

**MOREHEAD - ROWAN COUNTY
AIRPORT BOARD**

REPORT OF AUDIT

AS OF THE YEAR ENDED JUNE 30, 2004

JONATHAN C. STILES, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANT

723R West Main Street
P.O. Box 965
Morehead, Kentucky 40351

Tel: 606-784-5642
Fax: 606-784-1022
E-mail: jcstiles@mis.net

Member
Kentucky Society of Certified Public Accountants

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Morehead - Rowan County - Airport Board
Management's Discussion and Analysis

This section of the Morehead - Rowan County Airport Board's (the Board's) annual financial report presents an analysis of the Board's financial performance during the fiscal year ending June 30, 2004. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004

- The Board's net assets increased by \$431,467 or 23 percent from \$1,906,141 to \$2,337,608.
- Support from the City of Morehead and Rowan County remained constant.
- Support from the Commonwealth of Kentucky increased \$18,058.
- The FAA awarded the Board with a \$3,014,183 grant for phase one construction. \$398,850 was received during the year.
- Revenues increased by \$418,379 or 184 percent from \$227,330 to \$645,709.
- Among the significant project undertaken during the fiscal year ending June 30, 2004, was phase one construction of the new airport.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Board report information utilizing the accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Assets include information on the Board's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Board creditors (liabilities). The Statements of Activities identify the Board's support, revenues and expenses for the fiscal year ending June 30, 2004. This statement provides information on the Board's operations over the past two fiscal years and can be used to determine whether the Board has recovered all of its actual and projected costs through governmental support and sales of recyclable material. The third statement is the Statements of Cash Flows. This statement provides information on the Board's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE BOARD

The Statements of Net Assets and the Statements of Activities provide an indication of the Board's financial condition and also indicate that the financial condition of the Board improved during the last fiscal year. The Board's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

A summary of the Board's Statements of Net Assets is presented below.

Table 1
Condensed Statements of Net Assets

	2004	2003	Dollar Change	Percent Change	
Current and Other Assets	\$ 82,441	\$ 20,600	\$ 61,841	300.0	%
Capital Assets, net	2,255,167	1,885,541	369,626	20.0	%
Total Assets	2,337,608	1,906,141	431,467	23.0	%
Fund Balance - Unrestricted	82,441	65,990	16,451	25.0	%
Fund Balance - Capital Assets	2,255,167	1,840,151	415,016	23.0	%
Total Net Assets	\$ 2,337,608	\$ 1,906,141	\$ 431,467	23.0	%

As the above table indicates, total assets increased by \$431,467 from \$1,906,141 to \$2,337,608 during the fiscal year ended June 30, 2004. This is comprised of an increase of \$61,841 in current and other assets and an increase of \$431,467 in capital assets. The increase in current and other assets reflects the results of operations.

Table 1 also indicates that total net assets increased by \$431,467 from \$1,906,141 to \$2,337,608. This increase is due to the results of operations.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	2004	2003	Dollar Change	Percent Change
Revenues	\$ 645,709	\$ 227,330	\$ 418,379	184.0 %
Total Revenues	645,709	227,330	418,379	184.0 %
Depreciation Expense	1,893	1,893	-	-
Other Operating Expenses	212,349	223,025	(10,676)	(5.0) %
Total Expenses	214,242	224,918	(10,676)	(5.0) %
Net Income	431,467	2,412	429,055	17,788.0 %
Beginning Net Assets	1,906,141	1,903,729	2,412	-
Ending Net Assets	\$ 2,337,608	\$ 1,906,141	\$ 431,467	23.0 %

The Statements of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items, which affect the change in net assets. As the information in Table 2 indicates, net income was \$429,055. Net assets increased by the same number.

Table 2 indicates that the Board's revenues increased by \$418,379 or 184 percent to \$645,709 in the fiscal year ended June 30, 2004 from \$227,330 the prior year. Total expenses decreased by \$10,676 or 5 percent during the 2004 fiscal year. This decrease is due mainly to decreases in professional expense and repairs.

CAPITAL ASSETS

As of June 30, 2004, the Board's investment in capital assets totaled \$2,337,608, which is an increase of \$431,467 or 23 percent over the capital asset balance of \$1,906,141 at June 30, 2003. A breakdown of the District's capital assets is presented in Note 9 of the financial statements.

Included among the capital projects completed during the 2003/04 fiscal year was the construction of a new airport.

LONG-TERM DEBT

As of June 30, 2004, the Board has no long term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board has been approved by the FAA for Phase Two Construction of the new airport. The Board of Directors adopted the Board's budget on July 29, 2004. The approval of the budget provides funding for the Board's operating and construction costs for the 2004/05 year. The major capital project funded in this budget includes construction of the new airport.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Board's customers and other interested parties with an overview of the Board's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Morehead – Rowan County Airport Board, 630 Airport Road, Morehead, KY 40351.

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INDEPENDENT AUDITOR'S REPORT

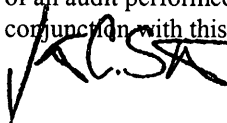
Morehead - Rowan County Airport Board
630 Airport Road
Morehead, KY 40351

We have audited the accompanying financial statements of the Morehead - Rowan County Airport Board as of the year ending June 30, 2004, 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 audit.

We conducted our audit 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, 2004, and the results of its operations and its cash flows for the period 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 November 11, 2004 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

November 11, 2004

Morehead-Rowan County Airport Board
Statement of Net Assets
As of June 30, 2004

ASSETS

	<u>General</u>	<u>Capital Assets</u>	<u>Total</u>
Current Assets:			
Cash in Bank - Checking	\$ 11,797	\$ -	\$ 11,797
Cash in Bank - Money Fund	4,644	-	4,644
Cash in Bank - Checking	66,000	-	66,000
Total Cash	82,441	-	82,441
Fixed Assets, Net of Accumulated Depreciation	-	2,255,167	2,255,167
TOTAL ASSETS	\$ 82,441	\$ 2,255,167	\$ 2,337,608

FUND BALANCE

Invested in Capital Assets	\$ -	\$ 2,255,167	\$ 2,255,167
Unrestricted	82,441	-	82,441
Total Liabilities and Fund Balance	\$ 82,441	\$ 2,255,167	\$ 2,337,608

Morehead - Rowan County Airport Board
Statement of Activities
For The Year Ended June 30, 2004

	General	Capital Assets	Net Revenues & Expenses
REVENUE:			
City of Morehead	\$ 12,500	\$ -	\$ 12,500
Rowan County Fiscal Court	12,500	-	12,500
Grants - FFA - Construction	-	398,850	398,850
Grants - Comm. of KY - Construction	-	18,059	18,059
Grant - Comm. of Kentucky - Land Purchase	200,000	-	200,000
Interest	1,325	-	1,325
Rent Income	2,475	-	2,475
Total Revenue	228,800	416,909	645,709
EXPENDITURES:			
Professional Services	4,202	-	4,202
Advertising	718	-	718
Bank Charges	50	-	50
Dues & Subscriptions	270	-	270
Entertainment	108	-	108
Insurance	4,839	-	4,839
Janitor & Supplies	350	-	350
Depreciation Expense	-	1,893	1,893
Postage	244	-	244
Repairs and Maintenance	575	-	575
Rowan County Fiscal Court	197,433	-	197,433
Office Supplies and Equipment	186	-	186
Telephone	661	-	661
Travel	328	-	328
Utilities	2,385	-	2,385
Total Expenditures	212,349	1,893	214,242
EXCESS REVENUE OVER EXPENDITURES	16,451	415,016	431,467
FUND BALANCE, Beginning of Year	65,990	1,840,151	1,906,141
FUND BALANCE, End of Year	\$ 82,441	\$ 2,255,167	\$ 2,337,608

Morehead - Rowan County Airport Board
Statements of Support, Revenues and Expenditures
Budget to Actual
For The Year Ended June 30, 2004

	<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	200,000	200,000	-
Grants - FFA - Construction	398,850	3,014,183	(2,615,333)
Grants - Comm. of KY - Construction	18,059	158,642	(140,583)
Insurance Recovery	6,189	6,189	-
Interest Income	1,325	1,469	(144)
Rent Income	2,475	2,355	120
	<u>651,898</u>	<u>3,407,838</u>	<u>(2,755,940)</u>
Total Revenue			
EXPENDITURES:			
Professional Services	10,391	10,500	109
Insurance	4,839	5,000	161
Maintenance and Supplies	575	15,000	14,425
Other	1,390	21,565	20,175
Depreciation Expense	1,893	-	(1,893)
Rowan County Fiscal Court	197,433	197,433	-
Phase One Construction	377,189	3,172,825	2,795,636
Travel	328	200	(128)
Supplies	536	2,815	2,279
Utilities and Telephone	3,046	3,100	54
	<u>597,620</u>	<u>3,428,438</u>	<u>2,830,818</u>
Total Expenditures			
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES BEFORE CARRYOVER	54,278	(20,600)	74,878
BEGINNING CARRYOVER	<u>-</u>	<u>20,600</u>	<u>(16,247)</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>\$ 54,278</u>	<u>\$ -</u>	<u>\$ 58,631</u>

MOREHEAD-ROWAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(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 Federal Aviation Administration, 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 both non-interest and interest bearing deposit accounts with a local financial institution. The various cash balances are insured by the FDIC as of June 30, 2004. Certificate of deposits, due their maturity date are considered to be cash equivalents. The certificate of deposit were earning 1.5% at June 30, 2004.

(4) US DEPARTMENT OF TRANSPORTATION

On August 20, 2004, the Board received notification that the Federal Aviation Administration had awarded them with a \$3,014,183 grant for phase one of the airport construction. As of June 30, 2004, the Board had drawn down \$398,850. The Administration funds must total no more then 90% of the project with the remaining 10% to come from Commonwealth and local sources.

(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 \$197,433 during the year ending June 30, 2004.

(6) SUBSEQUENT EVENTS

In August of 2004, the Federal Aviation Administration has notified the Board that it has been approved for funding of Phase Two Construction of the new Airport. The Board will be receiving \$3,900,000 to begin road building, grading and drainage.

(7) 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.

(8) 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	\$ 82,441	\$ 82,441

(9) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2004, consisted of the following:

Buildings and Equipment	\$ 44,046
Land	1,850,708
Land Development	374,108
Less:	
Accumulated Depreciation	<u>13,695</u>
Fixed Assets, Net of Depreciation	<u>\$ 1,885,541</u>

(10) 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.

(11) RISK MANAGEMENT

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