-
Total liabilities and fund balances	\$ 220,725		
Net Position:			
Invested in capital assets, net of related debt		5,178,945	5,178,945
Restricted for construction and debt service		85,985	85,985
Unrestricted		112,968	112,968
Total net position		\$ 5,377,898	\$ 5,377,898

See accompanying notes to financial statements.

DANVILLE-BOYLE COUNTY AIRPORT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:			
Hangar rent	\$ 89,700	\$ 6,000	\$ 95,700
FBO and other lease income	9,900	-	9,900
Fuel and related sales	413,385	-	413,385
Interest income	71	-	71
Miscellaneous income	1,831	-	1,831
Intergovernmental:			
Local grants	30,000	-	30,000
State grants	150,211	-	150,211
Federal FAA grants	27,262	-	27,262
 Total revenues	 <u>722,360</u>	 <u>6,000</u>	 <u>728,360</u>
EXPENDITURES/EXPENSES:			
Current:			
Cost of fuel sold	311,247	-	311,247
Payroll and related expense	101,357	-	101,357
Office expense	1,769	-	1,769
Improvements and repairs	54,442	-	54,442
Legal and accounting	17,670	-	17,670
Utilities and telephone	26,421	-	26,421
Insurance	8,966	-	8,966
Miscellaneous	3,768	-	3,768
Depreciation	-	246,953	246,953
Special project expenditures	78,788	(78,788)	-
Debt service:			
Principal	85,000	(85,000)	-
Interest	14,613	-	14,613
 Total expenditures	 <u>704,041</u>	 <u>83,165</u>	 <u>787,206</u>
Excess (deficiency) of revenues over expenditures	18,319	(18,319)	
 Change in net position		(58,846)	(58,846)
 Fund balances/net position:			
Beginning of the year	181,134		5,436,744
 End of the year	 <u>\$ 199,453</u>	 <u>\$ -</u>	 <u>\$ 5,377,898</u>

See accompanying notes to financial statements.

DANVILLE-BOYLE COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive Negative (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES:				
Hangar rent	\$ 90,300	\$ 90,300	\$ 89,700	\$ (600)
FBO and other lease income	7,800	7,800	9,900	2,100
Fuel and related sales	478,011	478,011	413,385	(64,626)
Interest income	-	-	71	71
Miscellaneous income	1,155	1,155	1,831	676
Intergovernmental:				
Local grants	30,000	30,000	30,000	-
State grants	109,533	109,533	150,211	40,678
Federal FAA grants	150,000	150,000	27,262	(122,738)
 Total revenues	 <u>866,799</u>	 <u>866,799</u>	 <u>722,360</u>	 <u>(144,439)</u>
EXPENDITURES:				
Current operating:				
Cost of fuel sold	379,100	379,100	311,247	67,853
Payroll and related expense	94,475	94,475	101,357	(6,882)
Office expense	1,786	1,786	1,769	17
Improvements and repairs	79,953	79,953	54,442	25,511
Legal and accounting	10,000	10,000	17,670	(7,670)
Utilities and telephone	26,387	26,387	26,421	(34)
Insurance	8,510	8,510	8,966	(456)
Miscellaneous	-	-	3,768	(3,768)
Special project expenditures	268,600	268,600	78,788	189,812
Debt service:				
Principal	85,000	85,000	85,000	-
Interest	18,234	18,234	14,613	3,621
 Total expenditures	 <u>972,045</u>	 <u>972,045</u>	 <u>704,041</u>	 <u>268,004</u>
 Excess (deficiency) of revenues over expenditures	 (105,246)	 (105,246)	 18,319	 123,565
 Fund balance-beginning of year	 181,134	 181,134	 181,134	 -
 Fund balance-end of year	 <u>\$ 75,888</u>	 <u>\$ 75,888</u>	 <u>\$ 199,453</u>	 <u>\$ 123,565</u>

See accompanying notes to financial statements.

Danville-Boyle County Airport Board
Notes to Financial Statements
June 30, 2016

Note I - Summary of Significant Accounting Policies

The financial statements of the Airport Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Government-wide and fund financial statements

The Danville-Boyle County Airport Board is a special-purpose governmental entity engaged in a single governmental program. Therefore, as allowed by Governmental Accounting Standards Board Statement 34, the fund financial statements and the government-wide financial statements have been combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. Government-wide financial statements report information on all of the activities of the government. The effect of inter-fund activity has been removed from these statements in the "adjustments" column on the face of the financial statements.

B. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

C. Assets, liabilities, and net position or equity

1. Deposits and investments

The government's cash consists of demand deposits only. Kentucky Revised Statute 66.480 generally limits the Board to investing in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. Cash equivalents include money market mutual funds only and are valued at market which is equal to cost.

2. Receivables and payables

Receivables consist of amounts due from customers, other governmental entities, and refundable fuel taxes. No allowance is necessary for these items.

3. Inventory

Inventory consists of fuel held for sale to customers and is valued using the first in-first out (FIFO) cost method.

Danville-Boyle County Airport Board
Notes to Financial Statements
June 30, 2016

4. Capital assets

Capital assets, which include buildings, land, land improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible fixed assets used by the government is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Equipment	15-30 Years
Land Improvements	20-50 Years
Buildings	20-60 Years

5. Restricted assets

Certain resources set aside for the repayment of the Kentucky Public Agency Development (KPAD) lease obligation are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited. This "debt service reserve" account is used to segregate resources set aside to make up potential future deficiencies in the sinking fund account.

6. Debt issuance costs

In accordance with GASB Statement No. 65, debt issuance costs are recognized in the year paid in the governmental fund financial statements and the government-wide financial statements.

7. Unearned rental income

Lease income paid in advance is being recognized as income over the life of the lease in the government-wide financial statements. This payment has been recognized in the year received in the governmental fund financial statements.

8. Long-term obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable statement of net position. In the fund financial statements, governmental fund types report receipts from the issuance of debt as "other financing sources".

9. Equity

Fund Financial Statements – Fund financial statements report governmental fund equity as fund balance. Fund balance is further classified:

- a. **Non-spendable fund balance** includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Danville-Boyle County Airport Board
Notes to Financial Statements
June 30, 2016

- b. **Restricted fund balance** includes amounts that are restricted to specific purposes either (a) by externally imposed creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. **Committed fund balance** includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The Board's highest level of decision making authority is the board of directors.
- d. **Assigned fund balance** includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board's directors are authorized to assign the fund balance. The Board has not adopted formal procedures to show that the board has assigned the fund balance.
- e. **Unassigned fund balance** represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Government-Wide Financial Statements – In the government-wide financial statements, equity is displayed in three components as follows:

- a. **Invested in capital net of related debt** consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted** net position consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.
- c. **Unrestricted** net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The Board has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first. In addition, when expenditures could be deemed to have been expended by using committed, assigned or unassigned funds, the Board has determined that the funds will be first categorized as assigned, second as committed and third as unassigned.

D. Management's Review of Subsequent Events

The Airport Board has evaluated and considered the need to recognize or disclose subsequent events through January 25, 2017 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the Airport Board.

Note II – Cash and Investments

The Board's deposits and certificates of deposit are fully insured by the FDIC as of June 30, 2016.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Board's investment policy does not specifically address this risk.

Temporarily restricted cash equivalents consist of money market funds at a custodial bank. The money market funds are invested in U.S. government securities and repurchase agreements collateralized by such obligations.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Board's investment in a single issuer. The Board's investment policy does not specifically address this risk.

Danville-Boyle County Airport Board
Notes to Financial Statements
June 30, 2016

The Board's investments at June 30, 2016 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Governmental Activities:				
Community Trust Bank				
Certificate of Deposit	\$ 19,976	\$ 19,976	0.20%	08/18/16
Total Certificates of Deposit	<u>19,976</u>	<u>19,976</u>		
Money Market Funds	85,985	85,985	0.01%	N/A
Total Investments	<u>\$ 105,961</u>	<u>\$ 105,961</u>		

Note III - Operating Leases - Lessor

Air Evac EMS Lease

In June of 2011, the Board (lessor) entered into an agreement with Air Evac EMS, Inc. (lessee) whereby the lessee agreed to pay the lessor \$35,000 to fund improvements to a hangar which the lessee desired to lease. The term of the lease is 60 months and calls for monthly payments in the amount of \$1,200. However, the lessee receives a credit of \$500 per month in order to offset the upfront payment of \$35,000. Therefore, the actual monthly payments are \$700. Over the five year term of the lease, the lessee will receive total lease credits of \$30,000. In the government-wide financial statements, this advance payment has been treated as unearned rental income, and is being amortized over 60 months (the term of the lease) beginning in August of 2011, which is the effective date of the commencement of the agreement.

Hammond Aero Services LLC Lease

In June of 2015, the Board (lessor) entered into an agreement with Hammond Aero Services LLC (lessee) whereby the lessee agreed to pay the lessor \$500 per month for the use of certain premises at the airport. The term of the lease is 60 months. The lease term commenced on July 1, 2015 and expires on June 30, 2020. Effective May 1, 2016, the lease was modified to include the rental of an aircraft storage hangar for an additional \$400 per month.

Virtually all other agreements related to hangar rentals are written or verbal in nature and are on a month-to-month basis.

Note IV – Capital Assets

The following represents the changes in fixed assets for the fiscal years ended June 30, 2016

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions/ WIP Completed</u>	<u>Ending Balance</u>
Buildings	\$ 2,424,208	\$ -	\$ -	\$ 2,424,208
Land & Improvements	5,026,803	-	-	5,026,803
Equipment & Furniture	611,164	620,432	(85,000)	1,146,596
Construction in Progress	612,848	78,788	(620,432)	71,204
	<u>8,675,023</u>	<u>699,220</u>	<u>(705,432)</u>	<u>8,668,811</u>
Accumulated Depreciation	(3,057,913)	(246,953)	85,000	(3,219,866)
Fixed Assets, Net	<u>\$ 5,617,110</u>	<u>\$ 452,267</u>	<u>\$ (620,432)</u>	<u>\$ 5,448,945</u>

Danville-Boyle County Airport Board
Notes to Financial Statements
June 30, 2016

Note V – Short Term Borrowings

The Board has a revolving line of credit which it utilizes to fund the purchase of fuel. The line of credit carries a variable rate of interest (currently 4%). The Board's certificate of deposit provides collateral for this line of credit. There was no activity related to this line of credit during the year ended June 30, 2016.

Note VI - Long Term Debt

During the fiscal year ended June 30, 2008, the Airport Board entered into a lease agreement with the Kentucky Transportation Cabinet, Department of Aviation, to obtain financing for the construction of a state of the art airport terminal facility. The lease is referred to as the Kentucky Public Agency Development Lease Certificate of Participation (KPAD). Lease proceeds in the amount of \$860,000, less issuance costs of \$20,780, were received by the Board and deposited into various trust accounts as required by the lease agreement. This lease bears a fixed interest rate of 4.5%. The Kentucky Transportation Cabinet, Department of Aviation, has committed to providing grant funding over the term of the lease which will in effect provide for the repayment of the entire lease obligation.

Debt service requirements to maturity for this capital lease obligation are as follows:

<u>Fiscal year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 90,000	\$ 10,125	\$ 100,125
2018	180,000	4,050	184,050
Totals	\$ 270,000	\$ 14,175	\$ 284,175

Long-term liability activity for the years ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
KPAD Capital Lease	\$ 355,000	\$ -	\$ 85,000	\$ 270,000	\$ 90,000
Total Long-Term Debt	\$ 355,000	\$ -	\$ 85,000	\$ 270,000	\$ 90,000

Note VII – Intergovernmental Grants Received

During the fiscal year ended June 30, 2016, the Board received operating grant of \$15,000 each from the City of Danville and the Boyle County Fiscal Court. A debt service grant of \$99,613 and construction grants of \$50,598 were received from the Kentucky Transportation Cabinet and construction grants of \$27,262 were received from the U.S. Department of Transportation Federal Aviation Administration.

Note VIII – Related Party Transactions

The Board currently receives hangar rental income from one board member on a monthly basis. The monthly rental fee charged to the board member is the same as would be charged to unrelated parties for a similar size hangar. During the fiscal year ended June 30, 2016, the Board received \$1,800 from related parties.

Danville-Boyle County Airport Board
Notes to Financial Statements
June 30, 2016

Note IX – Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the FAA and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Note X – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to members or other persons; and natural disasters. The Board purchases commercial insurance coverage to manage these risks.

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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

Members of the Board
Danville-Boyle County Airport Board
Danville, 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 Danville-Boyle County Airport Board, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Danville-Boyle County Airport Board's basic financial statements and have issued our report thereon dated January 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Danville-Boyle County 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Danville-Boyle County Airport Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Danville-Boyle County Airport Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 responses as item 2016-1 that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Danville-Boyle County Airport Board'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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-1.

Danville-Boyle County Airport Board's Response to Findings

Danville-Boyle County Airport Board's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Danville-Boyle County Airport Board'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.

Robinson, Hughes & Christopher, PSC

Danville, KY
January 25, 2017

DANVILLE-BOYLE COUNTY AIRPORT BOARD
Schedule of Findings and Responses
For the Year Ended June 30, 2016

2016-1

In the year audited, certain expenditures exceeded the budgeted amounts. Though the Airport Board monitors and approves all expenditures, payment of any amount not budgeted constitutes a technical violation of KRS 65.065. The budget passed and published did not sufficiently consider all expenditures. The budget did not provide sufficient amounts for the daily operations of the airport. Payroll was under budgeted by approximately \$7,000, Legal and Accounting was under budgeted by approximately \$8,000 and Miscellaneous was under budgeted by approximately \$4,000.

Management Response to Significant Deficiency in Internal Control

Management agrees with this finding. Going forward the Board, with assistance from its outside accounting firm, will continue to refine its budgeting process and amend the budget as necessary.