

**MOREHEAD - ROWAN COUNTY
AIRPORT BOARD**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Morehead - Rowan County Airport Board
1000 Kissick Road
P.O. Box 203
Farmers, Kentucky

We have audited the accompanying financial statements of Morehead - Rowan County Airport Board as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements, 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 the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 that our audit provides 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, 2008, and the results of operations and cash flows for the year 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 February 3, 2009, on our consideration of Morehead - Rowan County Airport Board'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 6, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the Morehead - Rowan County Airport Board's basic financial statements. The supplemental information contained on pages 14-15 is presented for additional analysis and is not a required part of the basic financial statements. In addition, the schedule of expenditures of federal awards contained on page 16 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Morehead - Rowan County Airport Board. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kelley, Galloway & Company, PSC

February 3, 2009

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
Management's Discussion and Analysis
Year Ended June 30, 2008

The discussion and analysis of Morehead - Rowan County Airport Board's (the "Board's") annual financial report provides an overview of the Board's financial activities for the fiscal year ended June 30, 2008. This information is presented in conjunction with the audited basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The Board's net assets increased by \$2,107,332 or 13.9% from \$15,208,827 to \$17,316,159.
- Support from the City of Morehead decreased \$2,500 and Rowan County remained the same as compared to the previous year.
- Support from the Commonwealth of Kentucky increased \$225,648.
- The Board received Federal grants in the amount of \$1,380,749 and state grants in the amount of \$775,181 during the year for construction of runway, T-hangar, and debt service.
- The Board sold the Farmers airport for \$341,685, net of expenses. These proceeds were invested in a certificate of deposit to help offset future construction costs.
- Revenues decreased by \$2,412,863 or 48.5% from \$4,972,537 to \$2,559,674.
- The Board had total debt of \$1,133,882 at June 30, 2008. This includes a note payable with a local bank to cover costs related to the T-hangar project in the amount of \$273,882 and a capital lease obligation in the amount of \$860,000 to be used for the construction of an administration building.

OVERVIEW OF FINANCIAL STATEMENTS

The Board presents its basic financial statements using the economic resources measurement focus and accrual basis of accounting. As a Business-Type Activity, the Board's basic financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows. Notes to the basic financial statements, required supplementary information, including this section, support these statements. All sections must be considered together to obtain a complete understanding of the financial position and results of the operations of the Board.

Statement of Net Assets. The Statement of Net Assets includes all assets and liabilities of the Board, with the difference between the two reported as net assets. Assets and liabilities are reported at their book value, on an accrual basis, as of June 30, 2008.

Statement of Revenues, Expenses and Changes in Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred by the Board during the year ended June 30, 2008 on an accrual basis.

Statement of Cash Flows. The Statement of Cash Flows presents the changes in the Board's cash and cash equivalents for the year ended June 30, 2008, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows, and, therefore, presents gross rather than net amounts for the year's activities.

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 10-13 of this report.

FINANCIAL ANALYSIS OF THE BOARD

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets 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.

Condensed Statements of Net Assets

	2008	2007	Dollar Change	Percent Change
Current and other assets	\$ 1,279,870	\$ 1,160,251	\$ 119,619	10.3%
Noncurrent assets	17,191,947	15,067,116	2,124,831	14.1
Total assets	<u>18,471,817</u>	<u>16,227,367</u>	<u>2,244,450</u>	<u>13.8</u>
Current liabilities	190,562	1,018,540	(827,978)	(81.3)
Noncurrent liabilities	965,096	-	965,096	100.0
Total current liabilities	<u>1,155,658</u>	<u>1,018,540</u>	<u>137,118</u>	<u>13.5</u>
Net assets:				
Unrestricted	(726,206)	141,711	(867,917)	(612.5)
Restricted for construction	850,418	-	850,418	100.0
Invested in capital assets	17,191,947	15,067,116	2,124,831	14.1
Total net assets	<u>\$ 17,316,159</u>	<u>\$ 15,208,827</u>	<u>\$ 2,107,332</u>	<u>13.9%</u>

As the above table indicates, total assets increased by \$2,244,450 during the fiscal year ended June 30, 2008. This is comprised of an increase of \$119,619 in current and other assets and an increase of \$2,124,831 in noncurrent assets. The increase in current and other assets is due primarily to grants received for construction.

The above table also indicates that total net assets increased by \$2,107,332. This increase is due primarily to the results of operations.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2008	2007	Dollar Change	Percent Change
Revenues	\$ 2,559,674	\$ 4,972,537	\$ (2,412,863)	(48.5)%
Total revenues	<u>2,559,674</u>	<u>4,972,537</u>	<u>(2,412,863)</u>	<u>(48.5)</u>
Depreciation expense	187,138	1,808	185,330	102.5
Debt service	213,645	195,800	17,845	9.1
Other operating expenses	51,559	28,262	23,297	82.4
Total expenses	<u>452,342</u>	<u>225,870</u>	<u>226,472</u>	<u>100.3</u>
Change in net assets	2,107,332	4,746,667	(2,639,335)	(55.6)
Beginning net assets	<u>15,208,827</u>	<u>10,462,160</u>	<u>4,746,667</u>	<u>45.4%</u>
Ending net assets	<u>\$ 17,316,159</u>	<u>\$ 15,208,827</u>	<u>\$ 2,107,332</u>	<u>13.9%</u>

The above statement identifies the various revenue and expense items, which affect the change in net assets. As the information in the above table indicates, the increase in net assets was \$2,107,332.

CAPITAL ASSETS

As of June 30, 2008, the Board’s investment in capital assets totaled \$17,176,840, which is an increase of \$2,109,724, or 14.0% over the capital asset balance of \$15,067,116 at June 30, 2007. A breakdown of the Board’s capital assets is presented in Note 8 of the financial statements.

Included among the capital projects during the 2007/2008 fiscal year was the completion of phase five and the hangar project at the new Morehead - Rowan County Clyde A. Thomas Regional Airport.

LONG-TERM DEBT

At the end of the current fiscal year, the Board had total debt outstanding of \$1,133,882. The Board’s long-term obligations outstanding as of June 30, 2008 consisted of the following:

	<u>Business-type activities</u>	
	<u>2008</u>	<u>2007</u>
Capital lease on terminal FBO building	\$ 860,000	\$ -
Note payable on T-Hangars	273,882	-
Total	<u>\$ 1,133,882</u>	<u>\$ -</u>

The Board’s total obligations increased by \$1,133,882 during the current fiscal year. The increase in obligations was from the issuance of debt for constructing assets.

Additional information on the Board’s long-term debt can be found in Note (6) of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The Board of Directors adopted the 2009 budget on June 26, 2008. The approval of the budget provides funding for the Board’s operating and construction costs for the 2008/2009 year. The major capital project funded in this budget includes completion of the new FBO building. In addition, the funding for the 2008/2009 year from the City of Morehead decreased by \$9,500 and from Rowan County by \$12,000.

REQUESTS FOR 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, 1000 Kissick Road, P.O. Box 203, Farmers, Kentucky 40319.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

Current Assets:

Cash and cash equivalents	\$ 54,859
Cash and cash equivalents - escrow	25,197
Cash and cash equivalents - restricted	850,418
Certificate of deposit	349,396
Total current assets	<u>1,279,870</u>

Noncurrent Assets:

Capital Assets:

Non-depreciable capital assets	1,984,874
Depreciable capital assets, net	15,191,966
Bond issuance costs, net	15,107
Total noncurrent assets	<u>17,191,947</u>

Total assets	<u>18,471,817</u>
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LIABILITIES

Current Liabilities:

Contracts payable	21,776
Current portion of long-term debt	168,786
Total current liabilities	<u>190,562</u>

Long-term debt, net of current portion	<u>965,096</u>
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Total liabilities	<u>1,155,658</u>
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NET ASSETS

Invested in capital assets, net of related debt	17,191,947
Restricted	850,418
Unrestricted	<u>(726,206)</u>

Total net assets	<u>\$ 17,316,159</u>
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The accompanying notes to financial statements are
an integral part of this statement.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

Revenues	
City of Morehead	\$ 12,500
Rowan County Fiscal Court	15,000
Rent income	11,060
Administrative fees	<u>-</u>
Total revenues	<u>38,560</u>
Expenditures	
General government:	
Professional services	12,442
Mowing	8,934
Supplies	133
Insurance	5,958
Miscellaneous	12,482
Repairs and maintenance	2,986
Travel	407
KAA annual meeting	556
Public relations	992
Utilities and telephone	4,347
Office rental	949
Depreciation	<u>187,138</u>
Total expenditures	<u>237,324</u>
Operating income (loss)	<u>(198,764)</u>
Nonoperating revenues (expenses):	
Federal grants for construction	1,380,749
State grants for construction	577,706
State grant	197,475
Debt service - Rowan County	(197,475)
Gain on sale of assets	341,685
Interest expense	(16,170)
Amortization expense	(1,373)
Interest income	<u>23,499</u>
Total nonoperating revenue	<u>2,306,096</u>
Change in net assets	<u>2,107,332</u>
Net assets, beginning of year	<u>15,208,827</u>
Net assets, end of year	<u>\$ 17,316,159</u>

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

**MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

Cash flows from operating activities:	
Cash received from:	
Rent income	\$ 7,010
Operating grants	27,500
Other receipts	-
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(37,704)
Other payments	(12,482)
Net cash used for operating activities	<u>(15,676)</u>
Cash flows from capital and related financing activities:	
Government grants	2,155,930
Proceeds from issuance of long-term debt	1,133,882
Interest paid	(213,645)
Bond issuance costs	(16,480)
Proceeds from sale of assets	341,686
Purchases and construction of capital assets	<u>(2,375,087)</u>
Net cash provided by capital and related financing activities	<u>1,026,286</u>
Cash flows from investing activities:	
Purchase of a certificate of deposit	(349,396)
Interest received on investments	23,499
Net cash used for investing activities	<u>(325,897)</u>
Net increase in cash and cash equivalents	684,713
Cash and cash equivalents, June 30, 2007	<u>245,761</u>
Cash and cash equivalents, June 30, 2008	<u>\$ 930,474</u>
Reconciliation of operating income (loss) to net cash used for operating activities:	
Operating income	\$ (198,764)
Depreciation	187,138
Change in assets and liabilities:	
Deferred revenue	<u>(4,050)</u>
Net cash used for operating activities	<u>\$ (15,676)</u>

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

MOREHEAD - ROWAN COUNTY AIRPORT BOARD

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) 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 the new Morehead - Rowan County, Clyde A. Thomas, Regional Airport.

The Board's basic financial statements include the accounts of all Board operations. The criteria for including organizations as component units within the Board's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Standards*, include whether:

- the Board is legally separate (can sue and be sued in their own name)
- the Board holds the corporate powers of the organization
- the Board appoints a voting majority of the organization's board
- the Board is able to impose its will on the organization
- the organization has the potential to impose financial benefit/burden on the Board
- there is fiscal dependency by the organization on the Board

Based on the aforementioned criteria, Morehead - Rowan County Airport Board has no component units. The Board's basic financial statements do not include the operations of the organizing city and county, because none of the criteria for inclusion set forth in GASB Statement No. 14 have been met.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The account classification structures used by the Board conform to accounting principles generally accepted in the United States of America consistent with business-type enterprise fund accounting. The accounting records of the Board are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. The Board has elected not to follow subsequent private sector guidance of FASB after November 30, 1989.

B. Revenue Recognition

The Board's major sources of revenue are grants. Grant revenue is recognized when eligible program expenditures are incurred in accordance with program guidelines.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as needed.

C. Contracts Payable

The contracts payable includes amounts due to contractors, including any retainage, for work on construction projects, which were incurred at June 30, 2008, but unpaid at that date.

D. Net Assets and Fund Balance

Net assets are reported in three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt, represents capital assets less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the Board (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. All other net assets are considered unrestricted.

Any reservation of fund balance is established to satisfy legal covenants that require that a portion of the fund balance be segregated.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

F. Capital Assets

Assets are capitalized at cost and updated for additions and retirements during the year. The Board maintains a capitalization threshold of \$1,000. Public domain (infrastructure) fixed assets consist of certain improvements, other than buildings, including drainage, roads, and other land improvements, and are capitalized along with other capital assets.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Equipment	5-10 years
Land improvements	20 years

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Board. For the Board, those revenues are primarily operating grants and administrative fees to cover operational expenses and rent income. All other revenues are nonoperating. Operating expenses can be tied specifically to the Board's ongoing operations. Other expenses are nonoperating.

(3) **CASH IN BANK**

The funds of the Board must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the Board's

agent bank in an amount sufficient to protect Board funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2008, the carrying amount of the Board's cash and cash equivalents was \$930,474 and the bank balances totaled \$1,047,161. Of the total bank balances, \$225,197 was insured by the Bank Insurance Fund, and \$821,964 was secured by collateral held by the pledging bank in the Board's name.

(4) CONSTRUCTION IN PROCESS

The Board is involved in a major airport construction program. Phases I through V have been completed.

On June 7, 2007, the Board awarded an architect contract to design a new terminal FBO building in the amount of \$55,000 and only \$8,800 had been paid on this contract as of June 30, 2008. In September of 2007, the Board issued bonds in the amount of \$860,000 to cover construction costs related to the new terminal FBO building. The Board has received approval for grant funding to cover the annual debt service.

(5) COMMITMENT'S

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 up to \$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 maximum 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 \$197,475 during the year ending June 30, 2008.

(6) LONG-TERM DEBT

A summary of activity in long-term debt obligations is as follows:

<u>Description</u>	<u>Balance at June 30, 2007</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at June 30, 2008</u>
Capital lease-FBO building	\$ -	\$ 860,000	\$ -	\$ 860,000
Note payable-T-hangars	-	273,882	-	273,882
	<u>\$ -</u>	<u>\$ 1,133,882</u>	<u>\$ -</u>	<u>\$ 1,133,882</u>

During 2008 fiscal year, the Board entered into a 10 year, 4.5% fixed rate lease purchase agreement, to finance the costs of the acquisition, construction, installation and equipping of a new terminal FBO building. Proceeds of the lease agreement and the original principal of the lease totaled \$860,000 and is being held in trust until construction begins. The balance of this lease agreement was \$860,000 at June 30, 2008.

During 2008 fiscal year, the Board entered into a 3 year, 5.15% line of credit agreement with a local bank in the amount of \$312,754 to complete construction on T-hangars at the airport. The balance of this note payable was \$273,882 at June 30, 2008.

Future minimum annual payments on the Board's long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total</u>
2009	\$ 168,786	\$ 43,452	\$ 212,238
2010	166,240	43,073	209,313
2011	138,856	34,821	173,677
2012	70,000	28,125	98,125
2013	75,000	24,863	99,863
2014-2018	<u>515,000</u>	<u>67,390</u>	<u>582,390</u>
	<u>\$1,133,882</u>	<u>\$ 241,724</u>	<u>\$1,375,606</u>

(7) TAXES

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

(8) CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<i>Business-type Activities</i>				
Capital Assets, Not Depreciated:				
Land	\$ 1,984,875	\$ -	\$ 1	\$ 1,984,874
Construction in progress	<u>13,057,484</u>	-	<u>13,057,484</u>	-
	<u>15,042,359</u>	-	<u>13,057,485</u>	<u>1,984,874</u>
Capital Assets, Depreciated:				
Building & equipment	44,046	83,379	-	127,425
Land improvements	-	<u>15,270,969</u>	-	<u>15,270,969</u>
	<u>44,046</u>	<u>15,354,348</u>	-	<u>15,398,394</u>
Totals	<u>15,086,405</u>	<u>15,354,348</u>	<u>13,057,485</u>	<u>17,383,268</u>
Less: Accumulated Depreciation	<u>19,289</u>	<u>187,139</u>	-	<u>206,428</u>
Business-Type Activities Capital Assets, Net	<u>\$ 15,067,116</u>	<u>\$15,167,209</u>	<u>\$ 13,057,485</u>	<u>\$ 17,176,840</u>

The June 30, 2008 balance of \$15,270,969 for land improvements has been paid from Federal and state grants.

(9) RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Board provides for risk financing by purchasing coverage from commercial insurance companies.

(10) SUBSEQUENT EVENTS

On December 5, 2008, the Board was awarded a sealcoat grant in the amount of \$28,795.

SUPPLEMENTAL INFORMATION

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
City of Morehead	\$ 12,500	\$ 12,500	\$ 12,500	\$ -
Rowan County Fiscal Court	15,000	15,000	15,000	-
Federal grants for construction	-	1,330,045	1,380,749	50,704
State grants for construction	-	567,572	577,706	10,134
State grant	-	197,475	197,475	-
Interest income	3,000	10,000	12,186	2,186
Rents and tie-downs	18,630	11,350	7,010	(4,340)
Sale of Farmers property	-	341,686	341,686	-
Loan proceeds	-	192,398	273,882	81,484
Administrative fees	-	200	-	(200)
Total revenues	49,130	2,678,226	2,818,194	139,968
Expenditures				
General government:				
Professional services	17,500	17,500	8,992	8,508
Mowing	8,100	13,100	8,934	4,166
Supplies	4,000	4,000	133	3,867
Insurance	10,000	10,000	5,958	4,042
Miscellaneous	-	258,074	12,482	245,592
Repairs and maintenance	10,000	10,000	2,986	7,014
Travel	1,100	1,100	407	693
KAA annual meeting	700	700	556	144
Grand opening	4,000	4,000	-	4,000
Public relations	840	1,980	992	988
Utilities and telephone	15,600	15,600	4,347	11,253
Office rental	1,440	1,440	949	491
Debt service - Rowan County	-	213,645	213,645	-
Capital outlay	6,000	2,157,237	2,296,864	(139,627)
Total expenses	79,280	2,708,376	2,557,245	151,131
Change in net assets	(30,150)	(30,150)	260,949	291,099
Net assets, beginning of year	30,150	30,150	145,761	115,611
Net assets, end of year	\$ -	\$ -	\$ 406,710	\$ 406,710

NOTES TO SUPPLEMENTAL INFORMATION

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The Board's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Thus capital assets are expensed and no depreciation expense is recorded on the cash basis. Under the GAAP basis, revenues and expenditures are recorded on the accrual basis in the financial statements. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD

BOARD MEMEBERS

JUNE 30, 2008

<u>NAME</u>	<u>ADDRESS</u>
James A. Fluty, Chairman	Morehead, Kentucky
Ronald D. Jones, Vice Chairman	Morehead, Kentucky
Porter Dailey, Secretary / Treasurer	Morehead, Kentucky
Charles Derrickson, Member	Morehead, Kentucky
Donald Laferty, Member	Clearfield, Kentucky
Joyce Lemaster, Member	Morehead, Kentucky
Mike Gray, Member	Morehead, Kentucky
Harry Clark, Member	Morehead, Kentucky
Ronnie Oliver, Member	Morehead, Kentucky
R. Thomas Fossett, Member	Morehead, Kentucky

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-21-0087-06	\$ 539,595
Airport Improvement Program	20.106	3-21-0087-07	<u>839,444</u>
 Total U.S. Department of Transportation			 <u>1,379,039</u>
 Total expenditures of Federal Awards			 <u>\$ 1,379,039</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the Board's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board
Morehead - Rowan County Airport Board
Morehead, Kentucky

We have audited the financial statements of the Morehead - Rowan County Airport Board (the "Board") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 3, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Galloway & Company, PSC
February 3, 2009



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
Morehead - Rowan County Airport Board
Morehead, Kentucky

Compliance

We have audited the compliance of the Morehead - Rowan County Airport Board (the "Board") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morehead - Rowan County Airport Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing

their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Ballouay & Company, PSC

February 3, 2009

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

(A) SUMMARY OF AUDIT RESULTS

1. An unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements of Morehead - Rowan County Airport Board as of and for the year ended June 30, 2008, did not disclose any internal control related significant deficiencies.
3. The audit did not disclose any noncompliance which is material to the basic financial statements of Morehead - Rowan County Airport Board as of and for the year ended June 30, 2008.
4. There were no material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit did not disclose any findings and questioned costs related to federal awards for the year ended June 30, 2008.
7. The Board had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2008:

Airport Improvement Program (20.106)

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The Board qualified as a low-risk auditee under OMB Circular A-133 *Audits of States, Local Governments and Non-profit Organizations*.

(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

There were no findings in the prior year.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2008

No corrective action plan needed in the current year.