



**Auditor of State
Betty Montgomery**

**HIGHLAND REGIONAL AIRPORT AUTHORITY
HIGHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

Highland Regional Airport Authority
Highland County
1939 Crampton Road
Lynchburg, Ohio 45142

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 20, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Highland Regional Airport Authority
Highland County
1939 Crampton Road
Lynchburg, Ohio 45142

To the Board of Trustees:

We have audited the accompanying financial statements of Highland Regional Airport Authority, Highland County, Ohio (the Authority), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Authority's management. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Authority has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Authority to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately. While the Authority does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat its statements. The Authority has elected not to reformat its statements. Since this Authority does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority as of December 31, 2005 and 2004, or their changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Highland Regional Airport Authority, Highland County, as of December 31, 2005 and 2004, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Authority to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Authority has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

October 20, 2006

**HIGHLAND REGIONAL AIRPORT AUTHORITY
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Capital Projects	Totals (Memorandum Only)
Cash Receipts:			
Sale of Fuel	\$73,421	\$0	\$73,421
Lease Payments	11,672	0	11,672
Rents	7,000	0	7,000
Intergovernmental	0	312,352	312,352
Earnings on Investments	132	0	132
Miscellaneous	206	0	206
	92,431	312,352	404,783
Cash Disbursements:			
Current:			
Utilities	7,203	0	7,203
Communications	1,923	0	1,923
Postage	148	0	148
Office Supplies	198	0	198
Contract Services	10,928	0	10,928
Fuel Purchased	63,222	0	63,222
Sales Tax Remitted	4,628	0	4,628
Miscellaneous	4,633	0	4,633
Capital Outlay	9,995	312,352	322,347
	102,878	312,352	415,230
Total Receipts Over/(Under) Disbursements	(10,447)	0	(10,447)
Other Financing Receipts and (Disbursements):			
Other Sources	3,425	0	3,425
	3,425	0	3,425
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(7,022)	0	(7,022)
Fund Cash Balances, January 1	38,917	0	38,917
Fund Cash Balances, December 31	\$31,895	\$0	\$31,895

The notes to the financial statements are an integral part of this statement.

**HIGHLAND REGIONAL AIRPORT AUTHORITY
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Sale of Fuel	\$60,241	\$0	\$60,241
Lease Payments	12,152	0	12,152
Rents	8,850	0	8,850
Intergovernmental	0	190,340	190,340
Earnings on Investments	175	0	175
Miscellaneous	842	0	842
	<u>82,260</u>	<u>190,340</u>	<u>272,600</u>
Cash Disbursements:			
Current:			
Utilities	6,875	0	6,875
Communications	2,078	0	2,078
Postage	111	0	111
Office Supplies	323	0	323
Contract Services	14,447	0	14,447
Fuel Purchased	55,936	0	55,936
Sales Tax Remitted	3,777	0	3,777
Miscellaneous	2,923	0	2,923
Capital Outlay	0	190,340	190,340
	<u>86,470</u>	<u>190,340</u>	<u>276,810</u>
Total Receipts Over/(Under) Disbursements	(4,210)	0	(4,210)
Fund Cash Balances, January 1	<u>43,127</u>	<u>0</u>	<u>43,127</u>
Fund Cash Balances, December 31	<u>\$38,917</u>	<u>\$0</u>	<u>\$38,917</u>

The notes to the financial statements are an integral part of this statement.

**HIGHLAND REGIONAL AIRPORT AUTHORITY
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Highland Regional Airport Authority, Highland County, Ohio (the Authority), as a body corporate and politic. The Authority is directed by a five member Board, appointed by the Highland County Commissioners. The Authority is responsible for the safe and efficient operation and maintenance of the airport.

The Authority's management believes these financial statements present all activities for which the Authority is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements basis of accounting. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Deposits

Authority funds are deposited in three checking accounts, one of which handles only fuel sales and the related direct deposits, the second account is a "NOW" account for all other airport receipts and disbursements, and the third is a money market account. All of these accounts are with a local commercial bank. Interest earnings are distributed to the Authority fund based upon the Ohio Constitution.

D. Fund Accounting

The Airport Authority uses fund accounting to segregate cash and investments that are restricted as to use. The Airport Authority classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Capital Projects

These funds are used to account for revenues that are restricted for the acquisition or construction of major capital projects. The Highland County Commissioners administer and account for grants for the capital projects of the Airport Authority. The grants are from the Ohio Department of Aviation and the Federal Aviation Administration. The projects during the audit period were for improvements to the grounds and taxi areas, and security for the airport. Although the Airport Authority does not handle the actual funds they are being presented for reporting purposes.

**HIGHLAND REGIONAL AIRPORT AUTHORITY
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property, Plant, and Equipment

The accounting basis recognizes acquisitions of property, plant, and equipment as disbursements when paid. The financial statements do not report these as assets.

2. EQUITY IN CASH AND DEPOSITS

The carrying amount of cash and deposits at December 31 follows:

	<u>2005</u>	<u>2004</u>
Demand deposits	<u>\$31,895</u>	<u>\$38,917</u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation.

3. RISK MANAGEMENT

The County carries insurance through private carriers who assume the risk of loss up to the limits of the County's policies. The following risks are:

- Comprehensive property and general liability;
- Vehicles;
- Inland Marine; and
- Errors and omissions.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Highland Regional Airport Authority
Highland County
1939 Crampton Road
Lynchburg, Ohio 45142

To the Board of Trustees:

We have audited the financial statements of the Highland Regional Airport Authority, Highland County, Ohio (the Authority), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 20, 2006, wherein we noted the Authority follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Government's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider the reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the Authority's management dated October 20, 2006, we reported another matter involving internal control over financial reporting which we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Authority's management dated October 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, and the Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 20, 2006

**HIGHLAND REGIONAL AIRPORT AUTHORITY
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation/Material Weakness

Ohio Administrative Code § 117-2-02(A) sets forth the accounting and reporting records that all local public offices must maintain. All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements, and prepare financial statements. The accounting records that all public offices should maintain include the following:

1. Cash journal, which contains the following information: the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses.
3. Appropriation ledger, which may assemble and classify disbursements or expenditures/expenses into separate accounts, for, at a minimum, each account listed in the appropriation resolution.

- We noted the following deficiencies in the Authority ledgers:
 - Detailed receipts and expenditure ledgers were not maintained. Individual monthly receipts and disbursements were recorded to a monthly summary report as presented to the Board.
 - The consolidated financial report as presented to the Board did not include the money market account, and did not reconcile to the combined individual subsidiary financial statements for the airport and fuel account.
 - Entries for returned checks were recorded as miscellaneous expenses rather than as a reduction in revenue.
 - Voided checks were recorded as miscellaneous credits rather than as a reduction in expenditures.
 - Fund transfers of \$650 and \$477 were recorded as other expenses.
 - The purchase of a 17' mower was recorded as a miscellaneous expenditure rather than a capital outlay expenditure.

As a result, the records maintained by the Clerk were not an accurate reflection of all moneys received and expended, and the related balance.

**FINDING NUMBER 2005-001
(Continued)**

Properly maintaining the ledgers will help to provide accurate and complete financial information for management to use in the decision making process. Failure to maintain these ledgers correctly could result in management making decisions based on inaccurate information and could result in negative fund balances; also the risk is increased that errors, theft or fraud may occur and not be detected in a timely manner. The Authority should establish detailed receipts and appropriations ledgers, and post transactions to the proper account codes.

- We noted the following internal control weaknesses during our review of rental and lease receipts:
 - Duplicate receipts/invoices were not issued for all hanger rentals and lease payments.
 - Of the invoices tested, seven (7) were not paid, and had notation of customers not occupying the hangers.
 - There is not a complete listing of units which are available for generating revenue.

Not issuing duplicate receipts for all rental and lease receipts received by the Airport Authority weakens the accountability over rental and lease payment and increases the probability of detecting errors over collections. Additionally, it makes the reconciling of source documents to the Authority's Summary Statements cumbersome. The Airport Authority should maintain a listing of all renters (and associated fees). Failure to maintain and keep adequate records of units currently being rented/leased, and units that have been vacated, could result in lost or misappropriated funds to go undetected, and could result in unnecessary invoicing. When bills are sent to the renters, information should be recorded as to when the bill was sent along with the amount and number of the original billing. When payment is received, the amount, date paid, and receipt number should be entered onto the bill listing. The bill listing will provide the Authority a concise summary of what is owed to them as well as what has been received for hangar rentals. To strengthen the controls over the Authority's rental and lease of hangers and tie-downs, we recommend the following:

- Duplicate receipts/invoices should be issued for all rental and lease payments received. Invoices for long-term rental and leases can also serve as a duplicate receipt by noting the payment on the face of the duplicate invoice.
 - All hangers should have a rental agreement assigned by hanger number, and the agreement should include a requirement for the tenant to provide written notice detailing their intentions to vacate.
 - The Airport Authority should maintain a running record of rental units, rental rates for each unit, tenant's name, date rented, and date vacated.
- We noted the following internal control weaknesses during our review of fuel sale receipts:
 - Duplicate receipts were not issued for all cash fuel sales.
 - A complete, detailed reconciliation of fuel inventory is not being performed.

**FINDING NUMBER 2005-001
(Continued)**

- Electronic Funds Transfer remittance summary reports generated by the automated fuel pump system are received daily by the Board President, but a copy is not being forwarded to the Clerk/Treasurer.
- The Clerk/Treasurer is recording the net amount of fuel sales only; as derived from the monthly bank statements.

Not issuing duplicate receipts for all cash fuel sales; and not obtaining detailed reports for all credit card sales received by the Airport Authority weakens the accountability over fuel sales and increases the likelihood of errors going undetected. Additionally, it makes the reconciling of source documents to the Authority's Summary Reports cumbersome. Not printing and maintaining all detailed and summary reports available from the automated fuel pump system, and making them available to the appropriate officials for reconciling purposes, reduces the reliability of reported information for decision making, and decreases the probability of detected errors or fraudulent sales and/or theft. To strengthen the controls over the Authority's fuel sales, we recommend the following:

- Duplicate receipts should be issued for all cash fuel sales. The duplicate receipt should show the number of gallons sold, price per gallon and total amount collected.
- A complete reconciliation of fuel inventory should be prepared monthly, showing the beginning inventory, units purchased, units sold, and ending inventory.
- A copy of the Electronic Funds Transfer summary report should be forwarded to the Clerk/Treasurer. The Treasurer should reconcile these to the bank statements to make sure the credit card sales are correctly deposited into the account.
- Additionally, the Treasurer should obtain copies of all fuel receipts or a summary that will show the receipt number, amount of fuel sold, price, and total collected. The Treasurer should record the gross amount of fuel sales to the receipts ledger, and any related processing fees as an expense.

The audited 2004 and 2005 financial statements include audit adjustments and reclassifications. Authority management has approved and posted the appropriate adjustments.

Officials' Response:

We did not receive a response from Officials to this matter.



**Auditor of State
Betty Montgomery**

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REGIONAL AIRPORT AUTHORITY

HIGHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 14, 2006**