

MOREHEAD-ROWAN COUNTY
AIRPORT BOARD

REPORT OF AUDIT

AS OF AND FOR THE THREE MONTHS ENDING JUNE 30, 1999
AND THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

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INDEPENDENT AUDITOR'S REPORT

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

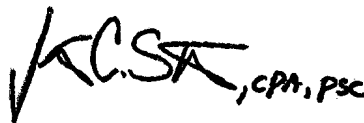
We have audited the accompanying financial statements of the Morehead - Rowan County Airport Board as of and for the period ending June 30, 1999, and the years ending June 30, 2002, 2001 and 2000, as listed in the table of contents. These financial statements are the responsibility of the Board's management. 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, 2002, 2001, 2000 and 1999, 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 January 24, 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.

January 24, 2003



Morehead-Rowan County Airport Board
Balance Sheets
As of June 30, 2002, 2001, 2000, 1999

ASSETS

	2002	2001	2000	1999
Current Assets:				
Cash in Bank - Checking	\$ 16,295	\$ 8,451	\$ 5,740	\$ 13,620
Fixed Assets, Net of Accumulated Depreciation	1,887,434	1,885,017	44,696	22,227
TOTAL ASSETS	\$ 1,903,729	\$ 1,893,468	\$ 50,436	\$ 35,847

LIABILITIES AND FUND BALANCE

Current Liabilities				
Accounts Payable	\$	\$ 9,248	\$	\$
Fund Balance	1,903,729	1,884,220	50,436	35,847
Total Liabilities and Fund Balance	\$ 1,903,729	\$ 1,893,468	\$ 50,436	\$ 35,847

Morehead -Rowan County Airport Board
 Statements of Support, Revenues, Expenditures
 And Changes in Fund Balance
 For the Three Months Ending: June 30, 1999, and
 For The Years Ended June 30, 2001, 2000, and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>	1999
SUPPORT AND REVENUE:				
City of Morehead	\$ 12,500	\$ 12,500	\$ 12,500	\$ 12,500
Rowan County Fiscal Court	12,500	1,832,114	12,500	
Commonwealth of Kentucky	194,808	167,191		
Assets Contributed From Prior Board				28,215
Rent Income	<u>2,755</u>	<u>1,640</u>	<u>1,480</u>	
Total Revenue	<u>222,563</u>	<u>2,013,445</u>	<u>26,480</u>	40,715
EXPENDITURES:				
Professional Services	1,661	744	3,108	3,500
Dues & Subscriptions	70	229	210	
Insurance			162	
Janitor & Supplies	361	420	280	
Miscellaneous Expenses	371	1	301	1
Depreciation Expense	1,893	1,667	1,070	700
Rowan County Fiscal Court	194,808	167,191		
Postage	41	101	81	
Repairs and Maintenance	719	5,932	3,929	526
Supplies	13	414	40	
Telephone	569	585	307	
Utilities	2,548	2,377	2,130	141
Garbage			<u>273</u>	
Total Expenditures	<u>203,054</u>	<u>179,661</u>	<u>11,891</u>	4,868
EXCESS OF SUPPORT AND REVENUE OVER EXPENDITURES	19,509	1,833,784	14,589	35,847
FUND BALANCE, Beginning of Year	<u>1,884,220</u>	<u>50,436</u>	<u>35,847</u>	
FUND BALANCE, End of Year	\$ 1,903,729	\$ 1,884,220	\$ 50,436	\$ 35,847

Morehead -Rowan County Airport Board
 Statements of Cash Flows
 For the Three Months Endin!!: June 30, 1999 and
 For the Years Endin!!: June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
CASH FLOW FROM OPERATING ACTIVITIES:				
Excess in Revenues Over Expenditures	\$ 19,509	\$ 1,833,784	\$ 14,589	\$ 35,847
Adjustment to Reconcile Excess to Net Cash Provided by Operations:				
Depreciation	1,893	1,667	1,070	700
Changes in Accounts Payable	(9,248)	9,248		
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>12,154</u>	 <u>1,844,699</u>	 <u>15,659</u>	 <u>36,547</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Building and Equipment Additions		(6,794)	(9,748)	(22,927)
Land Purchase for New Airport	(4,310)	(1,835,194)	(13,791)	
 NET CASH USED BY INVESTMENT ACTIVITIES	 (4,310)	 <u>(1,841,988)</u>	 <u>(23,539)</u>	 (22,927)
 NET INCREASE (DECREASE) IN CASH	 7,844	 2,711	 (7,880)	 13,620
 CASH AT THE BEGINNING OF THE YEAR	 <u>8,451</u>	 <u>5,740</u>	 <u>13,620</u>	
 CASH AT THE END OF THE YEAR	 \$ 16,295	 \$ 8,451	 \$ 5,740	 \$ 13,620

Morehead - Rowan County Airport Board
Statements of Support, Revenues and Expenditures
Budget to Actual
For The Year Ended June 30,2002

	Actual	Budget	Change
REVENUE:			
City of Morehead	\$ 12,500	\$ 12,500	\$
Rowan County Fiscal Court	12,500	12,500	
Commonwealth of Kentucky	194,808	194,808	
Rent Income	<u>2,755</u>	<u>2,655</u>	<u>100</u>
Total Revenue	<u>222,563</u>	<u>222,463</u>	<u>100</u>
EXPENDITURES:			
Professional Services	1,661	11,745	10,084
Insurance		4,700	4,700
Maintenance and Supplies	1,080	8,960	7,880
Miscellaneous Expenses	482	200	(282)
Depreciation Expense	1,893		(1,893)
Rowan County Fiscal Court	194,808	194,808	
Travel		1,500	1,500
Building Improvements		3,451	3,451
Supplies	13	400	387
Utilities and Telephone	3,117	5,150	2,033
Garbage			
Total Expenditures	<u>203,054</u>	<u>230,914</u>	<u>27,860</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES BEFORE CARRYOVER	19,509	(8,451)	27,960
BEGINNING CARRYOVER		8,451	<u>(8,451)</u>
EXCESS OF REVENUE OVER EXPENDITURES	\$ 19,509	\$	\$ 19,509

MOREHEAD-ROWAN COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

(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, 2002, the Board had not submitted a pre-application to draw down the funds.

(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 \$194,808 and \$167,191 as of June 30, 2002 and 2001, respectively.

(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:

	Carrying Amount	Fair <u>Value</u>
Financial assets:		
Cash and cash equivalent	\$ 16,446	\$ 16,446

(8) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2002, consisted of the following:

Buildings and Equipment	\$ 44,046
Land	1,853,296
Less:	
Accumulated Depreciation	9,908
Fixed Assets, Net of Depreciation	<u>\$ 1,887,434</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 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. It is believed that the survey company will be liable for any mistake. No loss is expected.

MOREHEAD-ROWAN COUNTY AIRPORT BOARD
BOARD MEMBERS
JUNE 30, 2002

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
Keith McCormick, Member	Morehead, 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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We have audited the financial statements of the Morehead-Rowan County Airport Board as of and for the period ending June 30, 1999 and the years ended June 30, 2002, 2001 and 2000, and have issued our report thereon dated January 24, 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.

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January 24, 2003