

**MOREHEAD - ROWAN COUNTY  
AIRPORT BOARD**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



**Kelley,  
Galloway &  
Company, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Morehead - Rowan County Airport Board  
630 Airport Road  
Morehead, Kentucky

We have audited the accompanying financial statements of Morehead - Rowan County Airport Board as of and for the year ended June 30, 2006, 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, 2006, and the changes in financial position 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 October 5, 2006, 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 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

October 5, 2006

**MOREHEAD - ROWAN COUNTY AIRPORT BOARD**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

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, 2006. 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 \$4,882,283 or 87.5% from \$5,579,877 to \$10,462,160.
- Support from the City of Morehead and Rowan County remained constant.
- Support from the Commonwealth of Kentucky increased \$7,402.
- The FAA awarded the Board with the following grants:
  - Phase One grant in the amount of \$3,349,092 for construction. \$3,214,915 was received and disbursed during the year.
  - Phase Two grant in the amount of \$4,290,264 for construction. \$4,258,611 was received and disbursed during the year.
  - Phase Three grant in the amount of \$633,242 for construction. \$633,242 was received and disbursed during the year.
  - Phase Four grant in the amount of \$393,650 for construction. \$344,862 was received and disbursed during the year.
- Revenues increased by \$1,647,819 or 47.7% from \$3,453,940 to \$5,101,759.
- Among the significant projects undertaken during the fiscal year ending June 30, 2006, was phase one, two, three, and four construction of the new airport.

**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, 2006.

**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, 2006 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, 2006, 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

	2006	2005	Dollar Change	Percent Change
Current and other assets	\$ 770,804	\$ 459,633	\$ 311,171	67.7 %
Capital assets, net	<u>10,347,761</u>	<u>5,476,627</u>	<u>4,871,134</u>	88.9
Total assets	<u>11,118,565</u>	<u>5,936,260</u>	<u>5,182,305</u>	87.3
Current liabilities	<u>656,405</u>	<u>356,383</u>	<u>300,022</u>	84.2
Total current liabilities	<u>656,405</u>	<u>356,383</u>	<u>300,022</u>	84.2
Net assets:				
Unrestricted	114,399	101,233	13,166	13.0
Invested in capital assets	<u>10,347,761</u>	<u>5,478,644</u>	<u>4,869,117</u>	88.9
Total net assets	<u>\$ 10,462,160</u>	<u>\$ 5,579,877</u>	<u>\$ 4,882,283</u>	<u>87.5 %</u>

As the above table indicates, total assets increased by \$5,182,305 during the fiscal year ended June 30, 2006. This is comprised of an increase of \$311,171 in current and other assets and an increase of \$4,871,134 in capital assets. The increase in current and other assets reflects the results of operations.

The above table also indicates that total net assets increased by \$4,882,283. This increase is due primarily to grants received for construction.

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2006	2005	Dollar Change	Percent Change
Revenues	\$ 5,101,759	\$ 3,453,940	\$ 1,647,819	47.7 %
Total revenues	5,101,759	3,453,940	1,647,819	47.7
Depreciation expense	1,894	1,893	1	0.0
Debt service	193,605	195,640	(2,035)	(1.0)
Other operating expenses	<u>23,977</u>	<u>14,138</u>	<u>9,839</u>	69.6
Total expenses	<u>219,476</u>	<u>211,671</u>	<u>7,805</u>	3.7
Change in net assets	4,882,283	3,242,269	1,640,014	50.6

Beginning net assets	<u>5,579,877</u>	<u>2,337,608</u>	<u>3,242,269</u>	138.7
Ending net assets	<u>\$ 10,462,160</u>	<u>\$ 5,579,877</u>	<u>\$ 4,882,283</u>	<u>87.5 %</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 \$4,882,283.

### **CAPITAL ASSETS**

As of June 30, 2006, the Board's investment in capital assets totaled \$10,347,761, which is an increase of \$4,871,133, or 88.9% over the capital asset balance of \$5,476,628 at June 30, 2005. A breakdown of the Board's capital assets is presented in Note 8 of the financial statements.

Included among the capital projects started during the 2005/2006 fiscal year was the construction of a new airport.

### **LONG-TERM DEBT**

As of June 30, 2006, the Board has no long-term debt.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Board has been approved by the FAA for Phase Five construction of the new airport in the amount of \$4,874,456. The Board of Directors adopted the Board's budget on July 27, 2006. The approval of the budget provides funding for the Board's operating and construction costs for the 2006/2007 year. The major capital project funded in this budget includes construction of the new airport.

### **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, 630 Airport Road, Morehead, Kentucky 40351.

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 114,399
Cash and cash equivalents - escrow	656,405
Total current assets	<u>770,804</u>

**Noncurrent Assets:**

Capital Assets:

Non-depreciable capital assets	10,321,197
Depreciable capital assets, net	26,564
Total noncurrent assets	<u>10,347,761</u>

Total assets	<u>11,118,565</u>
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**LIABILITIES**

**Current Liabilities:**

Contracts payable	656,405
Total current liabilities	<u>656,405</u>

Total liabilities	<u>656,405</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	10,347,761
Unrestricted	114,399

Total net assets	<u>\$ 10,462,160</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, 2006**

<b>Revenues</b>	
City of Morehead	\$ 10,000
Rowan County Fiscal Court	10,000
Rent income	3,684
Administrative fees	<u>25,306</u>
Total revenues	<u>48,990</u>
<b>Expenditures</b>	
General government:	
Professional services	5,906
Advertising	194
Insurance	6,802
Miscellaneous	4,270
Repairs and maintenance	2,434
Travel	540
Utilities and telephone	3,831
Depreciation	<u>1,894</u>
Total expenditures	<u>25,871</u>
Operating income	<u>23,119</u>
Nonoperating revenues (expenses):	
Federal grants for construction	4,712,568
State grants for construction	144,849
State grant	193,605
Debt service - Rowan County	(193,605)
Interest income	1,747
Total nonoperating revenue	<u>4,859,164</u>
Change in net assets	<u>4,882,283</u>
Net assets, beginning of year, as previously reported	5,649,773
Prior Period Adjustment	<u>(69,896)</u>
Net assets, beginning of year, as adjusted	<u>5,579,877</u>
Net assets, end of year	<u><u>\$ 10,462,160</u></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, 2006**

Cash flows from operating activities:	
Cash received from:	
Rent income	\$ 3,684
Operating grants	20,000
Other receipts	25,306
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(18,513)
Other payments	(4,270)
Net cash provided by operating activities	<u>26,207</u>
Cash flows from capital and related financing activities:	
Government grants	5,051,022
Debt service - Rowan County	(193,605)
Purchases and construction of capital assets	(4,286,519)
Net cash provided by capital and related financing activities	<u>570,898</u>
Cash flows from investing activities:	
Interest received on investments	<u>1,747</u>
Net cash provided by investing activities	<u>1,747</u>
Net increase in cash and cash equivalents	598,852
Cash and cash equivalents, June 30, 2005	<u>171,952</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 770,804</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 23,119
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,894
Change in assets and liabilities:	
Prepaid insurance	<u>1,194</u>
Net cash provided by operating activities	<u>\$ 26,207</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, 2006

### (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 a new 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 the 10% retainage required by certain contracts to be maintained in separate escrow accounts.

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>
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

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, 2006, the carrying amount of the Board's cash and cash equivalents was \$770,804 and the bank balances totaled \$770,804. Of the total bank balances, \$100,000 was insured by the Bank Insurance Fund, \$656,405 was secured by collateral held by the pledging banks in the Board's name, and \$14,399 was uninsured and uncollateralized.

#### **(4) CONSTRUCTION IN PROCESS**

The Board is involved in a major airport improvement program. The Board received funding through grants from the Federal Aviation Administration as follows: Phase One grant in the amount of \$3,349,092, of which \$3,214,915 was received and disbursed by the Board prior to June 30, 2006; Phase Two grant in the amount of \$4,290,264, of which \$4,258,611 was received and disbursed by the Board prior to June 30, 2006; Phase Three grant in the amount of \$633,242, of which \$633,242 was received and disbursed by the Board prior to June 30, 2006; and Phase Four grant in the amount of \$393,650, of which \$344,862 was received and disbursed by the Board prior to June 30, 2006.

The Federal Aviation Administration funds must total no more than 90% for Phase One of the project with the remaining 10% to come from Commonwealth and local sources. The Federal Aviation Administration funds must total no more than 95% for Phases Two, Three, and Four with the remaining 5% to come from Commonwealth and local sources.

#### **(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 \$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 \$193,605 during the year ending June 30, 2006.

#### **(6) SUBSEQUENT EVENTS**

In July of 2006, the Federal Aviation Administration notified the Board that it has been approved for funding of Phase Five construction of the new airport. The Board will be receiving \$3,628,955 to begin subgrade stabilization, paving, and lighting of a 4,850 foot runway extension, partial taxiway, and apron area.

In August of 2006, the Federal Aviation Administration notified the Board that it has been approved for additional funding of Phase Five construction of the new airport. The Board will be receiving an additional \$1,245,501 to begin subgrade stabilization, paving and lighting of a 650' runway extension and full parallel taxiway.

**(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:

<i>Business-type Activities</i>	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 1,984,875	\$ -	\$ -	\$ 1,984,875
Construction in progress	3,463,293	4,873,028	-	8,336,321
	<u>5,448,168</u>	<u>4,873,028</u>	<u>-</u>	<u>10,321,196</u>
<b>Capital Assets, Depreciated:</b>				
Building & equipment	44,046	-	-	44,046
Totals	<u>5,492,214</u>	<u>4,873,028</u>	<u>-</u>	<u>10,365,242</u>
Less: Accumulated Depreciation	<u>15,587</u>	<u>1,894</u>	<u>-</u>	<u>17,481</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 5,476,627</u>	<u>\$ 4,871,134</u>	<u>\$ -</u>	<u>\$10,347,761</u>

The June 30, 2006 balance of \$8,336,321 for construction in progress has been constructed 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) PRIOR PERIOD ADJUSTMENT**

Certain errors, resulting in the understatement of previously reported contracts payable, and net assets of the prior year were corrected in this year. Correction of this error resulted in a decrease of \$69,896 to the beginning net assets from \$5,649,773 to \$5,579,877 to record contracts payable in the 2005 financial statements.

## **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, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
City of Morehead	\$ 12,500	\$ 10,000	\$ 10,000	\$ -
Rowan County Fiscal Court	12,500	10,000	10,000	-
Federal grants for construction	6,481,422	4,732,976	4,712,568	(20,408)
State grants for construction	115,391	145,909	144,849	(1,060)
State grant	193,605	193,605	193,605	-
Interest income	450	1,748	1,747	(1)
Rent income	2,475	3,684	3,684	-
Administrative fees	-	3,838	25,306	21,468
<b>Total revenues</b>	<b>6,818,343</b>	<b>5,101,760</b>	<b>5,101,759</b>	<b>(1)</b>
<b>Expenditures</b>				
General government:				
Professional services	12,573	5,369	5,906	(537)
Advertising	-	-	194	(194)
Insurance	6,000	5,608	6,802	(1,194)
Miscellaneous	39,298	4,270	4,270	-
Repairs and maintenance	15,000	2,214	2,434	(220)
Travel	250	540	540	-
Utilities and telephone	3,100	3,831	3,831	-
Debt service - Rowan County	193,605	193,605	193,605	-
Capital outlay	6,650,572	4,988,378	4,873,028	115,350
<b>Total expenses</b>	<b>6,920,398</b>	<b>5,203,815</b>	<b>5,090,610</b>	<b>113,205</b>
Change in net assets	(102,055)	(102,055)	11,149	113,204
Net assets, beginning of year	102,055	102,055	103,250	1,195
Net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,399</u>	<u>\$ 114,399</u>

**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, 2006**

<u>NAME</u>	<u>ADDRESS</u>
James A. Fluty, Chairman	Morehead, Kentucky
R. Thomas Fossett, Vice Chairman	Morehead, Kentucky
Richard A. Phillips, Secretary / Treasurer	Morehead, Kentucky
Charles Derrickson, Member	Morehead, Kentucky
Porter Dailey, Member	Morehead, Kentucky
Ronald D. Jones, Member	Morehead, Kentucky
Donald Laferty, Member	Clearfield, Kentucky
Joyce Lemaster, Member	Morehead, Kentucky
Mike Gray, Member	Morehead, Kentucky
Leo Williams, Member	Farmers, Kentucky

**MOREHEAD - ROWAN COUNTY AIRPORT BOARD**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<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	3-21-0037-01	\$ 676,939
Airport Improvement Program	20.106	3-21-0037-02	2,993,823
Airport Improvement Program	20.106	3-21-0037-03	601,580
Airport Improvement Program	20.106	3-21-0037-04	<u>319,427</u>
 Total U.S. Department of Transportation			 <u>4,591,769</u>
 Total expenditures of Federal Awards			 <u>\$ 4,591,769</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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**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, 2006, and have issued our report thereon dated October 5, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 material weaknesses. 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 caused by error or fraud 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.

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 and other matters, 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 or other matters 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, Dalloway & Company, PSC

October 5, 2006



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2006. 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, 2006.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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*

October 5, 2006

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**(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, 2006, did not disclose any internal control related reportable conditions.
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, 2006.
4. There were no reportable conditions 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, 2006.
7. The Board had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2006:

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, 2006**

There were no findings in the prior year.

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2006**

No corrective action plan needed in the current year.