MOREHEAD – ROWAN COUNTY
AIRPORT BOARD
Morehead, Kentucky

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
for the year ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Morehead - Rowan County Airport Board
Morehead, Kentucky

I have audited the accompanying financial statements of the Morehead - Rowan County Airport Board as of and for the year ended June 30, 2010 which 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Morehead - Rowan County Airport Board as of June 30, 2010 and for the year there ended in conformity with accounting principles generally accepted in the United States of America

Management has elected to omit the "Management Discussion and Analysis" which is supplemental information required by the Governmental Accounting Standards Board.

In accordance with Government Auditing Standards, I have also issued my report dated April 18, 2011, on my consideration of the internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audit.

John T. Lane & Associates LLC

April 18, 2011
This report contains 13 pages.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF NET ASSETS
June 30, 2010

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 7,181
Cash and cash equivalents - escrow	25,332
Cash and cash equivalents - restricted	147,971
Certificate of deposit	368,241
Total Current Assets	548,724
NONCURRENT ASSETS	
Non-depreciable capital assets	1,984,874
Depreciable capital assets	16,526,225
Bond issuance costs	15,107
Accumulated depreciation/amortization	(1,020,766)
Total Fixed Assets	17,505,440
TOTAL ASSETS	$ 18,054,163
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Contracts payable	$ 21,776
Current portion of long-term debt	70,000
Total Current Liabilities	91,776
LONG-TERM LIABILITIES	
Long-term debt (net of current portion)	660,000
TOTAL LIABILITIES	751,776
NET ASSETS	
Invested in capital assets, net of related debt	16,775,440
Restricted net assets	147,971
Unrestricted net assets	378,978
TOTAL NET ASSETS	$ 17,302,388

The accompanying notes are an integral part of these financial statements.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
for the year ended June 30, 2010

REVENUES		
City of Morehead	$	8,000
Rowan County Fiscal Court		7,500
Rent income		19,425
Miscellaneous income		659
Total Revenues		35,584
EXPENSES		
General government:		
Maintenance & repairs		4,870
Utilities		6,833
Dues & subscriptions		-
WEB services		500
Professional services		2,270
Secretarial services		653
Audit fees		3,229
Fuel purchased		25,779
Advertising & printing		1,902
Insurance & bonds		4,979
Supplies		-
Travel		132
Other		1,993
Depreciation/amortization		408,719
Total Expenses		461,859
NET INCOME (LOSS) FROM OPERATIONS		(426,275)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		191,261
State grants for construction		299,184
State grants		194,528
Debt service		(194,528)
Interest expense		(61,051)
Interest income		5,643
Total Nonoperating Revenue (Expense)		435,037
Change in net assets		8,762
Net assets, beginning of year		17,293,626
Net assets, end of year	$	17,302,388

The accompanying notes are an integral part of these financial statements.

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS
for the year ended June 30, 2010

OPERATING ACTIVITIES	
Cash received from:	
Rent income	$ 19,425
Other receipts	16,158
Cash paid to/for:	
Payments to suppliers & providers of goods & services	(53,139)
Other payments	-
Net cash provided/ (used) by operating activities	(17,556)
Cash Flows From Investing Activities	
Interest earned	5,643
Cash Flows from Capital And Financing Activities	
Government grants	684,973
Payments on long-term debt	(127,817)
Interest paid	(255,579)
Purchase of assets	(1,017,275)
Net cash provided/(used) by capital and financing activities	(715,698)
Net Increase (Decrease) in Cash and Cash Equivalents	(727,611)
Cash and Cash Equivalents Beginning of Year	1,276,335
Cash and Cash Equivalents End of Year	$ 548,724
Reconciliation Of Cash Provided By Operating Activities	
Net operating income (loss)	$ (426,275)
Adjustments to reconcile net income to net cash provided by operating activities: depreciation	408,719
Net cash provided/(used) by operating activities	$ (17,556)

The accompanying notes are an integral part of these financial statements.

MOREHEAD-ROWAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 is to manage the general business affairs and activities of the new Morehead-Rowan County, Clyde A. Thomas, Regional Airport in addition to overseeing the construction projects.

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, 2010, 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 asserts 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 reservations 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 principles 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:

Description	Estimated Lives
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 non-operating. Operating expenses can be tied specifically to the Board's ongoing operations. Other expenses are non-operating.

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, 2010, the carrying amount of the Board’s cash and cash equivalents was $548,722 and the bank balances totaled $548,590. All balances as of June 30, 2010 were covered by FDIC insurance or collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name.

4. CONSTRUCTION IN PROCESS

The Board is involved in a major airport construction program. Phases I through VI 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. 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 entered into a lease agreement and received approval for grant funding to cover the annual debt service.

5. COMMITMENTS

During the Board's 2001 fiscal year, the Rowan County Fiscal Court borrowed $1,500,000 from the Kentucky Area Development Boards 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 $2,000,0000 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 $228,420 during the year ending June 30, 2010.

6. LONG TERM DEBT

During the 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 was being held in trust until construction began. The balance of this lease agreement was $795,000 at June 30, 2010.

During the 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 $-0- at June 30, 2010.

Description	Balance 6-30-09	Proceeds	Principal Paid	Balance 6-30-10
Capital lease - FBO building	$ 795,000	$ -	$ 65,000	$ 730,000
Note payable - T-hangars	62,817	-	62,817	-
Total	$ 857,817	$ -	$ 127,817	$ 730,000

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

	Principal	Interest	Total Payment
2011	$ 70,000	$ 31,275	$ 101,275
2012	70,000	28,125	98,125
2013	75,000	24,863	99,863
2014	80,000	21,375	101,375
2015	80,000	17,775	97,775
Thereafter	355,000	28,238	383,238
Total	$ 730,000	$ 151,651	$ 881,651

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:

Description	7-1-09	Additions	Deletions	6-30-10
Land	$ 1,984,874	$ -	$ -	$ 1,984,874
Building & equipment	137,159	19,443	-	156,602
Land improvements	15,371,791	997,832	-	16,369,623
Bond issuance costs	15,107	-	-	15,107
Total	$ 17,508,931	$ 1,017,275	$ -	$ 18,526,206
Acc. depreciation	$ 612,047	$ 408,719	$ -	$ 1,020,766
Net fixed assets	$ 16,896,884			$ 17,505,440

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

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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

I have audited the financial statements of the Morehead - Rowan County Airport Board as of and for the year ended June 30, 2010, and have issued my report thereon dated April 18, 2011. I conducted my 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 my audit, I considered the Morehead - Rowan County Airport Board's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morehead - Rowan County Airport Board's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morehead - Rowan County Airport Board's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 audit committee, management, others within the organization 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.

John T. Lane & Associates LLC

April 18, 2011

MOREHEAD - ROWAN COUNTY AIRPORT BOARD
Statement of Revenues, Expenditures
and Changes in Net Assets
Budget and Actual
for the year ended June 30, 2010

	Enacted Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
City of Morehead	$ 8,000	$ 8,000	$ 8,000	$ -
Rowan County Fiscal Court	7,500	7,500	7,500	-
Rent income	16,500	19,425	19,425	-
Miscellaneous income	-	659	659	-
Total revenue	32,000	35,584	35,584	-
EXPENSES				
General government:				
Maintenance & repairs	10,000	4,870	4,870	-
Utilities	30,000	6,833	6,833	-
Dues & subscriptions	1,200	-	-	-
WEB services	1,000	500	500	-
Professional services	5,000	2,270	2,270	-
Secretarial services	3,000	653	653	-
Audit fees	4,000	3,230	3,229	1
Fuel purchased		25,779	25,779	-
Advertising & printing	3,000	1,902	1,902	-
Insurance & bonds	5,000	4,979	4,979	-
Supplies	4,000	-	-	-
Travel	3,600	132	132	-
Other	4,000	1,993	1,993	-
Equipment	15,000	19,443	-	19,443
Building improvements	786,227	702,864	-	702,864
Vehicles	15,000	-	-	-
Fuel system costs	360,510	289,892	-	289,892
ALP	-	5,076	-	5,076
Depreciation/amortization	-	-	408,719	(408,719)
Total expenses	1,250,537	1,070,416	461,859	608,557
Net income/(loss) from operations	(1,218,537)	(1,034,832)	(426,275)	608,557
NONOPERATING REVENUES (EXPENSES)				
Federal grants	269,294	191,261	191,261	-
State grants for construction	194,500	299,184	299,184	-
State grants	278,337	194,528	194,528	-
Debt service	(359,900)	(360,572)	(194,528)	166,044
Interest expense		-	(61,051)	(61,051)
Interest income	5,000	5,639	5,643	4
Transfers in	769,000	838,821	-	(838,821)
Transfers out	(297,694)	(153,930)	-	153,930
Total nonoperating revenues (expenses)	858,537	1,014,931	435,037	(579,894)
Change in net assets	$ (360,000)	$ (19,901)	$ 8,762	$ 28,663

MOREHEAD-ROWAN COUNTY AIRPORT BOARD
Board Members
June 30, 2010

Name	Address
Mike Gray, Chair	Morehead, Kentucky
Ronnie Oliver, Vice Chair	Morehead, Kentucky
Porter Dailey, Secretary/Treasurer	Morehead, Kentucky
Harry Clark, Member	Morehead, Kentucky
Stan Click, Member	Morehead, Kentucky
Charles Derrickson, Member	Morehead, Kentucky
James A. Fluty, Member	Morehead, Kentucky
R. Thomas Fossett, Member	Morehead, Kentucky
Donald Laferty, Member	Clearfield, Kentucky
Jim Lemaster, Member	Morehead, Kentucky