

**MOREHEAD - ROWAN COUNTY  
AIRPORT BOARD**

**REPORT OF AUDIT**

**AS OF THE YEAR ENDED JUNE 30, 2005**

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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, 2005. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005**

- The Board's net assets increased by \$3,312,165 or 142 percent from \$2,337,608 to \$5,649,773.
- Support from the City of Morehead and Rowan County remained constant.
- Support from the Commonwealth of Kentucky decreased \$4,360.
- The FAA awarded the Board with a \$3,014,183 grant for phase one construction. \$2,188,334 was received during the year.
- The FAA awarded the Board with a \$3,900,000 grant for phase two construction. \$974,878 was received during the year.
- Revenues increased by \$2,878,127 or 446 percent from \$645,709 to \$ 3,523,836.
- Among the significant project undertaken during the fiscal year ending June 30, 2005, was phase one and phase two 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, 2005. 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

	2005	2004	Dollar Change	Percent Change
Current and Other Assets	\$ 459,633	\$ 82,441	\$ 377,192	458.0 %
Capital Assets, net	5,476,627	2,255,167	3,221,460	143.0 %
<b>Total Assets</b>	<b>5,936,260</b>	<b>2,337,608</b>	<b>3,598,652</b>	<b>154.0 %</b>
Current Liabilities	286,487	-	286,487	N/A %
<b>Total Current Liabilities</b>	<b>286,487</b>	<b>-</b>	<b>286,487</b>	<b>N/A %</b>
Fund Balance - Unrestricted	103,250	82,441	20,809	25.0 %
Fund Balance - Capital Assets	5,546,523	2,255,167	3,291,356	146.0 %
<b>Total Net Assets</b>	<b>5,649,773</b>	<b>2,337,608</b>	<b>3,312,165</b>	<b>142.0 %</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,936,260</b>	<b>\$ 2,337,608</b>	<b>\$ 3,598,652</b>	<b>154.0 %</b>

As the above table indicates, total assets increased by \$3,598,652 from \$2,337,608 to \$5,936,260 during the fiscal year ended June 30, 2005. This is comprised of an increase of \$377,192 in current and other assets and an increase of \$3,221,460 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 \$3,312,165 from \$2,337,608 to \$5,649,773. This increase is due to the results of operations.

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

	2005	2004	Dollar Change	Percent Change
Revenues	\$ 3,523,836	\$ 645,709	\$ 2,878,127	446.0 %
<b>Total Revenues</b>	<b>3,523,836</b>	<b>645,709</b>	<b>2,878,127</b>	<b>446.0 %</b>
Depreciation Expense	1,893	1,893	-	-
Other Operating Expenses	209,778	212,349	(2,571)	(1.0) %
<b>Total Expenses</b>	<b>211,671</b>	<b>214,242</b>	<b>(2,571)</b>	<b>(1.0) %</b>
<b>Net Income</b>	<b>3,312,165</b>	<b>431,467</b>	<b>2,880,698</b>	<b>668.0 %</b>
Beginning Net Assets	2,337,608	1,906,141	431,467	23.0 %
Ending Net Assets	\$ 5,649,773	\$ 2,337,608	\$ 3,312,165	142.0 %

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 \$3,312,165. Net assets increased by the same number.

Table 2 indicates that the Board's revenues increased by \$2,878,127 or 446 percent to \$3,523,836 in the fiscal year ended June 30, 2005 from \$645,709 the prior year. Total expenses decreased by \$2,571 or 1 percent during the 2005 fiscal year. This decrease is due mainly to decreases in professional expense and repairs.

### CAPITAL ASSETS

As of June 30, 2005, the Board's investment in capital assets totaled \$5,546,523, which is an increase of \$3,291,356 or 146 percent over the capital asset balance of \$2,255,167 at June 30, 2004. 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 2004/05 fiscal year was the construction of a new airport.

### LONG-TERM DEBT

As of June 30, 2005, 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 28, 2005. The approval of the budget provides funding for the Board's operating and construction costs for the 2005/06 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**

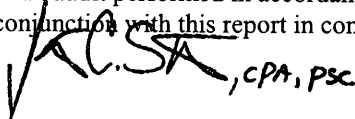
Morehead - Rowan County Airport Board  
630 Airport Road  
Morehead, KY 40351

We have audited the accompanying financial statements of the Morehead - Rowan County Airport Board as of the year ending June 30, 2005, 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, 2005, 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 September 28, 2005 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

September 28, 2005

**Morehead-Rowan County Airport Board**  
**Statement of Net Assets**  
**As of June 30, 2005**

**ASSETS**

	<u>General</u>	<u>Capital Assets</u>	<u>Total</u>
Current Assets:			
Cash in Bank - Checking	\$ 14,743	\$ -	\$ 14,743
Cash in Bank - Money Fund	87,313	-	87,313
Cash in Bank - Escrow	-	69,896	69,896
Grants Receivable	-	286,487	286,487
Pre-paid Insurance	1,194	-	1,194
	<hr/>	<hr/>	<hr/>
Total Cash	103,250	356,383	459,633
Fixed Assets, Net of Accumulated Depreciation	<hr/> -	<hr/> 5,476,627	<hr/> 5,476,627
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 103,250</u>	<u>\$ 5,833,010</u>	<u>\$ 5,936,260</u>

**LIABILITIES**

Current Liabilities:			
Contractors Payable	<u>\$ -</u>	<u>\$ 286,487</u>	<u>\$ 286,487</u>
	<hr/>	<hr/>	<hr/>
Total Liabilities	-	286,487	286,487.00

**FUND BALANCE**

Invested in Capital Assets	\$ -	\$ 5,546,523	\$ 5,546,523
Unrestricted	<hr/> 103,250	<hr/> -	<hr/> 103,250
	<hr/>	<hr/>	<hr/>
Total Fund Balance	103,250	5,546,523	5,649,773
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u>\$ 103,250</u>	<u>\$ 5,833,010</u>	<u>\$ 5,936,260</u>

**Morehead - Rowan County Airport Board**  
**Statement of Activities**  
**For The Year Ended June 30, 2005**

	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	-	3,163,212	3,163,212
Grants - Comm. of KY - Construction	-	135,412	135,412
Grant - Comm. of Kentucky - Land Purchase	195,640	-	195,640
Interest	452	-	452
Rent Income	2,475	-	2,475
Inter-fund Transfers	5,375	(5,375)	-
Other Income	1,645	-	1,645
	<u>230,587</u>	<u>3,293,249</u>	<u>3,523,836</u>
Total Revenue			
EXPENDITURES:			
Professional Services	3,574	-	3,574
Advertising	1,093	-	1,093
Bank Charges	50	-	50
Dues & Subscriptions	388	-	388
Entertainment	108	-	108
Insurance	4,792	-	4,792
Depreciation Expense	-	1,893	1,893
Miscellaneous	96	-	96
Postage	57	-	57
Interest Expense	133	-	133
Repairs and Maintenance	656	-	656
Rowan County Fiscal Court	195,640	-	195,640
Office Supplies and Equipment	214	-	214
Utilities and Telephone	2,977	-	2,977
	<u>209,778</u>	<u>1,893</u>	<u>211,671</u>
Total Expenditures			
EXCESS REVENUE OVER EXPENDITURES	20,809	3,291,356	3,312,165
FUND BALANCE, Beginning of Year	<u>82,441</u>	<u>2,255,167</u>	<u>2,337,608</u>
FUND BALANCE, End of Year	<u>\$ 103,250</u>	<u>\$ 5,546,523</u>	<u>\$ 5,649,773</u>

**Morehead - Rowan County Airport Board**  
**Statements of Support, Revenues and Expenditures**  
**Budget to Actual**  
**For The Year Ended June 30, 2005**

	<u>Actual</u>	<u>Budget</u>	<u>Change</u>
<b>REVENUE:</b>			
City of Morehead	\$ 12,500	\$ 12,500	\$ -
Rowan County Fiscal Court	12,500	12,500	-
Commonwealth of Kentucky	195,640	195,640	-
Grants - FFA - Construction	3,163,212	2,876,725	286,487
Grants - Comm. of KY - Construction	135,412	135,412	-
Interest Income	452	416	36
Rent Income	2,475	2,475	-
Other Income	1,645	1,645	-
	<u>3,523,836</u>	<u>3,237,313</u>	<u>286,523</u>
Total Revenue			
<b>EXPENDITURES:</b>			
Professional Services	3,574	14,399	10,825
Insurance	4,792	5,986	1,194
Maintenance and Supplies	656	1,072	416
Other	2,006	887	(1,119)
Depreciation Expense	1,893	-	(1,893)
Rowan County Fiscal Court	195,640	195,640	-
Construction	-	2,931,701	2,931,701
Interest Expense	133	133	-
Supplies	-	-	-
Utilities and Telephone	2,977	3,041	64
	<u>211,671</u>	<u>3,152,858</u>	<u>2,941,187</u>
Total Expenditures			
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES BEFORE CARRYOVER</b>	3,312,165	84,455	3,227,710
<b>BEGINNING CARRYOVER</b>	<u>-</u>	<u>-</u>	<u>(16,247)</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<u>\$ 3,312,165</u>	<u>\$ 84,455</u>	<u>\$ 3,211,463</u>

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

(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. \$2,056 was uninsured by the FDIC as of June 30, 2005. Certificate of deposits, due to their maturity date, are considered to be cash equivalents.

(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, 2005, the Board had drawn down \$2,188,334. The Administration funds must total no more than 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

