

**MOREHEAD - ROWAN COUNTY
AIRPORT BOARD**

REPORT OF AUDIT

AS OF THE YEARS ENDED JUNE 30, 2003 AND 2002

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INDEPENDENT AUDITOR'S REPORT

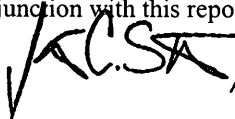
Morehead - Rowan County Airport Board
630 Airport Road
Morehead, KY 40351

We have audited the accompanying financial statements of the Morehead - Rowan County Airport Board as of the years ending June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morehead - Rowan County Airport Board as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2003, on our consideration of the Board's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

 J.C. STILES, CPA, PSC

October 16, 2003

Morehead-Rowan County Airport Board
Balance Sheets
As of June 30, 2003 and 2002

ASSETS

| | <u>2003</u> | <u>2002</u> |
|---|-------------------------|-------------------------|
| Current Assets: | | |
| Cash in Bank - Checking | \$ 20,600 | \$ 16,295 |
| Fixed Assets, Net of Accumulated Depreciation | <u>1,885,541</u> | <u>1,887,434</u> |
| TOTAL ASSETS | <u>\$ 1,906,141</u> | <u>\$ 1,903,729</u> |

FUND BALANCE

| | | |
|--|-------------------------|-------------------------|
| Fund Balance | <u>1,906,141</u> | <u>1,903,729</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,906,141</u> | <u>\$ 1,903,729</u> |

Morehead - Rowan County Airport Board
Statements of Support, Revenues, Expenditures
And Changes in Fund Balance
For The Years Ended June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|--|---------------------|---------------------|
| SUPPORT AND REVENUE: | | |
| City of Morehead | \$ 12,500 | \$ 12,500 |
| Rowan County Fiscal Court | 12,500 | 12,500 |
| Commonwealth of Kentucky | 200,000 | 194,808 |
| Rent Income | <u>2,330</u> | <u>2,755</u> |
| Total Revenue | <u>227,330</u> | <u>222,563</u> |
| EXPENDITURES: | | |
| Professional Services | 7,018 | 1,661 |
| Advertising | 498 | - |
| Bank Charges | 72 | - |
| Dues & Subscriptions | 270 | 70 |
| Entertainment | 266 | - |
| Insurance | 4,595 | - |
| Janitor & Supplies | 443 | 361 |
| Miscellaneous Expenses | 160 | 371 |
| Depreciation Expense | 1,893 | 1,893 |
| Rowan County Fiscal Court | 193,743 | 194,808 |
| Postage | 84 | 41 |
| Repairs and Maintenance | 11,378 | 719 |
| Office Supplies and Equipment | 1,203 | 13 |
| Telephone | 625 | 569 |
| Travel | 70 | - |
| Utilities | <u>2,600</u> | <u>2,548</u> |
| Total Expenditures | <u>224,918</u> | <u>203,054</u> |
| EXCESS OF SUPPORT AND REVENUE OVER EXPENDITURES | 2,412 | 19,509 |
| FUND BALANCE, Beginning of Year | <u>1,903,729</u> | <u>1,884,220</u> |
| FUND BALANCE, End of Year | <u>\$ 1,906,141</u> | <u>\$ 1,903,729</u> |

Morehead - Rowan County Airport Board
Statements of Cash Flows
For the Years Ending June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Excess in Revenues Over Expenditures | \$ 2,412 | \$ 19,509 |
| Adjustment to Reconcile Excess to Net Cash Provided by Operations: | | |
| Depreciation | 1,893 | 1,893 |
| Changes in Accounts Payable | <u>-</u> | <u>(9,248)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>4,305</u> | <u>12,154</u> |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | |
| Land Purchase for New Airport | <u>-</u> | <u>(4,310)</u> |
| NET CASH USED BY INVESTMENT ACTIVITIES | <u>-</u> | <u>(4,310)</u> |
| NET INCREASE (DECREASE) IN CASH | 4,305 | 7,844 |
| CASH AT THE BEGINNING OF THE YEAR | <u>16,295</u> | <u>8,451</u> |
| CASH AT THE END OF THE YEAR | <u>\$ 20,600</u> | <u>\$ 16,295</u> |

Morehead - Rowan County Airport Board
Statements of Support, Revenues and Expenditures
Budget to Actual
For The Year Ended June 30, 2003

| | <u>Actual</u> | <u>Budget</u> | <u>Change</u> |
|--|-----------------|----------------|-----------------|
| REVENUE: | | | |
| City of Morehead | \$ 12,500 | \$ 12,500 | \$ - |
| Rowan County Fiscal Court | 12,500 | 12,500 | - |
| Commonwealth of Kentucky | 2,330 | 2,330 | - |
| Rent Income | <u>200,000</u> | <u>200,000</u> | <u>-</u> |
| Total Revenue | <u>227,330</u> | <u>227,330</u> | <u>-</u> |
| EXPENDITURES: | | | |
| Professional Services | 7,018 | 9,304 | 2,286 |
| Insurance | 4,595 | 4,620 | 25 |
| Maintenance and Supplies | 11,821 | 20,000 | 8,179 |
| Other | 1,541 | 10,000 | 8,459 |
| Depreciation Expense | 1,893 | - | (1,893) |
| Rowan County Fiscal Court | 193,743 | 193,743 | - |
| Travel | 70 | 1,000 | 930 |
| Supplies | 1,203 | 910 | (293) |
| Utilities and Telephone | <u>3,034</u> | <u>4,000</u> | <u>966</u> |
| Total Expenditures | <u>224,918</u> | <u>243,577</u> | <u>18,659</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES BEFORE CARRYOVER | 2,412 | (16,247) | 18,659 |
| BEGINNING CARRYOVER | <u>-</u> | <u>16,247</u> | <u>(16,247)</u> |
| EXCESS OF REVENUE OVER EXPENDITURES | <u>\$ 2,412</u> | <u>\$ -</u> | <u>\$ 2,412</u> |

MOREHEAD-ROWAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Morehead - Rowan County Airport Board (the Board) were prepared in accordance with Generally Accepted Accounting Principles and on the accrual basis.

Support and Revenue

The Commonwealth of Kentucky, the City of Morehead and the Rowan County Fiscal Court provide a majority of the support for the Board.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could be different from those estimates.

Cash and Cash Equivalents

The Board considers all highly liquid investments with a maturity of less than six months to be cash equivalents.

(2) ORGANIZATION

The Morehead - Rowan County Airport Board was created in April of 1999 by the City of Morehead and County of Rowan through a joint ordinance and the provisions now established by KRS 183.132. The Board's membership is comprised of ten members. The Mayor of Morehead appoints five members and the Rowan County Judge-Executive appoints five members. The purpose of the Board and the nature of the activities carried on by it are to oversee the existing Morehead - Rowan County Airport and construction of a new airport.

(3) CASH IN BANK

The Board maintains a non-interest bearing deposit account with a local financial institution. The balance with banks is insured by the FDIC.

(4) GA ENTITLEMENT - US DEPARTMENT OF TRANSPORTATION

During fiscal year 2001, the Board received a commitment from the U.S. Department of Transportation, Federal Aviation Administration (the Administration) for \$150,000 a year for three years. The Board elected to carryover the General Aviation Entitlement for Fiscal year 2001 to Fiscal year 2002. According to letter received by the Board from the Administration the funds will be available for projects during fiscal years 2002 and 2003.

A pre-application must be submitted in order to draw down the funds for an eligible project. The Administration funds must total no more than 90% of the project with the remaining 10% to come from Commonwealth and local sources. The Board must apply by August 2003, or the funds for 2001 will no longer be available. As of June 30, 2003, the Board had not submitted a pre-application to draw down the funds. Subsequent to June 30, 2003, the Board submitted a pre-application to draw down all three years in the amount of \$450,000.

(5) COMMITMENTS

During the Board's 2001 fiscal year, the Rowan County Fiscal Court borrowed \$1,500,000 from the Kentucky Area Development Districts Financing Trust to purchase the land needed for the new airport. The Fiscal Court used its own credit to arrange for the loan. The land was purchased and deeded "free and clear" to the Board. The Board received a commitment from the Commonwealth of Kentucky, Transportation Cabinet, Kentucky Aviation Economic Development Fund for funding of \$200,000 per year for the next two years to be used for the acquisition of land and development of facilities for the new airport. It is the understanding of the Board that although official allocations from the Commonwealth of Kentucky's budget cannot exceed the bi-annual budget, that the Commonwealth intends to commit to a minimum of \$2,000,000 over ten years. The Board resolved to apply sufficient amounts of the funds received to reimburse the Fiscal Court for the principal and interest payments. The Board paid \$193,743 and \$194,808 as of June 30, 2003 and 2002, respectively.

The Federal Government has notified the Board that it has been approved for Phase One Construction of the new Airport. The Board will be receiving \$3,000,000 in approximately November to begin road building, grading and drainage.

(6) TAXES

The Authority is exempt from Federal income taxes because it is considered a unit of local government. The Authority is exempt from Kentucky income and property taxes pursuant to KRS 154.50-343.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Board in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents and investments: The carrying amounts reported in the statement of financial position approximate fair values because of the short-term maturities of those instruments.

The estimated fair value of the Board's financial instruments, none of which are held for trading purposes, are as follows:

| | <u>Carrying Amount</u> | <u>Fair Value</u> |
|--------------------------|----------------------------|-----------------------|
| Financial assets: | | |
| Cash and cash equivalent | \$ 20,600 | \$ 20,600 |

(8) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2003, consisted of the following:

| | |
|-----------------------------------|---------------------|
| Buildings and Equipment | \$ 44,046 |
| Land | 1,853,296 |
| Less: | |
| Accumulated Depreciation | <u>11,801</u> |
| Fixed Assets, Net of Depreciation | <u>\$ 1,885,541</u> |

(9) BUDGET

The Board prepares its budget on the cash basis of accounting while the audited financial statements have been prepared on the accrual basis. Certain adjustments must be considered when comparing the accrual

financial statements to the cash basis budget. Items concerning the purchase of land have been capitalized instead of expensed. Additionally, depreciation has been recorded in accrual financial statements and capital improvements have been reflected on the balance sheet. The budget presented has been amended. Budget amendments are brought before the Board for review and approval.

(10) CONTINGENCIES

The Board was notified that that one of the sellers of the new airport property believes that someone else was paid for approximately one acre of his land. No suit has been filed as of the date of this report. The matter has been turned over to the attorney who handled the land purchase. No loss is expected.

(11) RISK MANAGEMENT

Significant losses are covered by commercial insurance. The Board maintains Errors and Omissions insurance.

MOREHEAD-ROWAN COUNTY AIRPORT BOARD
BOARD MEMBERS
JUNE 30, 2003

NAME

ADDRESS

| | |
|--|----------------------|
| James A. Fluty, Chairman | Morehead, Kentucky |
| Tom Fossett, Vice Chairman | Morehead, Kentucky |
| Richard A. Phillips, Secretary / Treasurer | Morehead, Kentucky |
| Charles Derrickson, Member | Morehead, Kentucky |
| William Higginbotham, Member | Morehead, Kentucky |
| Carl Mullins, Member | Morehead, Kentucky |
| Leo Williams, Member | Farmers, Kentucky |
| Frank Olsen, Member | Olive Hill, Kentucky |
| Ty Fannin, Member | Morehead, Kentucky |
| Ron Jones, Member | Morehead, Kentucky |

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

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630 Airport Road
Morehead, KY 40351

We have audited the financial statements of the Morehead-Rowan County Airport Board as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated October 16, 2003. 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.

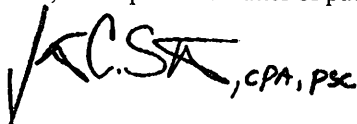
Compliance

As part of obtaining reasonable assurance about whether Morehead-Rowan County Airport Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grants, 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 disclose no instances of noncompliance that we are required to report under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morehead-Rowan County Airport Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Morehead-Rowan County Airport Board, the Mayor and City Council of Morehead, Kentucky, and County Judge Executive and Fiscal Court of Rowan County. However, this report is a matter of public record and its distribution is not limited.

 J.C. Stiles, CPA, PSC

October 16, 2003