

**MOREHEAD - ROWAN COUNTY  
AIRPORT BOARD**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



**Kelley,  
Galloway &  
Company, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

**TABLE OF CONTENTS**

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	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	2-3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	4-6
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements -</b>	
Statement of Net Assets .....	7
Statement of Revenues, Expenses and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to Financial Statements .....	10-13
<b>SUPPLEMENTAL INFORMATION:</b>	
Statement of Revenues, Expenses and Changes in Net Assets – Budget and Actual.....	14
Board Members.....	15
Schedule of Expenditures of Federal Awards .....	16
<b>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</b> .....	17-18
<b>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</b> .....	19-20
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> .....	21
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b> .....	22
<b>CORRECTIVE ACTION PLAN</b> .....	23

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## INDEPENDENT AUDITOR'S REPORT

Morehead - Rowan County Airport Board  
1000 Kissick Road  
Farmers, Kentucky

We have audited the accompanying financial statements of Morehead - Rowan County Airport Board as of and for the year ended June 30, 2007, 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, 2007, 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 January 21, 2008, 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*

January 21, 2008

**MOREHEAD - ROWAN COUNTY AIRPORT BOARD**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2007**

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, 2007. 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 \$4,746,667 or 45.4% from \$10,462,160 to \$15,208,827.
- Support from the City of Morehead and Rowan County increased \$5,000 each.
- Support from the Commonwealth of Kentucky increased \$179,904.
- The FAA awarded the Board with the following grants:
  - Phase One construction was completed October 21, 2006. \$3,214,915 was received and disbursed in the prior year.
  - Phase Two grant in the amount of \$4,295,007 for construction. \$35,324 was received and disbursed during the year and \$4,151,925 was received and disbursed in the prior year.
  - Phase Three grant in the amount of \$633,242 for construction. \$633,242 was received and disbursed in the prior year.
  - Phase Four grant in the amount of \$393,650 for construction. \$47,440 was received and disbursed during the year and \$336,239 was received and disbursed in the prior year.
  - Phase Five grants in the amount of \$4,962,180 for construction. \$4,380,723 was utilized in the current year.
  - Hangar Project initiated during the current year estimated total cost of \$855,003. The Airport has been approved for a \$550,000 grant and the remainder is to be covered by a loan from a local bank. The Airport is to receive grant money in the amount of \$110,000/year to cover the debt service. \$227,560 was received and disbursed on this project from the grant. No loan funds were utilized during the current year.
  - Business Plan Project grant in the amount of \$60,229. \$30,115 was received and disbursed during theyear.
- Revenues decreased by \$129,222 or 2.5% from \$5,101,759 to \$4,972,537.
- Among the significant projects undertaken during the fiscal year ending June 30, 2007, was phase five construction, a hangar project, and a business plan project.

**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, 2007.

**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, 2007 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, 2007, 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

	2007	2006	Dollar Change	Percent Change
Current and other assets	\$ 1,160,251	\$ 770,804	\$ 389,447	50.5%
Capital assets, net	15,067,116	10,347,761	4,719,355	45.6
Total assets	<u>16,227,367</u>	<u>11,118,565</u>	<u>5,108,802</u>	<u>45.9</u>
Current liabilities	1,018,540	656,405	362,135	55.2
Total current liabilities	<u>1,018,540</u>	<u>656,405</u>	<u>362,135</u>	<u>55.2</u>
Net assets:				
Unrestricted	141,711	114,399	27,312	23.9
Invested in capital assets	<u>15,067,116</u>	<u>10,347,761</u>	<u>4,719,355</u>	<u>45.6</u>
Total net assets	<u>\$ 15,208,827</u>	<u>\$ 10,462,160</u>	<u>\$ 4,746,667</u>	<u>45.4%</u>

As the above table indicates, total assets increased by \$5,108,802 during the fiscal year ended June 30, 2007. This is comprised of an increase of \$389,447 in current and other assets and an increase of \$4,719,355 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 \$4,746,667. This increase is due primarily to grants received for construction.

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

	2007	2006	Dollar Change	Percent Change
Revenues	\$ 4,972,537	\$ 5,101,759	\$ (129,222)	(2.5)%
Total revenues	<u>4,972,537</u>	<u>5,101,759</u>	<u>(129,022)</u>	<u>(2.5)</u>

Depreciation expense	1,808	1,894	(86)	(4.5)
Debt service	195,800	193,605	2,195	1.1
Other operating expenses	<u>28,262</u>	<u>23,977</u>	<u>4,285</u>	<u>17.9</u>
Total expenses	225,870	219,476	6,394	2.9
Change in net assets	4,746,667	4,882,283	(135,616)	(2.8)
Beginning net assets	<u>10,462,160</u>	<u>5,579,877</u>	<u>4,882,283</u>	<u>87.5%</u>
Ending net assets	<u>\$ 15,208,827</u>	<u>\$ 10,462,160</u>	<u>\$ 4,746,667</u>	<u>45.4%</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 \$4,746,667.

### **CAPITAL ASSETS**

As of June 30, 2007, the Board's investment in capital assets totaled \$15,067,116, which is an increase of \$4,719,355, or 45.6% over the capital asset balance of \$10,347,761 at June 30, 2006. A breakdown of the Board's capital assets is presented in Note 8 of the financial statements.

Included among the capital projects during the 2006/2007 fiscal year was the construction of the new Morehead-Rowan County Clyde A. Thomas Regional Airport.

### **LONG-TERM DEBT**

As of June 30, 2007, the Board has no long-term debt.

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

The Board entered into a capital lease obligation dated September 18, 2007 in the amount of \$860,000 for the construction of a new terminal FBO building at the new airport. The Board of Directors adopted the 2008 budget on June 28, 2007. The approval of the budget provides funding for the Board's operating and construction costs for the 2007/2008 year. The major capital project funded in this budget includes completion 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, 1000 Kissick Road, P.O. Box 203, Farmers, Kentucky 40319.

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 145,761
Cash and cash equivalents - escrow	100,000
Grants receivable	914,490
Total current assets	<u>1,160,251</u>

**Noncurrent Assets:**

Capital Assets:

Non-depreciable capital assets	15,042,360
Depreciable capital assets, net	24,756
Total noncurrent assets	<u>15,067,116</u>

Total assets	<u>16,227,367</u>
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**LIABILITIES**

**Current Liabilities:**

Contracts payable	1,014,490
Deferred revenue	4,050
Total current liabilities	<u>1,018,540</u>

Total liabilities	<u>1,018,540</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	15,067,116
Unrestricted	<u>141,711</u>
Total net assets	<u><u>\$ 15,208,827</u></u>

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, 2007**

<b>Revenues</b>	
City of Morehead	\$ 15,000
Rowan County Fiscal Court	15,000
Rent income	2,105
Administrative fees	<u>20,309</u>
Total revenues	<u>52,414</u>
<b>Expenditures</b>	
General government:	
Professional services	15,180
Supplies	333
Insurance	5,682
Miscellaneous	978
Repairs and maintenance	2,355
Travel	635
Utilities and telephone	3,099
Depreciation	<u>1,808</u>
Total expenditures	<u>30,070</u>
Operating income	<u>22,344</u>
Nonoperating revenues (expenses):	
Federal grants for construction	4,367,429
State grants for construction	353,733
State grant	195,800
Debt service - Rowan County	(195,800)
Interest income	<u>3,161</u>
Total nonoperating revenue	<u>4,724,323</u>
Change in net assets	<u>4,746,667</u>
Net assets, beginning of year	<u>10,462,160</u>
Net assets, end of year	<u><u>\$ 15,208,827</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, 2007**

Cash flows from operating activities:	
Cash received from:	
Rent income	\$ 2,105
Operating grants	30,000
Other receipts	24,359
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(27,284)
Other payments	(978)
Net cash provided by operating activities	<u>28,202</u>
Cash flows from capital and related financing activities:	
Government grants	4,002,472
Debt service - Rowan County	(195,800)
Purchases and construction of capital assets	<u>(4,363,078)</u>
Net cash provided by capital and related financing activities	<u>(556,406)</u>
Cash flows from investing activities:	
Interest received on investments	<u>3,161</u>
Net cash provided by investing activities	<u>3,161</u>
Net decrease in cash and cash equivalents	(525,043)
Cash and cash equivalents, June 30, 2006	<u>770,804</u>
Cash and cash equivalents, June 30, 2007	<u>\$ 245,761</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 22,344
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,808
Change in assets and liabilities:	
Deferred revenue	<u>4,050</u>
Net cash provided by operating activities	<u>\$ 28,202</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, 2007

### (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, 2007, 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>
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, 2007, the carrying amount of the Board's cash and cash equivalents was \$245,761 and the bank balances totaled \$244,035. Of the total bank balances, \$200,000 was insured by the Bank Insurance Fund, and \$44,035 was uninsured and uncollateralized.

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

The Board is involved in a major airport construction 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 and completed on October 21, 2006; Phase Two grant in the amount of \$4,295,007, of which \$4,187,249 was received and disbursed by the Board prior to June 30, 2007; Phase Three grant in the amount of \$633,242, of which \$633,242 was received and disbursed by the Board prior to June 30, 2007; Phase Four grant in the amount of \$393,650, of which \$383,679 was received and disbursed by the Board prior to June 30, 2007; and Phase Five grant in the amount of \$4,962,180, of which \$4,380,723 was utilized prior to June 30, 2007.

The Hangar Project is estimated to be approximately \$855,003 with \$550,000 being funded by the Commonwealth, of which \$227,560 was utilized prior to June 30, 2007 and the remaining to come from local sources; and a Business Plan project in the amount of \$60,229 funded by the Commonwealth, of which \$30,115 was received and disbursed prior to June 30, 2007.

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, Four, and Five with the remaining 5% to come from Commonwealth and local sources. The Hangar Project is estimated to be approximately \$855,003 with \$550,000 being funded by the Commonwealth with the remaining to come from local sources. The Business Plan grant is 100% funded by the Commonwealth.

#### **(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 \$195,800 during the year ending June 30, 2007.

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

On August 25, 2007, the Farmers airport was sold for \$368,500 with net proceeds of \$343,000 being put into a certificate of deposit at a local bank to help offset future construction.

On August 30, 2007, the runway was officially dedicated and opened, with operations available on a full-time basis.

In September of 2007, the Board issued bonds in the amount of \$860,000 to cover construction costs related to a new terminal FBO building. The Board anticipates receiving grant funding to cover the annual debt service.

In October of 2007, the Board took out a loan in the amount of \$192,398 with a local bank to pay for the hangar project.

**(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, 2006	Additions	Deletions	Balance June 30, 2007
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 1,984,875	\$ -	\$ -	\$ 1,984,875
Construction in progress	8,336,321	4,721,163	-	13,057,484
	<u>10,321,196</u>	<u>4,721,163</u>	<u>-</u>	<u>15,042,359</u>
<b>Capital Assets, Depreciated:</b>				
Building & equipment	44,046	-	-	44,046
Totals	<u>10,365,242</u>	<u>4,721,163</u>	<u>-</u>	<u>15,086,405</u>
Less: Accumulated Depreciation	<u>17,481</u>	<u>1,808</u>	<u>-</u>	<u>19,289</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 10,347,761</u>	<u>\$ 4,719,355</u>	<u>\$ -</u>	<u>\$ 15,067,116</u>

The June 30, 2007 balance of \$13,057,484 for construction in progress 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.

## **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, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
City of Morehead	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Rowan County Fiscal Court	15,000	15,000	15,000	-
Federal grants for construction	-	3,650,261	3,650,261	-
State grants for construction	-	126,296	126,296	-
State grant	195,800	195,800	195,800	-
Interest income	2,000	3,161	3,161	-
Rent income	1,800	2,105	2,105	-
Hangar deposits	-	4,050	4,050	-
Administrative fees	-	20,309	20,309	-
<b>Total revenues</b>	<b>229,600</b>	<b>4,031,982</b>	<b>4,031,982</b>	<b>-</b>
<b>Expenditures</b>				
General government:				
Professional services	11,615	15,180	15,180	-
Supplies	500	333	333	-
Insurance	6,200	5,682	5,682	-
Miscellaneous	1,250	978	978	-
Repairs and maintenance	2,000	2,355	2,355	-
Travel	1,100	635	635	-
Utilities and telephone	4,135	3,099	3,099	-
Debt service - Rowan County	195,800	195,800	195,800	-
Capital outlay	121,399	3,922,319	3,776,558	145,761
<b>Total expenses</b>	<b>343,999</b>	<b>4,146,381</b>	<b>4,000,620</b>	<b>145,761</b>
<b>Change in net assets</b>	<b>(114,399)</b>	<b>(114,399)</b>	<b>31,362</b>	<b>145,761</b>
<b>Net assets, beginning of year</b>	<b>114,399</b>	<b>114,399</b>	<b>114,399</b>	<b>-</b>
<b>Net assets, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 145,761</b>	<b>\$ 145,761</b>

**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, 2007**

<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
Doug Morgan, 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, 2007**

	<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	3-21-0037-02	\$ 35,324
Airport Improvement Program	20.106	3-21-0037-04	47,440
Airport Improvement Program	20.106	3-21-0037-05	<u>4,380,724</u>
Total U.S. Department of Transportation			<u>4,463,488</u>
Total expenditures of Federal Awards			<u>\$ 4,463,488</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, 2007, and have issued our report thereon dated January 21, 2008. 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 opinions 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*  
January 21, 2008



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, 2007. 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, 2007.

### 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*  
January 21, 2008

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**(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, 2007, 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, 2007.
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, 2007.
7. The Board had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2007:

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, 2007**

There were no findings in the prior year.

**MOREHEAD-ROWAN COUNTY AIRPORT BOARD**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2007**

No corrective action plan needed in the current year.