

**LEXINGTON-FAYETTE URBAN COUNTY
AIRPORT BOARD
(A COMPONENT UNIT OF THE
LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT)**

FINANCIAL STATEMENTS
June 30, 2013 and 2012

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
(A COMPONENT UNIT OF THE LEXINGTON-FAYETTE
URBAN COUNTY GOVERNMENT)
Lexington, Kentucky

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lexington-Fayette Urban County Airport Board
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying statements of net position of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, as of June 30, 2013 and 2012, and the related statements of revenues and expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtain during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses included on pages 33 and 34 are presented for purpose of additional analysis and are not a required part of the financial statements. Such schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The schedules have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Emphasis of Matter

As discussed in Note 1, the Airport restated the 2012 statement of net position and statement of revenues and expenses and changes in net position for the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption resulted in a reduction of net position at July 1, 2012 of \$2,834,294. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013 on our consideration of the Airport's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Crowe Horwath LLP

Lexington, Kentucky
September 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

The following Management's Discussion and Analysis (MD&A) of the Lexington-Fayette Urban County Airport Board's (the "Airport") activities and financial performance provides an introduction and overview to the financial statements of the Blue Grass Airport for the fiscal years ended June 30, 2013 (FY 2013) and June 30, 2012 (FY 2012). The information contained in this MD&A should be considered in conjunction with the information contained in the Airport's financial statements and related notes which follow this MD&A.

AIRPORT ACTIVITIES AND HIGHLIGHTS

At the completion of FY 2013, the Airport was served by five airline brands offering non-stop flights to 13 destinations. At the completion of FY 2012, the Airport was served by six airline brands offering non-stop flights to 14 destinations. AirTran Airways, which offered service between Lexington and Orlando and Fort Lauderdale, left the market in August 2012 upon announcement of its merger with Southwest Airlines. Allegiant Air reduced the gap in service left from AirTran's departure by increasing its number of flights per week to Orlando Sanford International Airport and initiating service to Fort Lauderdale.

Operations Statistical Data

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Enplanements	541,741	560,288	555,377
Increase (decrease)	(18,547)	4,911	59,707
% Increase (decrease)	(3.31%)	0.88%	12.05%
Aircraft operations – commercial	28,920	29,888	26,741
Increase (decrease)	(968)	3,147	2,971
% Increase (decrease)	(3.24%)	11.77%	12.50%
Aircraft operations – general aviation	33,850	36,394	41,178
Decrease	(2,544)	(4,784)	(1,968)
% Decrease	(6.99%)	(11.62%)	(4.56%)
Aircraft operations – military	1,760	1,551	1,306
Increase	209	245	134
% Increase	13.48%	18.76%	11.43%
Landed weight (1,000 pounds)	632,616	651,563	681,120
Increase (decrease)	(18,947)	(29,557)	86,733
% Increase (decrease)	(2.91%)	(4.34%)	14.59%

FINANCIAL STATEMENTS

The Airport's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). The Airport is structured as a single enterprise fund with revenues recognized when earned and expenses recorded at the time liabilities are incurred. See the notes to the financial statements for a summary of the Airport's significant accounting policies.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

FINANCIAL OPERATIONS AND HIGHLIGHTS

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenue	\$ 13,873,495	\$ 13,636,595	\$ 12,918,020
Operating expense	<u>(9,577,388)</u>	<u>(9,950,607)</u>	<u>(10,811,301)</u>
Operating income before depreciation	4,296,107	3,685,988	2,106,719
Depreciation	<u>(9,425,228)</u>	<u>(9,444,715)</u>	<u>(8,716,163)</u>
Loss from operations	(5,129,121)	(5,758,727)	(6,609,444)
Net non-operating revenue	<u>19,509</u>	<u>1,819,313</u>	<u>1,157,986</u>
Loss before capital grants	(5,109,612)	(3,939,414)	(5,451,458)
Capital grants	<u>4,295,303</u>	<u>4,120,272</u>	<u>3,156,111</u>
Increase (decrease) in net position	<u>\$ (814,309)</u>	<u>\$ 180,858</u>	<u>\$ (2,295,347)</u>

REVENUE

A summary of the revenue for FY 2013, FY 2012, and FY 2011 is as follows:

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>% Change</u> <u>2013/2012</u>
Operating:				
Airline landing fees and related operations	\$ 5,129,541	\$ 5,031,513	\$ 4,512,347	1.95%
Auto parking	4,393,472	4,454,994	4,353,446	(1.38%)
Ground transportation	2,056,522	2,065,946	1,975,181	(0.46%)
Concessions and rentals	558,738	527,898	543,138	5.84%
General aviation	1,082,031	1,031,975	1,027,302	4.85%
Advertising	362,928	185,889	182,166	95.24%
Other	<u>290,263</u>	<u>338,380</u>	<u>324,440</u>	<u>(14.22%)</u>
Total operating	13,873,495	13,636,595	12,918,020	1.74%

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>% Change</u> <u>2013/2012</u>
Non-operating:				
Passenger facility charges	2,116,850	2,522,652	2,180,585	(16.09%)
Contract facility charges	635,412	709,072	636,336	(10.39%)
Drug task force grant	-	42,281	-	(100.00%)
Investment income, net of fees	322,471	414,717	126,171	(22.24%)
Net increase in fair value of investments	-	122,775	106,046	(100.00%)
Gain on disposal of capital assets	<u>16,347</u>	<u>-</u>	<u>-</u>	<u>N/A</u>
Total non-operating	3,091,080	3,811,497	3,049,138	(18.90%)
Capital grants	<u>4,295,303</u>	<u>4,120,272</u>	<u>3,156,111</u>	<u>4.25%</u>
Total revenue	<u>\$ 21,259,878</u>	<u>\$ 21,568,364</u>	<u>\$ 19,123,269</u>	<u>(1.43%)</u>

EXPENSE

A summary of the expense for FY 2013, FY 2012, and FY 2011 is as follows:

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>% Change</u> <u>2013/2012</u>
Operating:				
Administration	\$ 4,024,110	\$ 4,079,452	\$ 4,606,779	(1.36%)
General maintenance	2,375,558	2,389,088	2,397,467	0.57%
Safety, rescue and security	1,502,558	1,801,436	2,073,738	(16.59%)
Engineering	531,252	587,853	553,518	(9.63%)
Building maintenance	532,449	521,889	527,829	2.02%
Operations	604,623	563,484	651,970	7.30%
Drug task force	<u>6,838</u>	<u>7,405</u>	<u>-</u>	<u>(7.66%)</u>
Total operating	9,577,388	9,950,607	10,811,301	(3.75%)
Non-operating:				
Net decrease in fair value of investments	622,114	-	-	N/A
Interest expense and fees	2,449,457	1,771,738	1,881,647	38.25%
Loss on disposal of capital assets	<u>-</u>	<u>220,446</u>	<u>9,505</u>	<u>(100.00%)</u>
Total non-operating	3,071,571	1,992,184	1,891,152	54.18%
Depreciation	<u>9,425,228</u>	<u>9,444,715</u>	<u>8,716,163</u>	<u>(0.21%)</u>
Total expense	<u>\$ 22,074,187</u>	<u>\$ 21,387,506</u>	<u>\$ 21,418,616</u>	<u>3.21%</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

2013 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$13.6 million in FY 2012 to \$13.9 million in FY 2013, an increase of 2%. The following describes the fluctuations of certain types of operating revenue:

- Airline landing fees and related operations revenue increased by \$98,000, or 2%. Although enplanements decreased 3% in FY 2013, an increase in landing fee and rental rates charged to airlines and the expiration of airline incentives resulted in a positive variance.
- Auto parking revenue decreased by \$62,000, or 1%, due to a decrease in passenger enplanements.
- Concessions and rentals revenue increased by \$31,000, or 6% as a result of changing vendors and a modification to current facilities.
- General aviation revenue increased by \$50,000, or 5%, due an increase in rental rates to the Airport's Fixed Base Operator (FBO) and the purchase of five general aviation hangars.
- Advertising revenue increased by \$177,000, or 95%. In FY 2013, advertising for the Airport transitioned in-house eliminating the concessionaire and the associated commission.
- Other revenue decreased by \$48,000 or 14%, as a result of discontinuation of the Airport's participation in the Transportation Security Administration Law Enforcement Officer reimbursement program.

Operating expense decreased from \$10.0 million in FY 2012 to \$9.6 million in FY 2013, a decrease of 4%, primarily due to the following:

- Administration expense decreased from \$4.1 million to \$4.0 million, or 1%. Several factors contributed, including the following:
 - Total staffing expense including benefits increased \$140,000
 - Consulting expense decreased \$34,000
 - Marketing expense including both Airport and airline advertising, community relations, and other airline incentives decreased \$151,000
- Safety, rescue and security expense decreased from \$1.8 million to \$1.5 million, or 17%. In FY 2013, one of the remaining three participants in the deferred compensation agreement elected to receive a one-time lump sum settlement which was paid out using a higher discount rate than when the liability was originally recorded. This resulted in a \$278,000 reduction in expense.
- Engineering expense decreased from \$588,000 to \$531,000, or 10%. FY 2012 included a wildlife hazard assessment that was not required by the FAA in FY 2013.
- Operations expense increased from \$563,000 to \$604,000, or 7%, primarily due to an increase in salaries and benefits as a result of being fully staffed in FY 2013.

Net non-operating revenues decreased from \$1.8 million in FY 2012 to \$20,000 in FY 2013, a decrease of 99%, due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively decreased by \$480,000, or 15%, due in part to a change in revenue recognition for facility charges in FY 2012.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- In FY 2013, the Airport experienced a \$622,000 net decrease in the fair value of its investments, compared to a \$123,000 net increase in FY 2012, due to the changing interest rate environment. Since the Airport usually holds its investments to maturity, unrealized gains or losses will accrete to par over time. The Airport's investment strategy has been to keep the average life of maturities to five years or less, so that investment earnings will generally follow current market rates.
- Interest expense and fees increased by \$678,000, or 38%. FY 2013 includes \$404,000 of bond issuance costs; there were no bond issuance costs in FY 2012. The balance is an increase in interest expense of \$274,000 and is related to the Airport's decision to reduce the amount of variable rate bonds and take advantage of historically low interest rates by issuing \$18,000,000 in fixed rate bonds to refinance that amount of variable rate debt. While this strategy has increased the Airport's interest expense in the current period, this strategy has created a much more stable and manageable debt profile. As of June 30, 2013 only 9.8% of the Airport's debt remains in a variable rate structure.
- Sales of capital assets resulted in a gain of \$16,000 in FY 2013. The loss in FY 2012 was due to write offs of the net book value of assets identified as no longer in service.

Capital grants increased by \$175,000 in FY 2013. This was due to an increase in federally funded construction projects but was partially offset by a reallocation of federal grant monies, previously recorded as revenues, to a reduction in the basis of a federally funded construction project.

2012 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$12.9 million in FY 2011 to \$13.6 million in FY 2012, an increase of 6%. The following describes the fluctuations of certain types of operating revenue:

- Airline landing fees and related operations revenue increased by \$519,000, or 12%. In FY 2011, some landing fees and terminal rental fees were waived for the new air service provided by Allegiant and AirTran. The termination of a portion of the waived fees in FY 2012 resulted in a significant revenue increase.
- Auto parking revenue increased by \$102,000, or 2%, due to an increase in passenger enplanements.
- Ground transportation revenue increased by \$91,000, or 5%, due to new concession agreements in FY 2012 that provided additional parking spaces and updated rental rates for service facilities for all onsite car rental agencies.
- Other revenue increased by \$14,000, or 4%, due to increased Air Rescue and Fire Fighter Training Center (ARFFTC) revenue. The ARFFTC closed for a portion of FY 2011 for renovations. The FY 2012 increase represents one full year of training services.

Operating expense decreased from \$10.8 million in FY 2011 to \$10.0 million in FY 2012, a decrease of 8%, primarily due to the following:

- Administration expense decreased from \$4.6 million to \$4.1 million, or 11%. Several factors contributed, including the following:
 - Legal expense decreased by \$133,000, or 47%, as a result of standardization of internal processes and procedures.
 - Utility expense decreased by \$186,000, or 16%, primarily attributable to a mild winter resulting in lower natural gas and electricity usage.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- Airline incentives and revenue guarantee decreased by \$240,000, or 71%, as incentives for AirTran and Allegiant were completed.
- Safety, rescue and security expense decreased from \$2.1 million to \$1.8 million, or 13%. FY 2011 included expense for actuarial adjustment for post-employment benefits to reduce the discount rate from 5% to 3%.
- Operations expense decreased from \$652,000 to \$563,000, or 14%, primarily due to savings in salaries and benefits as a result of open positions in FY 2012.

Net non-operating revenue increased from \$1.1 million in FY 2011 to \$1.6 million in FY 2012, an increase of 47%, due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively increased by \$415,000, or 15%, due in part to a change in revenue recognition for facility charges.
- Drug task force grant revenue of \$42,000 was received from the Department of Justice in FY 2012.
- Investment earnings increased by \$305,000, or 131%. In February 2011 the Airport transitioned from primarily investing in certificates of deposit to a more balanced fixed income portfolio. As a result, the Airport realized significantly more investment earnings in the current year.
- Loss on disposal of capital assets increased by \$211,000 due to write offs of the net book value of assets identified as no longer in service.

Capital grants increased by \$891,000 due to the receipt of a local capital grant for \$469,000 and an increase in federally funded construction projects.

FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2013, 2012, and 2011. The Airport's assets exceeded liabilities by \$108.4 million at June 30, 2013, a \$0.8 million decrease from June 30, 2012. The Airport's assets exceeded liabilities by \$109.2 million at June 30, 2012, a \$0.2 million increase from June 30, 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets and deferred outflows			
Current assets	\$ 11,864,986	\$ 8,573,549	\$ 5,817,678
Restricted assets	18,688,094	21,191,194	20,979,985
Capital assets	140,365,180	143,783,003	148,166,759
Deferred outflow of resources	<u>18,738</u>	<u>43,447</u>	<u>142,554</u>
 Total assets and deferred outflows	 <u>\$ 170,936,998</u>	 <u>\$ 173,591,193</u>	 <u>\$ 175,106,976</u>
 Liabilities and deferred inflows			
Current liabilities	\$ 2,422,431	\$ 1,911,251	\$ 2,557,918
Noncurrent liabilities	60,141,329	62,467,686	63,418,553
Deferred inflow of resources	<u>18,738</u>	<u>43,447</u>	<u>142,554</u>
 Total liabilities and deferred inflows	 <u>\$ 62,582,498</u>	 <u>\$ 64,422,384</u>	 <u>\$ 66,119,025</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

FINANCIAL POSITION SUMMARY (Continued)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Position			
Invested in capital assets, net of related debt	\$ 80,950,700	\$ 84,886,100	\$ 89,165,917
Restricted	17,484,539	17,826,575	16,848,827
Unrestricted	<u>9,919,261</u>	<u>6,456,134</u>	<u>2,973,207</u>
Total net position	<u>\$ 108,354,500</u>	<u>\$ 109,168,809</u>	<u>\$ 108,987,951</u>

CAPITAL ASSETS

Major capital projects in progress and expenditures incurred during FY 2013 included the following:

	<u>FY 2013</u>	<u>Cumulative</u>
• Administration office renovation	\$ 1,146,000	\$ 1,146,000
• Taxiway F widening	930,000	964,000
• GA ramp rehabilitation	902,000	960,000
• Taxiways A-1 and A-7 rehabilitation	655,000	736,000
• Master plan update	583,000	933,000
• Snow sweeper	513,000	513,000

Major capital projects in progress and expenditures incurred during FY 2012 included the following:

	<u>FY 2012</u>	<u>Cumulative</u>
• Terminal roof replacement	\$ 1,500,000	\$ 1,500,000
• Air carrier ramp rehabilitation	1,325,000	2,325,000
• Runway 9/27	500,000	30,500,000

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method.

Acquisitions are funded using a variety of financing techniques, including Federal grants, State grants, PFC's, debt issuance, and general operating funds. Additional information on the Airport's capital assets can be found in Note 3 to the financial statements.

BONDS PAYABLE

At the beginning of FY 2012, \$28,285,000 or 47% of the Airport's bonds payable outstanding of \$60,165,000 were variable rate interest rate obligations. During FY 2012, the Airport reduced its variable rate bonds outstanding by retiring \$660,000 of variable rate bonds in advance of scheduled principal pay down dates. On November 27, 2012 the Airport continued its policy of reducing the amount of the Airport's variable rate bonds to take advantage of historically low interest rates and issued \$18,000,000 in fixed rate bonds to refinance that amount of variable rate debt. Total bonds payable at June 30, 2013 were \$55,280,000, which consisted of \$49,880,000, or 90.2% of fixed rate bonds and \$5,400,000, or 9.8% remaining in a variable rate structure.

Additional information regarding bonds payable is provided in Note 4 to the financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

NET POSITION

The largest portion of the Airport's net position each year (75% at June 30, 2013, and 78% at June 30, 2012) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be sold to pay liabilities. An additional portion of the Airport's net assets (16% at both June 30, 2013 and June 30, 2012) represents bond reserve funds that are subject to external restrictions on how they can be used under bond resolutions and Passenger Facility Charges that are restricted by Federal regulations. Unrestricted net assets (9% of the Airport's net assets at June 30, 2013 and 6% at June 30, 2012) may be used to meet any of the Airport's ongoing obligations.

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash and cash equivalents include cash-on-hand, bank deposits, and highly liquid investments with an original maturity of 90 days or less.

	<u>2013</u>	<u>2012</u>
Cash flows provided by operating activities	\$ 3,289,361	\$ 3,563,518
Cash flows used in capital and related financing activities	(2,063,440)	(1,427,406)
Cash flows used in investing activities	<u>(5,418,081)</u>	<u>(4,079,623)</u>
Net decrease in cash and cash equivalents	(4,192,160)	(1,943,511)
Cash and cash equivalents, beginning of year	<u>8,913,094</u>	<u>10,856,605</u>
Cash and cash equivalents, end of year	<u>\$ 4,720,934</u>	<u>\$ 8,913,094</u>

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Airport experienced strong passenger travel in FY 2013 with approximately 1,081,000 total passengers. Beginning in November 2012, Allegiant added capacity to its already successful Florida markets of Orlando Sanford, Punta Gorda, St. Petersburg/Clearwater and Fort Lauderdale. This additional frequency helped to replace the loss of service to Orlando and Fort Lauderdale from AirTran Airways, who left the market in August 2012 following the announcement of its merger with Southwest Airlines. US Airways made changes to its aircraft equipment during the course of the fiscal year and passengers are now benefitting from upgraded airplanes to Charlotte, consisting of 67-seats (previously 50) and a dual-class cabin, twice per day.

Blue Grass Airport offers service to Dallas, Texas and Chicago, Illinois on American Eagle and service to Charlotte, North Carolina on US Airways. On February 14, 2013, American Airlines and US Airways announced their intent to merge. If the merger is approved by the United States Justice Department, the Airport will work with the airline to merge its operations on the local level so they can continue with a strong presence in our market.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2013 and 2012

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS (Continued)

As part of our commitment to maintain modern and comfortable facilities now and in the future, the Airport invested in planning efforts during FY 2013. The Airport finalized a master plan that will guide the Airport's role in serving its customers and supporting the broader air transportation system. This planning effort provided a focused emphasis on updating existing Airport facilities, evaluating forecasts of aviation activity in all sectors and reassessing the next 20 years of the Airport's development. A conservative forecast was recommended with anticipated annual enplanements starting in calendar year 2016 of 541,500 and a 1% average annual increase thereafter.

Numerous airport improvement projects are expected in the upcoming fiscal year as part of the master plan. These include a taxiway safety enhancement program that will require the relocation of the Airport's existing public safety facility and maintenance/snow removal equipment complex. The Airport is also preparing to construct T-hangars adjacent to crosswind runway 9-27. These hangars will provide much needed facilities for private aircraft owners who are currently on waitlists to lease hangars as space and circumstances permit.

The Airport recently concluded construction on multiple projects during FY 2013 including taxiway and general aviation ramp rehabilitation as well as renovations to the Airport administrative offices. New customer services were implemented during FY 2013 including the implementation of mobile boarding pass scanning for passengers. Plans are underway for additional food and beverage options in the terminal including Dunkin' Donuts and Peppers Mexican Grill, scheduled to open by the end of the calendar year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Director of Administration and Finance, Lexington-Fayette Urban County Airport Board, 4000 Terminal Drive, Suite 206, Lexington, KY 40510.

FINANCIAL STATEMENTS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET POSITION
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Restated)
Assets and deferred outflows		
Current assets - unrestricted		
Cash and cash equivalents	\$ 2,392,227	\$ 4,769,726
Certificates of deposit	607,981	319,839
Investments	6,597,048	1,578,130
Accounts receivable, net	1,860,877	1,555,381
Accrued interest receivable	24,792	3,196
Other assets	<u>382,061</u>	<u>347,277</u>
Total current assets	<u>11,864,986</u>	<u>8,573,549</u>
Restricted assets		
Cash and cash equivalents	2,328,707	4,143,368
Certificates of deposit	4,371,005	2,809,449
Investments	11,489,131	13,260,732
Accounts receivable, net	443,202	399,045
Accrued interest receivable	56,049	56,222
Grants receivable	<u>-</u>	<u>522,378</u>
Total restricted assets	<u>18,688,094</u>	<u>21,191,194</u>
Noncurrent assets		
Capital assets, net	<u>140,365,180</u>	<u>143,783,003</u>
Total assets	170,918,260	173,547,746
Deferred outflows of resources		
Fair value of interest rate caps	<u>18,738</u>	<u>43,447</u>
Total assets and deferred outflows	<u>\$ 170,936,998</u>	<u>\$ 173,591,193</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET POSITION
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Restated)
Liabilities and deferred inflows		
Current liabilities (payable from unrestricted assets)		
Accounts payable	\$ 742,724	\$ 566,117
Accrued payroll and benefits	<u>488,707</u>	<u>383,091</u>
Total current liabilities (payable from unrestricted assets)	<u>1,231,431</u>	<u>949,208</u>
Current liabilities (payable from restricted assets)		
Accounts payable	-	221,043
Accrued interest payable	<u>1,191,000</u>	<u>741,000</u>
Total current liabilities (payable from restricted assets)	<u>1,191,000</u>	<u>962,043</u>
Total current liabilities	<u>2,422,431</u>	<u>1,911,251</u>
Noncurrent liabilities		
Accrued post-employment benefits	714,294	1,662,982
Bonds payable	<u>59,427,035</u>	<u>60,804,704</u>
Total noncurrent liabilities	<u>60,141,329</u>	<u>62,467,686</u>
Total liabilities	62,563,760	64,378,937
Deferred inflows of resources		
Deferred inflow from interest rate caps	<u>18,738</u>	<u>43,447</u>
Total liabilities and deferred inflows	<u>62,582,498</u>	<u>64,422,384</u>
Net position		
Invested in capital assets, net of related debt	<u>80,950,700</u>	<u>84,886,100</u>
Restricted		
Debt service	17,484,539	17,243,949
Construction	<u>-</u>	<u>582,626</u>
Total restricted net position	17,484,539	17,826,575
Unrestricted	<u>9,919,261</u>	<u>6,456,134</u>
Total net position	<u>108,354,500</u>	<u>109,168,809</u>
Total liabilities and deferred inflows and net position	<u>\$ 170,936,998</u>	<u>\$ 173,591,193</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Restated)
Operating revenue:		
Airline landing fees and related operations	\$ 5,129,541	\$ 5,031,513
Auto parking	4,393,472	4,454,994
Ground transportation	2,056,522	2,065,946
Concessions and rentals	558,738	527,898
General aviation	1,082,031	1,031,975
Advertising	362,928	185,889
Other	<u>290,263</u>	<u>338,380</u>
Total operating revenue	<u>13,873,495</u>	<u>13,636,595</u>
Operating expense:		
Administration	4,024,110	4,079,452
General maintenance	2,375,558	2,389,088
Safety, rescue and security	1,502,558	1,801,436
Engineering	531,252	587,853
Building maintenance	532,449	521,889
Operations	604,623	563,484
Drug task force	<u>6,838</u>	<u>7,405</u>
Total operating expense	<u>9,577,388</u>	<u>9,950,607</u>
Operating income before depreciation	4,296,107	3,685,988
Depreciation	<u>9,425,228</u>	<u>9,444,715</u>
Loss from operations	<u>(5,129,121)</u>	<u>(5,758,727)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,116,850	2,522,652
Contract facility charges	635,412	709,072
Drug task force grant	-	42,281
Investment income, net of fees	322,471	414,717
Net increase (decrease) in fair value of investments	(622,114)	122,775
Interest expense and fees	(2,091,914)	(1,771,738)
Debt issuance costs	(357,543)	-
Gain (loss) on disposal of capital assets	<u>16,347</u>	<u>(220,446)</u>
Net non-operating revenue	19,509	1,819,313
Capital grants	<u>4,295,303</u>	<u>4,120,272</u>
Increase (decrease) in net position	<u>(814,309)</u>	<u>180,858</u>
Net position, beginning of year, previously stated		111,822,245
Restatement due to adoption of GASB 65 (Note 1)		<u>(2,834,294)</u>
Net position, beginning of year, as restated	<u>109,168,809</u>	<u>108,987,951</u>
Net position, end of year	<u>\$ 108,354,500</u>	<u>\$ 109,168,809</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Restated)
Cash flows provided by operating activities		
Receipts from customers	\$ 13,219,649	\$ 13,350,679
Payments to suppliers	(3,612,913)	(4,035,986)
Payments to employees	(6,603,361)	(6,131,837)
Other receipts	<u>285,986</u>	<u>380,662</u>
Net cash provided by operating activities	<u>3,289,361</u>	<u>3,563,518</u>
Cash flows used in capital and related financing activities		
Proceeds from capital grants	4,817,681	4,042,110
Passenger facility charges	2,093,745	2,181,379
Contract facility charges	614,360	651,300
Proceeds from drug task force grant	-	42,281
Proceeds from sale of bonds	26,364,118	-
Principal paid on bonds	(27,560,000)	(725,000)
Interest and fees paid on bonds	(2,181,244)	(1,859,785)
Acquisition and construction of capital assets	<u>(6,212,100)</u>	<u>(5,759,691)</u>
Net cash used in capital and related financing activities	<u>(2,063,440)</u>	<u>(1,427,406)</u>
Cash flows used in investing activities		
Interest received on investments	301,048	366,974
Purchases of certificates of deposit and investments, net	<u>(5,719,129)</u>	<u>(4,446,597)</u>
Net cash used in investing activities	<u>(5,418,081)</u>	<u>(4,079,623)</u>
Net decrease in cash and cash equivalents	(4,192,160)	(1,943,511)
Cash and cash equivalents, beginning of year	<u>8,913,094</u>	<u>10,856,605</u>
Cash and cash equivalents, end of year	<u>\$ 4,720,934</u>	<u>\$ 8,913,094</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (5,129,121)	\$ (5,758,727)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	9,425,228	9,444,715
Bad debt expense	62,363	61,225
Increase (decrease) due to changes in:		
Accounts receivable	(367,859)	134,571
Other assets	(34,784)	27,762
Accounts payable	176,607	(70,405)
Accrued payroll and benefits	<u>(843,073)</u>	<u>(275,623)</u>
Net cash provided by operating activities	<u>\$ 3,289,361</u>	<u>\$ 3,563,518</u>
Supplemental schedule of noncash transactions		
Change in construction in progress included in accounts payable	\$ (221,042)	\$ 221,042

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Lexington-Fayette Urban County Airport Board (the "Board" or the "Airport") operates under, and in accordance with, Chapter 183 of the Kentucky Revised Statutes. It owns and operates the Blue Grass Airport. The Airport is a component unit of the Lexington-Fayette Urban County Government (LFUCG) and its financial statements are included in LFUCG's Comprehensive Annual Financial Report as a discretely presented component unit. The Board of Directors is composed of ten members appointed by the Mayor, including a designated officer of the LFUCG and two members who live within a three-mile radius of the Airport, in accordance with terms set forth in the Kentucky Revised Statute 183.132 (8).

The Board is a political subdivision of the Commonwealth of Kentucky, created in 1946, and has been established in order to ensure observance of limitations and restrictions placed on the uses of the Airport. The Board of Directors provides for the management and operation of the Airport by employing an Executive Director and such staff as is deemed necessary to properly operate, develop and maintain the Airport.

A variety of federal, state and local laws, agreements and regulations govern operations at the Airport. The Federal Aviation Administration (FAA) has jurisdiction over aviation operations generally, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the Airport is constrained from transferring Airport revenues to the LFUCG. This restriction is embodied in the federal grant agreements entered into by the Airport. Additionally, federal law governs the reasonableness of fees that may be charged for the use of Airport facilities, further governs Airport noise limits, and imposes certain other restrictions on Airport operations.

Basis of Accounting and Accounting Presentation: This summary of significant accounting policies is presented to assist in understanding the Airport's financial statements. The financial statements and accompanying notes are representations of the Airport's management who is responsible for their integrity and objectivity.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Proprietary Fund Type: The Airport operates as an Enterprise Fund, a type of Proprietary Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Airport's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in Preparation of Financial Statements: 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 reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net position: Net position is classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.
- Restricted - This component consists of funds with external constraints placed on net assets imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component consists of resources that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Restricted Assets: Certain proceeds of revenue bonds, as well as resources set aside for their payment, are classified as restricted assets on the statement of net position since their use is limited by applicable bond indentures. Proceeds from federal grants (Capital or PFC) are restricted per the grant agreements. Proceeds from the issuance of bonds are held by the Bond Trustee and invested. The funds are released by the Bond Trustee to fund the construction costs of the related project and to make scheduled debt service payments.

Cash Equivalents: Cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash and that have an original maturity of 90 days or less.

Investments: Investments are recorded at fair value. The unrealized gain (loss) on investments was (\$328,000) and \$294,000 at June 30, 2013 and June 30, 2012 respectively.

Accounts Receivable: Receivables are reduced by the estimated portion that is expected to be uncollectible. Interest is not normally charged on receivables. An allowance is established for losses based on historic loss experience and current economic conditions. Losses are charged off to the allowance when further collection efforts will not produce additional recoveries. The allowance was \$141,000 at June 30, 2013 and \$83,000 at June 30, 2012. The FY 2013 allowance included \$140,000 for a pending bankruptcy settlement with American Airlines.

Capital Assets: Capital assets are stated at cost or fair value at date of gift, if donated. The Airport capitalizes, as a cost of capital assets, the portion of its interest costs (net of any interest earned on related interest-bearing investments acquired with proceeds of related tax-exempt borrowings) which represents interest incurred during the construction period on qualifying assets. Construction in progress consists of the costs of construction contracts and direct engineering costs incurred in the design and construction of Airport properties.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of capital assets is provided on all depreciable assets, including those acquired with construction and equipment grants, over the estimated useful lives of the respective assets using the straight-line method. No depreciation is provided on construction in progress until construction is complete and the asset is placed in service. The capitalization threshold for expenditures is \$5,000. Estimated useful lives are as follows:

Land improvements	5 – 40 years
Structures and other improvements	10 – 40 years
Equipment	3 – 10 years

Bonds Payable: Bonds payable are recorded at the principal amount outstanding, plus unamortized bond premium. Amortization of bond premium is computed on the straight-line method (which approximates the effective-interest method) over the lives of the related bonds. Bond issuance costs are expensed as incurred.

Derivative Instruments: The Airport uses derivatives to manage risks related to interest rate movements. Interest rate cap contracts designated and qualifying as cash flow hedges are reported at fair value. Fair value is determined by obtaining a price for the same or similar instrument as of yearend. For June 2013 and 2012, this price was obtained from the counterparty. The Airport documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Airport's interest rate risk management strategy is to limit future cash flow requirements by maintaining interest rate cap contracts which provide for reimbursement of interest payments for amounts exceeding the cap rate.

Operating and Non-operating Revenues and Expenses: Revenues from landing fees, terminal space rental, auto parking, concessions and aircraft tie down fees are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. PFC's and Contract Facilities Charges (CFC's) are collected and remitted by the airlines and car rental agencies, respectively, and are recognized as revenue as they are earned, and are included in non-operating revenues. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Airport's major expenses include professional and specialized services for security and fire protection, salaries and employee benefits and other expenses such as maintenance, insurance and utilities. It is the Airport's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

Compensated Absences: Full-time employees may earn from 96 to 300 vacation hours annually and from 96 to 144 sick hours annually, depending on their length of employment and classification. Employees can carry forward up to a maximum of 300 hours of their vacation accrual and up to a maximum of 810 hours of sick leave for use in subsequent years depending on their length of employment and classification. Liabilities for such benefits are accrued at current rates of compensation.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Financial Reporting Standards: In FY 2013, the Airport adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statements of Net Position, previously referred to as the Statements of Net Assets, now reflect interest rate caps as deferred outflows and deferred inflows of resources. Also, the accounting for bond issuance costs has been changed from deferring the costs and amortizing them over the lives of the related bonds to expensing them in the year incurred. The change in accounting for bond issuance costs resulted in a reduction of net position at the beginning of FY 2012 of \$2,834,294, and an increase of \$265,031 in the change in net position previously reported for FY 2012.

GASB has issued the following statements which were effective for FY 2013 or FY 2012: GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The Airport has determined that these statements had no effect on its financial statements.

Additionally, GASB has issued the following statements which are effective for years FY 2014 and later: GASB Statement No. 66, *Technical Corrections – 2012*, and GASB Statements No. 67 and No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 69, *Combinations and Disposals of Government Operations*, and GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. The Airport has determined that these Statements will have no effect on its financial statements.

Reclassifications: Certain amounts in the FY 2012 financial statements have been reclassified to conform to the FY 2013 presentation. The reclassifications did not impact the financial position or the results of operations of the Airport.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposit and Investment Policy: The Airport's deposit and investment policy provides that the specific investment objectives shall be 1) the investment of the Airport's assets in securities which shall provide a reasonable rate of total return with a primary emphasis placed upon the preservation of principal, and 2) to establish an investment portfolio that remains sufficiently liquid to enable the Airport to meet operating requirements that might be reasonably anticipated. For funds held by a trustee, as fiscal agent, the policy is mandated by the bond indentures, which state how and what type of cash and investment instruments the debt issuance proceeds can be invested.

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The deposit and investment policy of the Airport adheres to state statutes, related trust indentures, and prudent business practices. There were no deposit or investment transactions during the year that were in violation of either the statutes or the policy of the Airport.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash and Certificates of Deposit: The following is a summary of the Airport's cash and certificates of deposit, which are insured by the Federal Depository Insurance Company (FDIC) or are uninsured and collateralized by U.S. government or agency securities:

	<u>FY 2013</u>	<u>FY 2012</u>
Cash	\$ 3,308,572	\$ 3,580,719
Certificates of deposit	4,978,986	3,129,288
Petty cash	<u>635</u>	<u>635</u>
 Total cash and certificates of deposit	 <u>\$ 8,288,193</u>	 <u>\$ 6,710,642</u>

Cash and certificates of deposit shown above include \$5,394,729 and \$3,722,155 of restricted amounts as of June 30, 2013 and June 30, 2012, respectively.

Custodial credit risk is the risk that the Airport will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party if the counterparty fails. Cash and certificates of deposit shown above that were not insured by the FDIC but were collateralized by securities held by the pledging financial institution are subject to custodial credit risk. Total cash and certificate of deposit balances subject to custodial credit risk are \$3,274,188 and \$1,449,825 for June 2013 and 2012, respectively.

Cash Equivalents and Investments: Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2013 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Goldman Sachs Govt Money Market	\$ 106,744	0.6%	N/A	N/A	N/A
Unrestricted investments					
Fannie Mae Bonds	1,155,830	5.9%	6/24/20-12/15/41	AA+	Aaa
Fannie Mae Mortgage Backed Securities	1,481,535	7.6%	2/1/28-5/1/32	N/A	N/A
Freddie Mac Bonds	522,023	2.7%	8/28/19-12/30/20	AA+	Aaa
Freddie Mac Mortgage Backed Securities	1,700,146	8.7%	2/1/28-5/1/32	N/A	N/A
Federal Farm Credit Bank Bonds	260,455	1.3%	10/1/20	AA+	Aaa
Federal Home Loan Bank Bonds	285,213	1.5%	10/22/20	AA+	Aaa
Municipal Bonds	<u>1,191,846</u>	<u>6.1%</u>	6/1/14-10/22/20	A+/AAA/AA+/SP-1	Aa3/Aaa
 Total unrestricted investments	 <u>6,597,048</u>	 <u>33.8%</u>			
Restricted cash equivalents					
Dryfus Govt Cash Mgt Funds	1,165,944	6.0%	N/A	N/A	N/A
Goldman Sachs Govt Money Market	<u>139,039</u>	<u>0.7%</u>	N/A	N/A	N/A
 Total restricted cash equivalents	 <u>1,304,983</u>	 <u>6.7%</u>			

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Restricted investments:					
Fannie Mae Bonds	\$ 1,528,657	7.8%	2/25/16-7/25/40	AA+	Aaa
Fannie Mae Mortgage Backed Securities	2,271,084	11.6%	9/1/25-7/25/40	N/A	N/A
Freddie Mac Bonds	466,199	2.4%	5/15/20-6/24/20	AA+	Aaa
Freddie Mac Mortgage Backed Securities	2,042,048	10.5%	4/1/25-10/15/41	N/A	N/A
Municipal Bonds	5,056,067	25.9%	2/25/16-7/25/40	AA+/ N/A	Aaa / N/A
Federal Farm Credit Bank Bonds	48,131	0.3%	12/4/18	AA+	Aaa
Federal Home Loan Bank Bonds	<u>76,946</u>	<u>0.4%</u>	3/27/20	AA+	Aaa
Total restricted investments	<u>11,489,131</u>	<u>58.9%</u>			
Total cash equivalents and investments	<u>\$ 19,497,906</u>	<u>100.0%</u>			

Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2012 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Fidelity Institutional Money Market	<u>\$ 2,101,078</u>	<u>10.4%</u>	N/A	AAAm	Aaa-mf
Unrestricted investments					
Fannie Mae Mortgage Backed Securities	736,890	3.7%	2/1/26 – 7/25/40	AA+	Aaa
Freddie Mac Mortgage Backed Securities	389,521	1.9%	12/15/41	AA+	Aaa
Municipal Bonds	<u>451,719</u>	<u>2.2%</u>	6/1/14 – 1/1/18	AAA / SP-1	Aaa / N/R
Total unrestricted investments	<u>1,578,130</u>	<u>7.8%</u>			
Restricted cash equivalents					
Dryfus Govt Cash Mgt Funds	3,148,772	15.6%	N/A	AAAm	Aaa-mf
Fidelity Institutional Money Market	<u>81,890</u>	<u>0.4%</u>	N/A	AAAm	Aaa-mf
Total restricted cash equivalents	<u>3,230,662</u>	<u>16.0%</u>			
Restricted investments:					
Fannie Mae Bonds	\$ 2,705,195	13.5%	11/12/15 - 4/18/17	AA+	Aaa
Fannie Mae Mortgage Backed Securities	3,277,334	16.3%	9/1/25 - 3/25/41	AA+	Aaa
Freddie Mac Bonds	612,238	3.0%	11/1/18-11/21/18	AA+	Aaa
Freddie Mac Mortgage Backed Securities	2,263,282	11.2%	4/1/25 - 10/15/41	AA+	Aaa
Municipal Bonds	2,402,275	11.9%	5/1/13 - 4/1/18	AAA/A+/AA-/ N/R	Aa3/MIG2/A3/Aaa/ N/R
Federal Farm Credit Bank Bonds	1,471,914	7.3%	3/24/16 - 5/10/18	AA+	Aaa
Federal Home Loan Bank Bonds	<u>528,494</u>	<u>2.6%</u>	8/20/15 - 11/21/18	AA+	Aaa
Total restricted investments	<u>13,260,732</u>	<u>65.8%</u>			
Total cash equivalents and investments	<u>\$ 20,170,602</u>	<u>100.0%</u>			

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

All cash equivalents and investments were held in the Airport's name; therefore, none of the cash equivalents and investments were subject to custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Airport does not have a formal policy on interest rate risk but maintains an average weighted life on its investment portfolio of 5 years or less to comply with trust indentures and to limit the exposure to interest rate market risks. The investment portfolio as of June 30, 2013 had an average duration of 4.07 years.

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The Airport does not have a formal policy on concentration of credit risk. The Airport places no limit on the amount the Airport may invest in any one issuer.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for FY 2013 and FY 2012 is as follows:

	FY 2013				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets:					
Land improvements	\$ 57,142,316	\$ 10,113	\$ 533,600	\$ 2,584,797	\$ 59,203,626
Structures and other improvements	168,189,458	636,051	-	2,002,395	170,827,904
Equipment	4,748,895	475,398	510,150	1,705,485	6,419,628
Land	4,528,145	-	-	-	4,528,145
Construction in progress	<u>2,481,723</u>	<u>5,371,388</u>	<u>-</u>	<u>(6,292,677)</u>	<u>1,560,434</u>
Total capital assets	<u>237,090,537</u>	<u>6,492,950</u>	<u>1,043,750</u>	<u>-</u>	<u>242,539,737</u>
Less accumulated depreciation:					
Land improvements	16,742,534	2,231,551	64,916	-	18,909,169
Structures and other improvements	73,237,021	6,780,798	-	-	80,017,819
Equipment	<u>3,327,979</u>	<u>412,879</u>	<u>493,289</u>	<u>-</u>	<u>3,247,569</u>
Total accumulated depreciation	<u>93,307,534</u>	<u>9,425,228</u>	<u>558,205</u>	<u>-</u>	<u>102,174,557</u>
Net capital assets	<u>\$143,783,003</u>	<u>\$ (2,932,278)</u>	<u>\$ 485,545</u>	<u>\$ -</u>	<u>\$140,365,180</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 3 - CAPITAL ASSETS (Continued)

	FY 2012				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets:					
Land improvements	\$ 55,753,192	\$ 2,495	\$ 188,728	\$ 1,575,357	\$ 57,142,316
Structures and other improvements	165,637,618	24,075	2,036,345	4,564,110	168,189,458
Equipment	4,854,518	281,405	451,028	64,000	4,748,895
Land	4,528,145	-	-	-	4,528,145
Construction in progress	<u>3,711,760</u>	<u>4,973,430</u>	<u>-</u>	<u>(6,203,467)</u>	<u>2,481,723</u>
Total capital assets	<u>234,485,233</u>	<u>5,281,405</u>	<u>2,676,101</u>	<u>-</u>	<u>237,090,537</u>
Less accumulated depreciation:					
Land improvements	14,651,534	2,229,232	138,232	-	16,742,534
Structures and other improvements	68,358,742	6,760,627	1,882,348	-	73,237,021
Equipment	<u>3,308,198</u>	<u>454,856</u>	<u>435,075</u>	<u>-</u>	<u>3,327,979</u>
Total accumulated depreciation	<u>86,318,474</u>	<u>9,444,715</u>	<u>2,455,655</u>	<u>-</u>	<u>93,307,534</u>
Net capital assets	<u>\$148,166,759</u>	<u>\$ (4,163,310)</u>	<u>\$ 220,446</u>	<u>\$ -</u>	<u>\$143,783,003</u>

As of June 30, 2013, several uncompleted construction projects funded in-part by Federal grants remain open. Upon completion and final approval by the Inspector General, these projects will be closed out and a final account will be rendered. Outstanding construction contract commitments are \$1,064,000 at June 30, 2013 and \$720,000 at June 30, 2012.

NOTE 4 – BONDS PAYABLE

The following is a summary of the changes in bonds payable during FY 2013 and FY 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
FY 2013	\$ 59,440,000	23,400,000	(27,560,000)	\$ 55,280,000	\$ -
FY 2012	\$ 60,165,000	-	(725,000)	\$ 59,440,000	\$ -

Bonds payable at June 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
2009 Series A, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3% - 5%	\$ 31,880,000	\$ 31,880,000
2009 Series B, Variable Rate General Airport, Revenue Refunding Bonds (non - AMT) due through July 2038	-	16,420,000
2008 Series B, Variable Rate General Airport, Revenue and Refunding Bonds (non - AMT) due through July 2038	-	11,140,000
2009 Reissued Series B, Variable Rate General Airport, Revenue Refunding Bonds (AMT) through July 2038	5,400,000	-

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 4 – BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
2012A Series A, Fixed Rate General Airport, Revenue Refunding Bonds (AMT) due through July 2031 with a coupon rate of 5%	6,770,000	-
2012B Series B, Fixed Rate General Airport, Revenue Refunding Bonds (non – AMT) due through July 2038 with a coupon rate of 5%	<u>11,230,000</u>	<u>-</u>
Total principal payable	55,280,000	59,440,000
Unamortized bond premiums	<u>4,147,035</u>	<u>1,364,704</u>
Total bonds payable	59,427,035	60,804,704
Less current portion	<u>-</u>	<u>-</u>
Noncurrent portion of bonds payable	<u>\$ 59,427,035</u>	<u>\$ 60,804,704</u>

On November 27, 2012 the Airport issued \$18,000,000 of General Airport Revenue Refunding Bonds, Series 2012A and 2012B (collectively the "Series 2012 Bonds") with maturities through July 1, 2038. These bonds, along with available funds held under the Indenture by the Trustee, refunded (i) all of the remaining \$11,140,000 of Series 2008B bonds representing original maturities from July 1, 2028 through July 1, 2038 and (ii) a part of the Series 2009B bonds in the amount of \$11,020,000 representing a portion of the original maturities from July 1, 2028 through July 1, 2038.

The (i) principal amount of the Series 2012 Bonds of \$18,000,000, together with (ii) an original issue premium of \$2,964,118, (iii) a contribution of \$74,704 (representing interest due on the bonds to be redeemed through the redemption date) by the Airport, (iv) unspent Series 2008B Bond proceeds held in the Project Fund of \$941,756 and (v) the funds accounted for in the debt service and debt service reserve funds of the Series 2008B and 2009B Bonds held by the Trustee of \$2,387,811 were used to fund (i) an Escrow of \$22,356,170 to retire the Series 2008B Bonds and Series 2009B Bonds on the optional redemption date of November 28, 2012, (ii) a Debt Service Reserve Fund to secure the Series 2012 Bonds in the amount of \$1,706,095, and (iii) costs of issuance and underwriter's discount of the Series 2012 Bonds of \$306,124.

On March 26, 2013 the Airport issued \$5,400,000 of General Revenue Airport Revenue Refunding Bonds, "Reissued Series 2009B". The Reissued Series 2009B Bonds, representing the reissuance from a tax perspective of the previously outstanding Series 2009B Bonds, due to the addition of an index interest rate to the terms of the Series 2009B Bonds, are multi-modal bonds and currently bear an index interest rate with maturities July 1, 2032 through July 1, 2038. The index interest rate is a variable rate of interest based on 74% of 30-day LIBOR plus a 1% margin. As of June 30, 2013, the variable interest rate for the Reissued Series 2009B Bonds was .9176%. The Reissued Series 2009B Bonds are subject to mandatory tender on March 1, 2018 unless the Holder has delivered notice to the Trustee and the Board at least 60 days prior to the Mandatory Tender Date that it will not tender the Reissued Series 2009B Bonds for purchase on such mandatory tender date. In which event, the "Mandatory Tender Date" shall be a March 1 which follows March 1, 2018, as identified by the Holder in a notice from the Holder to the Trustee and the Board.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 – BONDS PAYABLE (Continued)

The Airport completed the above refunding in order to reduce the amount of its variable (floating) rate bond obligations and to take advantage of the current, historically low long term interest rates by issuing fixed rate bonds over the same term. The bond refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$7,100,000 based upon the assumption that future variable rates would remain unchanged at the current low rates and an increase of \$6,700,000 in future debt service payments over a 26 year period due to the higher fixed interest rate incurred in the refunded fixed rate bonds. The economic loss and the future debt service payment calculations assume coupon rates on the fixed rate bonds of 5% as compared with the current rates on the variable bonds of .25%. However, since current variable rates are at a historical low, the Airport believes that if future interest rates should increase, it could result in reducing the above economic loss and future debt service payment calculations or possibly producing an economic gain and a reduction in future debt service payments.

Capitalized Interest: Capitalized interest expense on bonds totaled \$0 in both FY 2013 and FY 2012.

Security for the Series 2012 Bonds and Reissued Series 2009B Bonds: The security consists of (1) the General Revenues of the Airport as such term is defined in the Indenture, (2) the funds established under the Indenture, and (3) a Lease Agreement between the Airport, as lessor, and the Lexington-Fayette Urban County Government (“LFUCG”), as lessee. The obligations of the LFUCG under the lease are a general obligation of the LFUCG and the full faith, credit and taxing power of the LFUCG is irrevocably pledged to the payment of annual lease rental payments which are equal to the annual principal of and interest due on the Series 2012 Bonds and reissued Series 2009B Bonds. The basic security for the general obligation debt of the LFUCG is its ability to levy, and its pledge to levy, an annual tax sufficient to pay the principal of and interest on general obligation debt due on an annual basis.

Interest Rate Caps: The Airport has two forward interest rate caps with an effective date of July 26, 2005 through January 2, 2018 with notional amounts of \$31,800,000. The fair value of the interest rate caps was estimated at \$18,738 as of June 30, 2013, and \$43,447 as of June 30, 2012. Due to the conversion of \$18,000,000 of variable rate debt to a fixed rate structure in FY 2013, the Airport elected to terminate one of its interest rate caps on August 29, 2013. The Airport retained the remaining cap with a notional value of \$8,100,000 and currently carries \$5,400,000 in variable rate debt.

Debt Covenants: The Series 2012 and Reissued Series 2009B bonds are subject to financial and nonfinancial covenants. The primary financial covenant is a debt service coverage ratio for which management has reported compliance to the Indenture Trustee. The calculation is based on a net amount available for debt service (general revenue as defined in the bond indenture with available cash balances, PFC revenue, CFC revenue, less operating expense) that equals or exceeds 100% of the Aggregate Annual Debt service for the fiscal year as further defined in the Indenture.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 – BONDS PAYABLE (Continued)

Debt service requirements for principal and estimated interest and fee payments using the interest rate in effect at June 30, 2013 for all bonds outstanding are outlined below.

Year ending June 30:	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2014	\$ -	\$ 2,431,550	\$ 2,431,550
2015	1,100,000	2,376,550	3,476,550
2016	1,700,000	2,325,686	4,025,686
2017	2,000,000	2,260,550	4,260,550
2018	2,100,000	2,176,550	4,276,550
2019-2023	11,750,000	9,265,388	21,015,388
2024-2028	13,230,000	6,038,024	19,268,024
2029-2033	15,110,000	2,644,928	17,754,928
2034-2038	7,610,000	511,833	8,121,833
2039	<u>680,000</u>	<u>-</u>	<u>680,000</u>
Total	<u>\$ 55,280,000</u>	<u>\$ 30,031,059</u>	<u>\$ 85,311,059</u>

* The interest payments have been estimated and are subject to uncertainty. Therefore, actual payments may differ from the amounts estimated above and such differences could be material due to future interest rate changes.

NOTE 5 - PROPERTY LEASED TO OTHERS

The Airport leases a portion of its capital assets under non-cancelable operating lease agreements for parking, concessions and other commercial purposes. Rental revenue for FY 2013 and FY 2012 was \$7,586,882 and \$7,734,860, respectively. These revenues include contingent rentals which are primarily a percentage of the lessees' gross revenues in excess of minimum guarantees. Contingent rentals for FY 2013 and FY 2012 were \$3,802,945 and \$4,036,147, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2013 are as follows:

2014	\$ 4,022,811
2015	3,947,626
2016	1,563,832
2017	654,665
2018	643,931
Thereafter through 2031	<u>7,591,071</u>
Total future minimum rental revenue	<u>\$ 18,423,936</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 - PASSENGER FACILITY CHARGES

During FY 2013, the Airport continued to impose a \$4.50 PFC on enplaning passengers. During FY 2013 and FY 2012, passenger facility charges were \$2,116,850 and \$2,522,652, respectively. The cumulative PFC Authority is \$100,206,268 of which \$12,401,526 has been closed. The remaining \$87,804,742 of PFC revenue will be used to fund debt and other approved expenditures for the following projects:

Air carrier ramp expansion	\$ 1,084,544
Air carrier ramp rehabilitation	490,744
Concourse B & C stairwells	1,104,174
R/W 8-26 rehabilitation	809,727
Security upgrades	242,436
TW A rehabilitation	687,041
RW safety area improvements	15,515,021
Concourse gate addition	24,046,447
Terminal interior modifications	6,134,298
Terminal interior renovation Phase II	8,700,914
Terminal curb-front improvements	5,426,937
Replace runway 8/26	19,377,935
Taxiway D relocation	2,908,820
Sanitary sewer improvements	885,741
PFC application development	75,000
PFC program administration	214,963
PFC application development	<u>100,000</u>
Total	<u>\$ 87,804,742</u>

The Airport has disbursed \$10,854,700 on these projects through June 30, 2013.

NOTE 7 - CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2013, the Airport earned approximately 47% of airline operations revenue from one carrier, versus 53% from one carrier in FY 2012.

NOTE 8 - RETIREMENT PLANS

The Airport contributes to a defined contribution retirement plan (the "Plan"), the Blue Grass Airport Employees Retirement Plan, covering all full-time employees of the Airport. The Plan was established by the Board, and may be amended at the discretion of the Board. The Plan, as last amended January 1, 2009, states that each employee makes a required contribution of 5% of gross earnings to participate in the Plan. For public safety employees the required percentage is 7%. The Airport makes a contribution of 9% of total participants' compensation, less forfeitures of terminated participants' non vested accounts, on a bi-weekly basis. For public safety employees, the Airport's contribution rate is 12.15%.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 - RETIREMENT PLANS (Continued)

In FY 2013, the Plan was administered by American Funds Retirement Resources. Effective July 1, 2013 the Plan was moved to John Hancock Plan Services. On termination of service, a participant may elect to receive distribution of their benefits either by a single lump-sum payment amount or a lifetime annuity option, provided their total account balance is greater than or equal to \$5,000. If the lifetime annuity option is selected, it is anticipated the Plan would use the participant's account balance to purchase an annuity contract. Participants with \$5,000 or less in their account must take a lump-sum distribution payment.

Married participants that elect to receive distribution of benefits through an annuity will receive benefits in the form of a joint and survivor annuity, whereby the surviving spouse will continue to receive a benefit for life equal to 50% of the benefit received prior to the death of the participant, unless otherwise elected as defined by the Plan. Single participants who elect to receive distribution of their benefits through an annuity will receive their benefits in the form of a lifetime annuity.

Employer contributions to the Plan made by the Airport were \$405,000 for both FY 2013 and FY 2012. Required contributions made by Plan participants for FY 2013 and FY 2012 were \$229,000 and \$230,000. Since the Plan assets are held in trust for the benefit of the Plan members, the related assets of the Plan are not included in the accompanying statements of net position.

The Airport has an additional retirement plan under Internal Revenue Code section 457(b) that allows for annual employee salary deferrals up to \$17,500. The Airport does not contribute to this Plan.

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS

Medical Insurance: The Airport has a plan that provides certain post-employment benefits to qualifying employees. Employees who retire after completing 27 years of service, or 20 years of service for public safety officers, will receive up to \$275 each month for medical insurance coverage. The amount will remain fixed until changed by the Airport, as it deems necessary, at its sole discretion. This benefit will be paid until the retiree is eligible for coverage by any other health insurance, including Medicare and Medicaid.

The liability for the present value of estimated future cash payments has been recorded at June 30, 2013 and June 30, 2012 using a discount rate of 5%. There is no required employee contribution related to this benefit. The liability is evaluated periodically and is adjusted based on any changes made to the assumptions and is recorded as an increase or decrease in expense in the year of change. The table below outlines the beginning of year (BOY) balance, the annual expense and payments, and the end of year (EOY) balance.

	<u>BOY Balance</u>	<u>Expense</u>	<u>(Payments)</u>	<u>EOY Balance</u>
FY 2013	\$ 432,742	\$ -	\$ (6,600)	\$ 426,142
FY 2012	\$ 363,746	\$ 73,346	\$ (9,350)	\$ 432,742

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS (Continued)

Deferred Compensation: A "non-qualified" deferred compensation agreement was established by the Airport to facilitate the retirement of five employees who could have received a higher retirement benefit from the County Employees Retirement System, had the Airport elected to participate in that plan. At June 30, 2013, and June 30, 2012, a liability was recorded for the present value of the estimated future cash payments, less any balance in the employees' defined contribution retirement plan. The discount rate used for the Plan liability was 0% and 3% for FY 2013 and FY 2012 respectively. In FY 2013, one of the remaining three participants elected to receive a one-time lump sum settlement. The terms of this settlement resulted in a reduction in FY 2013 of \$278,397 in the previously recorded liability for this participant. Due to the current low interest rate environment and the short time horizon for the remaining payouts, the Airport did not discount the remaining liability at June 30, 2013.

The table below outlines the beginning of year (BOY) balance, the settlement adjustments and payments, and the end of year (EOY) balance.

	<u>BOY Balance</u>	<u>(Settlement adjustment)</u>	<u>(Payments)</u>	<u>EOY Balance</u>
FY 2013	\$ 1,230,240	\$ (278,397)	\$ (663,691)	\$ 288,152
FY 2012	\$ 1,502,057	\$ -	\$ (271,817)	\$ 1,230,240

NOTE 10 - CONTINGENCIES

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport has purchased commercial insurance to cover these risks. The amount of settlements has not exceeded coverage in any of the past three fiscal years.

The Airport is subject to federal, state, and local regulations in regards to the discharge of various materials into the environment. Costs are routinely incurred to remove, contain, and neutralize existing environmental contaminants and these costs are generally expensed as incurred. Future costs for existing conditions are not readily determinable and are not reflected in the financial statements.

SUPPLEMENTARY INFORMATION

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2013

	<u>Administration</u>	<u>General Maintenance</u>	<u>Safety, Rescue, and Security</u>	<u>Engineering</u>	<u>Building Maintenance</u>	<u>Operations</u>	<u>Drug Task Force</u>	<u>Total</u>
Expenses								
Salaries and benefits	\$ 1,602,560	\$ 1,253,387	\$1,527,714	\$ 400,625	\$ 508,756	\$ 530,714	\$ -	\$ 5,823,756
Marketing & advertising	338,774	-	231	1,500	-	-	-	340,505
Insurance	349,862	-	-	-	-	-	-	349,862
Consulting fees	36,698	-	-	-	-	-	-	36,698
Computer maintenance	138,860	1,991	2,507	1,500	-	11,785	-	156,643
Customs expense	-	-	142,282	-	-	-	-	142,282
Equipment rental	14,809	-	-	-	-	-	-	14,809
Maintenance	6,074	766,753	11,075	91,370	-	27,583	-	902,855
Memberships & publications	60,310	2,792	9,145	3,312	-	2,342	-	77,901
Office supplies	20,730	5,147	283	3,297	-	2,502	-	31,959
Professional development	28,575	6,573	7,044	5,416	-	5,775	-	53,383
Professional services	286,752	-	3,060	10,844	-	-	-	300,656
Supplies	6,805	324,464	54,107	2,506	8,033	8,978	6,838	411,731
Travel expenses	25,776	11,996	15,185	8,851	-	6,348	-	68,156
Utilities & phone	944,265	-	4,042	-	-	-	-	948,307
Actuarial adjustment	-	-	(278,397)	-	-	-	-	(278,398)
Other expenses	100,897	2,455	4,280	2,031	15,660	8,596	-	133,920
Bad debt	<u>62,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,363</u>
Total expenses	<u>\$ 4,024,110</u>	<u>\$ 2,375,558</u>	<u>\$ 1,502,558</u>	<u>\$ 531,252</u>	<u>\$ 532,449</u>	<u>\$ 604,623</u>	<u>\$ 6,838</u>	<u>\$ 9,577,388</u>

See report of independent auditors.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 SCHEDULE OF OPERATING EXPENSES
 Year ended June 30, 2012

	<u>Administration</u>	<u>General Maintenance</u>	<u>Safety, Rescue and Security</u>	<u>Engineering</u>	<u>Building Maintenance</u>	<u>Operations</u>	<u>Drug Task Force</u>	<u>Total</u>
Expenses								
Salaries and benefits	\$ 1,471,469	\$ 1,240,412	\$ 1,503,088	\$ 386,687	\$ 521,723	\$ 498,447	\$ -	\$ 5,621,826
Marketing & advertising	474,697	-	-	-	-	-	-	474,697
Insurance	348,300	-	-	-	-	-	-	348,300
Consulting fees	70,882	-	-	-	-	-	-	70,882
Computer maintenance	126,915	1,688	10,405	2,133	-	27,365	-	168,506
Customs expense	-	-	136,574	-	-	-	-	136,574
Equipment rental	14,791	-	-	-	-	-	-	14,791
Maintenance	7,186	811,634	2,063	89,699	-	4,433	-	915,015
Memberships & publications	47,325	2,463	9,427	2,812	-	1,100	-	63,127
Office supplies	20,887	5,189	1,137	930	-	2,153	-	30,296
Professional development	29,723	12,641	6,966	4,468	-	3,215	-	57,013
Professional services	252,272	-	-	23,524	-	-	-	275,796
Supplies	3,815	294,543	111,971	61,143	-	6,603	7,405	485,480
Travel expenses	30,471	18,503	14,361	10,477	-	4,619	-	78,431
Utilities & phone	940,609	-	-	-	-	-	-	940,609
Other expenses	178,885	2,015	5,444	5,980	166	15,549	-	208,039
Bad debt	61,225	-	-	-	-	-	-	61,225
Total expenses	<u>\$ 4,079,452</u>	<u>\$ 2,389,088</u>	<u>\$ 1,801,436</u>	<u>\$ 587,853</u>	<u>\$ 521,889</u>	<u>\$ 563,484</u>	<u>\$ 7,405</u>	<u>\$ 9,950,607</u>

See report of independent auditors.

**LEXINGTON – FAYETTE URBAN COUNTY
AIRPORT BOARD**
Lexington, Kentucky

**REPORT ON FEDERAL AWARDS IN
ACCORDANCE WITH THE U.S. OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133**
June 30, 2013

LEXINGTON – FAYETTE URBAN COUNTY AIRPORT BOARD
Lexington, Kentucky

REPORT ON FEDERAL AWARDS IN
ACCORDANCE WITH THE U.S. OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133
June 30, 2013

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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

Board of Directors
Lexington-Fayette Urban County Airport Board
Lexington, Kentucky

We have audited, in accordance with the 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, the financial statements of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, which comprise the statements of net position, the related statements of revenues and expenses and changes in net position, cash flows, and the related notes to the financial statements for the year ended June 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of The Airport's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Airport'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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Lexington, Kentucky
September 25, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Lexington – Fayette Urban County Airport Board
Lexington, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Lexington-Fayette Urban County Airport Board's (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Airport's major federal programs for the year ended June 30, 2013. The Airport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Airport's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on Each Major Federal Program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Airport as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements. We issued our report thereon dated September 25, 2013 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Crowe Horwath LLP

Lexington, Kentucky
September 25, 2013

LEXINGTON – FAYETTE URBAN COUNTY AIRPORT BOARD
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2013

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Current Year Federal Expenditures</u>
U.S. Department of Transportation:		
Federal Aviation Administration		
Airport Improvement Program (AIP)		
3-21-0028-56	20.106	\$ 117,822
3-21-0028-57	20.106	27,459
3-21-0028-58	20.106	50,563
3-21-0028-59	20.106	65,379
3-21-0028-60	20.106	499,873
3-21-0028-61	20.106	1,474,658
3-21-0028-62	20.106	<u>2,601,814</u>
Total expenditures of federal awards		4,837,568
Federal Aviation Regulations, Part 158		
Passenger Facility Charges	None	<u>1,415,397</u>
Total expenditures		<u>\$ 6,252,965</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

LEXINGTON – FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

1. Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs received by the Lexington – Fayette Urban County Airport Board (the Airport). The Airport's reporting entity is defined in Note 1 to the Airport's financial statements.

2. Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the financial statements.

3. Special Tests and Provisions:

Special tests and provisions for the Airport Improvement Program (AIP) and Small Community Air Service Development Program include review of the Airport's policy for using airport revenue to determine whether all airport revenue is accounted for and used for the capital or operating costs of the airport.

The Passenger Facility Charges (PFC) were tested for compliance with requirements outlined in Federal Aviation Regulation, Part 158. While this program is not federally funded, it is included in the Supplementary Schedule of Expenditures of Federal Awards as an annual audit of the program is required by Federal Aviation Regulation, Part 158. In accordance with instructions for completing the Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations, PFC expenditures were not included as federal awards expended during the fiscal year as shown in Part III of Form SF-SAC. They are included in the Schedule of Expenditures of Federal Awards for informational purposes only.

(Continued)

LEXINGTON – FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	U.S. Department of Transportation: Federal Aviation Administration: Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

(Continued)

SECTION 2 – FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

There were no findings for the year ended June 30, 2013.

SECTION 3 – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(a).

There were no findings for the year ended June 30, 2013.

SECTION 4 – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings and questioned costs.

(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY
CHARGE (PFC) PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE AND THE SCHEDULE OF PASSENGER
FACILITY CHARGES COLLECTED AND EXPENDED

Board of Directors
Lexington - Fayette Urban County Airport Board
Lexington, Kentucky

Report on Compliance of Passenger Facility Charges

We have audited the Lexington-Fayette Urban County Airport Board's (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration ("Guide"), that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2013.

Management's Responsibility

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, and regulations, applicable to the passenger facility charge program. Management of the Airport is also responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit of the types of compliance requirements referred to above. 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 the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport'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 the Airport's compliance with those requirements.

Opinion on Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

(Continued)

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Airport as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements. We issued our report thereon dated September 25, 2013 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the Guide and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charges collected and expended is fairly stated in all material respects, in relation to the financial statements as a whole.



Crowe Horwath LLP

Lexington, Kentucky
September 25, 2013

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
 Year ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program	Record of Decision	Impose Authority	Use Authority	PFC Collected	Interest Collected	Expenditures
<u>U.S. Department of Transportation</u>						
Passenger Facility Charge Program						
	Total Cumulative PFC Authority	\$100,206,268	\$100,206,268			
	Less: Closed Applications	<u>(12,401,526)</u>	<u>(12,401,526)</u>			
	Remaining PFC Authority	<u>\$87,804,742</u>	<u>\$87,804,742</u>			
	09-07-C-00-LEX	\$37,400,347	\$37,400,347	\$34,292,748	\$1,988,787	\$3,184,294
	05-06-U-00-LEX	45,695,766	45,695,766			6,995,648
	03-05-C-01-LEX	4,708,629	4,708,629			674,758
Totals		<u><u>\$87,804,742</u></u>	<u><u>\$87,804,742</u></u>	<u><u>\$34,292,748</u></u>	<u><u>\$1,988,787</u></u>	<u><u>\$10,854,700</u></u>

(Continued)

LEXINGTON – FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

Summary of Auditor's Results

We have issued an unqualified opinion, dated September 25, 2013 on the financial statements of the Lexington – Fayette Urban County Airport Board as of and for the year ended June 30, 2013.

Our audit disclosed no material weaknesses or significant deficiencies that are considered to be material weaknesses in relation to internal control over financial reporting or internal control over the passenger facility charge program.

Our audit disclosed no instances of non-compliance which are material to the Lexington – Fayette Urban County Airport Board's financial statements.

We have issued an unqualified opinion, dated September 25, 2013 on the Lexington – Fayette Urban County Airport Board's compliance for the passenger facility charge program.

Our audit disclosed no findings required to be reported under the provisions of the Passenger Facility Charge Audit Guide for Public Agencies.

Findings Relating to the Financial Statements

Our audit disclosed no findings which are required to be reported in accordance with the Passenger Facility Charge Audit Guide for Public Agencies.

Findings and Questioned Costs for the Passenger Facility Charge Program

Our audit disclosed no findings or questioned costs for passenger facility charge program as defined by the Passenger Facility Charge Audit Guide for Public Agencies.

(Continued)

LEXINGTON – FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE OF PRIOR AUDIT PASSENGER FACILITY CHARGES
FINDINGS AND THEIR RESOLUTION
Year ended June 30, 2013

The prior year's audit disclosed no findings required to be reported in accordance with the provisions of the Passenger Facility Charge Audit Guide for Public Agencies.