

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

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of the net assets of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of Lexington-Fayette Urban County Government, as of June 30, 2012 and 2011, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Airport's management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included on pages 30 and 31 is presented for purposes of additional analysis 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 audits 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.


Crowe Horwath LLP

Lexington, Kentucky
September 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

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, 2012 (FY 2012) and June 30, 2011 (FY 2011). 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 June 30, 2012, the Airport was served by six airline brands offering non-stop service to fourteen destinations. At June 30, 2011, the Airport was served by seven airline brands offering non-stop service to fifteen destinations.

Operations Statistical Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Enplanements	560,288	555,377	495,670
Increase	4,911	59,707	9,693
% Increase	0.88%	12.05%	1.99%
Aircraft operations – commercial	29,888	26,741	23,770
Increase (decrease)	3,147	2,971	(3,446)
% Increase (decrease)	11.77%	12.50%	(12.66%)
Aircraft operations – general aviation	36,394	41,178	43,146
Increase (decrease)	(4,784)	(1,968)	2,610
% Increase (decrease)	(11.62%)	(4.56%)	6.44%
Aircraft operations – military	1,551	1,306	1,172
Increase (decrease)	245	134	(366)
% Increase (decrease)	18.76%	11.43%	(23.8%)
Landed weight (1,000 pounds)	651,563	681,120	594,387
Increase (decrease)	(29,557)	86,733	(71,456)
% Increase (decrease)	(4.34%)	14.59%	(10.7%)

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, 2012 and 2011

FINANCIAL OPERATIONS AND HIGHLIGHTS

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 13,636,595	\$ 12,918,020	\$ 11,195,067
Operating expense	<u>(9,950,607)</u>	<u>(10,811,301)</u>	<u>(10,715,578)</u>
Operating income before depreciation	3,685,988	2,106,719	479,489
Depreciation	<u>(9,444,715)</u>	<u>(8,716,163)</u>	<u>(7,282,455)</u>
Loss from operations	(5,758,727)	(6,609,444)	(6,802,966)
Net non-operating revenue	<u>1,554,283</u>	<u>1,054,396</u>	<u>974,040</u>
Loss before capital grants	(4,204,444)	(5,555,048)	(5,828,926)
Capital grants	<u>4,120,272</u>	<u>3,156,111</u>	<u>17,665,396</u>
Increase (decrease) in net assets	<u>\$ (84,172)</u>	<u>\$ (2,398,937)</u>	<u>\$ 11,836,470</u>

REVENUE

A summary of the revenue for FY 2012, FY 2011, and FY 2010 is as follows:

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>% Change 2012/2011</u>
Operating:				
Airline landing fees and related operations	\$ 5,031,513	\$ 4,512,347	\$ 3,660,918	11.51%
Auto parking	4,454,994	4,353,446	3,528,938	2.33%
Ground transportation	2,065,946	1,975,181	2,257,719	4.60%
Concessions and rentals	713,787	725,304	605,812	(1.59%)
General aviation	1,031,975	1,027,302	884,902	0.45%
Other	<u>338,380</u>	<u>324,440</u>	<u>256,778</u>	<u>4.30%</u>
Total operating	13,636,595	12,918,020	11,195,067	5.56%
Non-operating:				
Passenger facility charges	2,522,652	2,180,585	1,833,308	15.69%
Contract facility charges	709,072	636,336	524,094	11.43%
Drug task force grant	42,281	-	-	N/A
Investment earnings, net	<u>537,493</u>	<u>232,217</u>	<u>101,069</u>	<u>131.46%</u>
Total non-operating	3,811,498	3,049,138	2,458,471	25.00%
Capital grants	<u>4,120,272</u>	<u>3,156,111</u>	<u>17,665,396</u>	<u>30.55%</u>
Total revenue	<u>\$ 21,568,365</u>	<u>\$ 19,123,269</u>	<u>\$ 31,318,934</u>	<u>12.79%</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

EXPENSE

A summary of the expense for FY 2012, FY 2011, and FY 2010 is as follows:

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>% Change</u> <u>2012/2011</u>
Operating:				
Administration	\$ 4,079,452	\$ 4,606,779	\$ 4,440,707	(11.45%)
Grants	-	-	880,176	N/A
General maintenance	2,389,088	2,397,467	2,245,892	(0.35%)
Safety, rescue and security	1,801,436	2,073,738	1,717,534	(13.13%)
Engineering	587,853	553,518	453,915	6.20%
Building maintenance	521,889	527,829	494,541	(1.13%)
Operations	563,484	651,970	482,813	(13.57%)
Drug task force	<u>7,405</u>	<u>-</u>	<u>-</u>	<u>N/A</u>
Total operating	9,950,607	10,811,301	10,715,578	(7.96%)
Non-operating:				
Interest expense and fees	2,036,769	1,985,237	1,431,904	2.60%
Loss on disposal of capital assets	<u>220,446</u>	<u>9,505</u>	<u>52,527</u>	<u>2,219.25%</u>
Total non-operating	2,257,215	1,994,742	1,484,431	13.16%
Depreciation and amortization	<u>9,444,715</u>	<u>8,716,163</u>	<u>7,282,455</u>	<u>8.36%</u>
Total expense	<u>\$ 21,652,537</u>	<u>\$ 21,522,206</u>	<u>\$ 19,482,464</u>	<u>0.61%</u>

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 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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

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.
 - 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.
- Interest expense and fees increased by \$52,000, or 3%. A loss on extinguishment of debt in FY 2012 was partially offset by a decrease in interest expense.
- 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.

2011 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$11.2 million in FY 2010 to \$12.9 million in FY 2011, an increase of 15%. The following describes the fluctuations of certain types of operating revenue:

- Airline landing fees and related operations revenue increased by \$851,000, or 23%, due primarily to the increase in enplanements and the expiration of waived revenues for certain airline incentives.
 - Auto parking revenue increased by \$825,000, or 23%, due to the increase in enplanements and a new rate increase for parking that went into effect on July 1, 2010.
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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- Ground transportation revenue decreased by \$283,000, or 13%. This decrease was due to a reduction in the car rental payments from October 2010 to June 2011. During this nine month period, the minimum required payments were substantially lower than originally contracted due to restructuring of the car rental agreements.
- General aviation revenue increased by \$142,000, or 16%, due primarily to the full year impact of the new fixed base operator lease.

Operating expense increased from \$10.7 million in FY 2010 to \$10.8 million in FY 2011, an increase of 1%, primarily due to the following:

- Administration expense increased by \$166,000, or 4%, primarily due to the increase in electric rates and a new Water Quality Management Fee (WQMF) ordinance that was effective January 1, 2010. The Airport absorbed the full year impact of the WQMF in FY 2011.
- General maintenance increased by \$152,000, or 7%, primarily due to repair and maintenance on various pieces of equipment and employee overtime as a result of inclement weather.
- Safety, rescue and security increased by \$356,000, or 16%. In order to more accurately reflect the present value of the deferred compensation agreement, management elected to reduce the discount rate from 5% to 3%. The reduction in the discount rate resulted in significantly higher actuarial expense for FY 2011.
- Engineering increased by \$100,000, or 22%, primarily due to salaries and benefits and environmental services for glycol monitoring during inclement weather.
- Operations expense increased by \$169,000, or 35%, primarily due to staffing costs associated with reorganizational efforts.
- Grant expense decreased by \$880,000. In FY 2010, the Airport fulfilled an air service development grant for airline incentives. Future airline incentive expense is coded to Administration.

Net non-operating revenue increased by \$80,000 due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) increased by \$460,000, or 20%, primarily due to higher enplanements in FY 2011.
- Interest expense and fees increased by \$553,000, or 39%, in FY 2011. This increase is directly attributable to the higher interest rates incurred on the \$32 million in variable rate debt that was converted to a fixed rate debt structure in FY 2010.
- The Airport realized a \$10,000 loss on disposal of capital assets in FY 2011 versus a \$52,000 loss in FY 2010.

Capital grants decreased by \$14.5 million due to less construction and related reimbursements in FY 2011.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2012, 2011, and 2010. The Airport's assets exceeded liabilities by \$111.7 million at June 30, 2012, a \$0.1 million decrease from June 30, 2011. The Airport's assets exceeded liabilities by \$111.8 million at June 30, 2011, a \$2.4 million decrease from June 30, 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current and other assets	\$ 32,377,453	\$ 29,774,511	\$ 38,351,337
Capital assets	<u>143,783,003</u>	<u>148,166,759</u>	<u>146,749,602</u>
Total assets	<u>\$ 176,160,456</u>	<u>\$ 177,941,270</u>	<u>\$ 185,100,939</u>
Liabilities			
Current liabilities	\$ 1,911,251	\$ 2,557,918	\$ 6,687,415
Noncurrent liabilities	<u>62,511,133</u>	<u>63,561,107</u>	<u>64,192,342</u>
Total liabilities	<u>\$ 64,422,384</u>	<u>\$ 66,119,025</u>	<u>\$ 70,879,757</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 84,886,100	\$ 89,165,917	\$ 89,466,406
Restricted	17,576,576	16,848,827	16,878,020
Unrestricted	<u>9,275,396</u>	<u>5,807,501</u>	<u>7,876,756</u>
Total net assets	<u>\$ 111,738,072</u>	<u>\$ 111,822,245</u>	<u>\$ 114,221,182</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

CAPITAL ASSETS

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 Rehab	1,325,000	2,325,000
• Runway 9/27	500,000	30,500,000

Major capital projects in progress and expenditures incurred during FY 2011 included the following:

	<u>FY 2011</u>	<u>Cumulative</u>
• Parallel Taxiway B design and construction	1,140,000	3,740,000
• Runway 9/27	1,000,000	30,000,000
• Air Carrier Ramp Rehab	800,000	1,000,000
• ARFFTC Refurbishment	755,000	1,000,000
• Sanitary Sewer System Capacity	700,000	900,000

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 2010, all of the Airport's bonds payable outstanding of \$77,075,000 were variable interest rate obligations. In FY 2010, the Airport paid down a significant amount of variable rate bonds with existing cash on hand and issued approximately \$32,000,000 in fixed rate bonds to retire a portion of the variable rate bonds to take advantage of favorable fixed rate interest rates existing at that time. During FY 2012 and FY 2011, the Airport continued to reduce its variable rate bonds outstanding by retiring \$660,000 and \$740,000, respectively, of variable rate bonds in advance of scheduled principal pay down dates. Total bonds payable at June 30, 2012 were \$59,440,000, which consisted of \$31,880,000 of fixed rate bonds and \$27,560,000 of variable rate bonds.

Because of the continuing favorable interest rates currently available for fixed rate bonds, on August 22, 2012, the Airport continued its policy of reducing the amount of the Airport's variable rate bonds and approved the issuance of \$20,000,000 in fixed rate bonds to retire that amount of variable rate bonds. The transaction is expected to occur by December 2012, and if finalized, will reduce the Airport's variable rate bonds outstanding to approximately \$6,000,000 at that time.

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, 2012 and 2011

NET ASSETS

The largest portion of the Airport's net assets each year (76% at June 30, 2012, and 80% at June 30, 2011) 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 (15% at both June 30, 2012 and June 30, 2011) 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 (8% of the Airport's net assets at June 30, 2012 and 5% at June 30, 2011) 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 duration of three months or less.

	<u>2012</u>	<u>2011</u>
Cash flows provided by operating activities	\$ 3,137,606	\$ 2,440,283
Cash flows used in capital and related financing activities	(1,604,389)	(9,962,450)
Cash flows used in investing activities	<u>(3,476,728)</u>	<u>(1,102,624)</u>
Net decrease in cash and cash equivalents	(1,943,511)	(8,624,791)
Cash and cash equivalents, beginning of year	<u>10,856,605</u>	<u>19,481,396</u>
Cash and cash equivalents, end of year	<u>\$ 8,913,094</u>	<u>\$ 10,856,605</u>

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Airport experienced stronger than expected passenger travel in FY 2012 with approximately 1,091,500 total passengers. The Airport was fortunate to see new cities added to its route map, including twice per week service to Ft. Lauderdale, Florida on Allegiant Air. In addition, the Airport received twice per week service to Las Vegas, Nevada on Allegiant Air from November 2011 to April 2012.

FY 2012 brought the final merger of the United and Continental Airlines brands. United and Continental Airlines now operate at the Airport as one airline under the United name with one ticket counter and a central gate location. American Airlines filed for bankruptcy reorganization this year, however, its business continues to operate as usual with a strong presence in Lexington through its non-stop flights to Dallas and Chicago. With Southwest Airlines recent acquisition of AirTran Airways, Southwest announced in January 2012 that AirTran's service from the Lexington market would discontinue in August 2012. The Airport will continue to serve the Orlando and Ft. Lauderdale destinations via flights from Allegiant Air, which will offer increased frequency beginning in November 2012.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2012 and 2011

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

A master plan process is underway that will guide the Airport's role in servicing its customers and in support of the broader air transportation system. This planning effort will offer a focused emphasis on updating existing Airport facilities, evaluating updated 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 were completed in FY 2012 to improve the Airport's facility and increase efficiency for the future. These projects included replacement of the air terminal roof, carrier ramp rehabilitation, completion of runway 9/27, modernization of the baggage claim escalator, snow removal equipment improvements, pavement maintenance and checkpoint revolving doors replacement. Recent changes in Federal Aviation Administration funding have now challenged the Airport since the Airport's local share and responsibility has increased from a 5% to 10% local requirement on eligible grant projects, thus limiting the Airport's ability to take on as many capital improvement projects.

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 ASSETS
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Unrestricted:		
Cash and cash equivalents	\$ 4,769,726	\$ 3,752,687
Certificates of deposit	319,839	-
Investments	1,578,130	-
Accounts receivable, net	1,555,381	1,689,951
Accrued interest receivable	3,196	-
Other assets	<u>347,277</u>	<u>375,040</u>
Total unrestricted current assets	<u>8,573,549</u>	<u>5,817,678</u>
Restricted:		
Cash and cash equivalents	4,143,368	7,103,918
Certificates of deposit	2,809,449	425,766
Investments	13,260,732	12,994,410
Accounts receivable, net	399,045	-
Accrued interest receivable	56,222	11,674
Grants receivable	<u>522,378</u>	<u>444,217</u>
Total restricted current assets	<u>21,191,194</u>	<u>20,979,985</u>
Total current assets	<u>29,764,743</u>	<u>26,797,663</u>
Noncurrent assets:		
Bond issue costs, net	2,569,263	2,834,294
Fair value of interest rate caps	43,447	142,554
Capital assets, net	<u>143,783,003</u>	<u>148,166,759</u>
Total noncurrent assets	<u>146,395,713</u>	<u>151,143,607</u>
Total assets	<u>\$ 176,160,456</u>	<u>\$ 177,941,270</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET ASSETS
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Liabilities		
Current liabilities (payable from unrestricted assets)		
Accounts payable	\$ 566,117	\$ 675,040
Accrued payroll and benefits	<u>383,091</u>	<u>377,549</u>
Total unrestricted current liabilities	<u>949,208</u>	<u>1,052,589</u>
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	-	65,000
Accounts payable	221,043	699,329
Accrued interest payable	<u>741,000</u>	<u>741,000</u>
Total restricted current liabilities	<u>962,043</u>	<u>1,505,329</u>
Total current liabilities	<u>1,911,251</u>	<u>2,557,918</u>
Noncurrent liabilities		
Accrued post-employment benefits	1,662,982	1,865,803
Deferred inflow from interest rate caps	43,447	142,554
Bonds payable, net of current portion	<u>60,804,704</u>	<u>61,552,750</u>
Total noncurrent liabilities	<u>62,511,133</u>	<u>63,561,107</u>
Total liabilities	<u>64,422,384</u>	<u>66,119,025</u>
Net assets		
Invested in capital assets, net of related debt	<u>84,886,100</u>	<u>89,165,917</u>
Restricted		
Debt service	17,243,949	16,412,450
Construction	<u>332,627</u>	<u>436,377</u>
Total restricted net assets	<u>17,576,576</u>	<u>16,848,827</u>
Unrestricted	<u>9,275,396</u>	<u>5,807,501</u>
Total net assets	<u>111,738,072</u>	<u>111,822,245</u>
Total liabilities and net assets	<u>\$ 176,160,456</u>	<u>\$ 177,941,270</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Airline landing fees and related operations	\$ 5,031,513	\$ 4,512,347
Auto parking	4,454,994	4,353,446
Ground transportation	2,065,946	1,975,181
Concessions and rentals	713,787	725,304
General aviation	1,031,975	1,027,302
Other	<u>338,380</u>	<u>324,440</u>
Total operating revenue	<u>13,636,595</u>	<u>12,918,020</u>
Operating expense:		
Administration	4,079,452	4,606,779
General maintenance	2,389,088	2,397,467
Safety, rescue and security	1,801,436	2,073,738
Engineering	587,853	553,518
Building maintenance	521,889	527,829
Operations	563,484	651,970
Drug task force	<u>7,405</u>	<u>-</u>
Total operating expense	<u>9,950,607</u>	<u>10,811,301</u>
Operating income before depreciation	3,685,988	2,106,719
Depreciation	<u>9,444,715</u>	<u>8,716,163</u>
Loss from operations	<u>(5,758,727)</u>	<u>(6,609,444)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,522,652	2,180,585
Contract facility charges	709,072	636,336
Drug task force grant	42,281	-
Investment earnings, net	537,492	232,217
Interest expense and fees	(2,036,769)	(1,985,237)
Loss on disposal of capital assets	<u>(220,446)</u>	<u>(9,505)</u>
Net non-operating revenue	1,554,282	1,054,396
Capital grants	<u>4,120,272</u>	<u>3,156,111</u>
Decrease in net assets	(84,173)	(2,398,937)
Net assets, beginning of year	<u>111,822,245</u>	<u>114,221,182</u>
Net assets, end of year	<u>\$ 111,738,072</u>	<u>\$ 111,822,245</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows provided by operating activities		
Receipts from customers	\$ 13,350,679	\$ 12,683,455
Payments to suppliers	(4,035,986)	(4,722,649)
Payments to employees	(6,131,837)	(5,844,963)
Other receipts	<u>380,662</u>	<u>324,440</u>
Net cash provided by operating activities	<u>3,563,518</u>	<u>2,440,283</u>
Cash flows used in capital and related financing activities		
Proceeds from capital grants	4,042,110	4,394,524
Passenger facility charges	2,181,379	2,180,585
Contract facility charges	651,300	636,336
Proceeds from drug task force grant	42,281	-
Principal paid on bonds	(725,000)	(810,000)
Interest and fees paid on bonds	(1,859,785)	(1,985,178)
Acquisition and construction of capital assets	<u>(5,759,691)</u>	<u>(14,378,717)</u>
Net cash used in capital and related financing activities	<u>(1,427,406)</u>	<u>(9,962,450)</u>
Cash flows used in investing activities		
Interest received on investments	366,974	251,602
Purchases of certificates of deposit and investments, net	<u>(4,446,597)</u>	<u>(1,354,226)</u>
Net cash used in investing activities	<u>(4,079,623)</u>	<u>(1,102,624)</u>
Net decrease in cash and cash equivalents	(1,943,511)	(8,624,791)
Cash and cash equivalents, beginning of year	<u>10,856,605</u>	<u>19,481,396</u>
Cash and cash equivalents, end of year	<u>\$ 8,913,094</u>	<u>\$ 10,856,605</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (5,758,727)	\$ (6,609,444)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	9,444,715	8,716,163
Bad debt expense	61,225	14,132
Increase (decrease) due to changes in:		
Accounts receivable	134,571	(64,838)
Other assets	27,762	266,561
Accounts payable	(70,405)	(150,210)
Accrued payroll and benefits	<u>(275,623)</u>	<u>267,919</u>
Net cash provided by operating activities	<u>\$ 3,563,518</u>	<u>\$ 2,440,283</u>
Supplemental schedule of noncash transactions		
Change in construction in progress included in accounts payable	\$ 221,042	\$ (2,369,280)
Change in capital assets included in other payables	\$ -	\$ (1,647,277)

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 resources available. 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. In accordance with the provisions of the GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*," the Airport applies all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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 assets, 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, 2012 and 2011

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 Assets: GASB Statement No. 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These net asset 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 net assets - This component of net assets consists of net assets 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 assets 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 on investments was \$123,000 and \$82,000 at June 30, 2012 and June 30, 2011.

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 \$82,972 at June 30, 2012 and \$868 at June 30, 2011.

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, 2012 and 2011

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.

Amortization of Bond Issue Costs: Amortization of bond issue costs is computed on the straight-line method (which approximates the effective-interest method) over the lives of the related bonds.

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 year-end. For June 30, 2012 and 2011, 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 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 12 to 37.5 vacation days annually and from 12 to 18 sick days 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, 2012 and 2011

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

New Financial Reporting Standards: The GASB has issued the following Statements:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for fiscal years beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source. The Airport has determined this Statement will have no effect on its financial statements.

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*, which are effective for fiscal years beginning after December 15, 2011 and December 15, 2012, respectively. The objectives of these statements are to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and the reclassifications of amounts previously reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources. The Airport has not yet determined the effect, if any, that the adoption of these Statements may have on its financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, GASB Statement No. 66, *Technical Corrections – 2012*, and GASB Statements No. 67 and No. 68, *Accounting and Financial Reporting for Pensions*. The Airport has determined that these Statements will have no effect on its financial statements.

Reclassifications: Certain amounts in the FY 2011 financial statements have been reclassified to conform to the FY 2012 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, 2012 and 2011

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 2012</u>	<u>FY 2011</u>
Cash	\$ 3,580,719	\$ 4,955,312
Certificates of deposit	3,129,288	425,766
Petty cash	<u>635</u>	<u>660</u>
Total cash and certificates of deposit	<u>\$ 6,710,642</u>	<u>\$ 5,381,738</u>

Cash and certificates of deposit shown above include \$3,722,155 and \$1,629,050 of restricted amounts as of June 30, 2012 and June 30, 2011, 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 \$1,449,825 and \$2,483,503 for June 30, 2012 and 2011, respectively.

Cash Equivalents and Investments: 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>			

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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	\$ 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>			

Restricted cash equivalents and investments of the Airport as of June 30, 2011 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Restricted cash equivalents					
JP Morgan US Treas Plus Inv Funds	\$ 976,321	5.2%	N/A	AAAm	Aaa-mf
Dryfus Govt Cash Mgt Funds	3,991,480	21.1%	N/A	AAAm	Aaa-mf
Fidelity Institutional Money Market	<u>932,833</u>	<u>4.9%</u>	N/A	AAAm	Aaa-mf
Total restricted cash equivalents	<u>5,900,634</u>	<u>31.2%</u>			
Restricted investments:					
Fannie Mae Bonds	2,487,029	13.2%	10/28/14 – 6/15/16	AA+	Aaa
Fannie Mae Mortgage Backed Securities	3,636,858	19.3%	3/25/14 – 9/1/25	AA+	Aaa
Freddie Mac Bonds	600,905	3.2%	8/12/15 – 9/30/15	AA+	Aaa
Freddie Mac Mortgage Backed Securities	2,063,130	10.9%	1/15/14 – 4/1/25	AA+	Aaa
Municipal Bonds	1,329,839	7.0%	12/9/11 - 6/1/16	N/R	MIG2
Federal Farm Credit Bank Bonds	1,633,777	8.6%	11/17/14 - 6/13/16	AA+	Aaa
Federal Home Loan Bank Bonds	<u>1,242,872</u>	<u>6.6%</u>	8/20/15 - 3/30/16	AA+	Aaa
Total restricted investments	<u>12,994,410</u>	<u>68.8%</u>			
Total cash equivalents and investments	<u>\$ 18,895,044</u>	<u>100.0%</u>			

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, 2012 had an average duration of 4.27 years.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 - CAPITAL ASSETS (Continued)

As of June 30, 2012, 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 \$720,000 at June 30, 2012 and \$3,126,000 at June 30, 2011.

NOTE 4 – BONDS PAYABLE

The following is a summary of the changes in bonds payable during FY 2012 and FY 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
FY 2012	\$ 60,165,000	-	(725,000)	\$ 59,440,000	\$ -
FY 2011	\$ 60,975,000	-	(810,000)	\$ 60,165,000	\$ 65,000

Bonds payable at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</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	16,420,000
2008 Series B, Variable Rate General Airport, Revenue and Refunding Bonds (non - AMT) due through July 2038	11,140,000	11,140,000
2008 Series C, Variable Rate General Airport Refunding Bonds (Taxable) due through July 2023	<u>-</u>	<u>725,000</u>
Total principal payable	59,440,000	60,165,000
Unamortized bond premiums	<u>1,364,704</u>	<u>1,452,750</u>
Total bonds payable	60,804,704	61,617,750
Less current portion	<u>-</u>	<u>65,000</u>
Noncurrent portion of bonds payable	<u>\$ 60,804,704</u>	<u>\$ 61,552,750</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 – BONDS PAYABLE (Continued)

The Airport retired \$660,000 in FY 2012 and \$740,000 in FY 2011 of its variable rate debt in advance of the scheduled principal pay down dates.

Variable Interest Rates: The interest rates for the 2009B and 2008B bond series for each rate period are determined by the Remarketing Agent as the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause such bonds to have a market value as of the date of determination equal to the principal amount thereof, taking into account prevailing market conditions up to an applicable maximum interest rate. The maximum interest rate is defined as the rate per annum equal to the lesser of (1) 12% per annum, or (2) the maximum rate permitted by law.

At June 30, 2012, the variable interest rate for both the 2009B and 2008 bond series was 0.17%. The variable interest rate is subject to daily or weekly rate period adjustments by the Remarketing Agent.

Capitalized Interest: Capitalized interest expense on bonds totaled \$0 in FY 2012 and \$86,747 in FY 2011.

Security for the 2009 and 2008 Bonds: The primary securities for the bonds are (1) the general revenues of the Airport as defined in the Indenture, (2) the funds established under the Indenture, and (3) a Lease Agreement between the Airport, as lessor, and the LFUCG, as lessee. The Lease is a general obligation of the LFUCG and the full faith, credit and taxing power of the Urban County Government is irrevocably pledged to the payment of lease rental payments which are equal to the principal and interest payments on the 2008 and 2009 bonds, when due. The basic security for the general obligation debt of the LFUCG is its ability to levy, and its pledge to levy, an annual tax to pay the principal and interest.

Letter of Credit Agreements: Pursuant to the terms of the Reimbursement Agreement between the Airport and a Bank, the following irrevocable direct pay letters of credit agreements were in effect on June 30, 2012:

- Series 2008B - \$ 11,301,710
- Series 2009B - \$ 16,662,927

The current agreements terminate on December 15, 2014.

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 \$43,447 as of June 30, 2012, and \$142,554 as of June 30, 2011.

Debt Covenants: The 2008 and 2009 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 (cash, general revenues, PFC revenue, less operating expenses) 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, 2012 and 2011

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, 2012 for all bonds outstanding are as follows:

	<u>Principal</u>	<u>Interest & Fees*</u>	<u>Total</u>
Year ending June 30:			
2013	-	1,805,114	1,805,114
2014	-	1,804,303	1,804,303
2015	1,100,000	1,804,378	2,904,378
2016	1,700,000	1,749,378	3,449,378
2017	2,000,000	1,699,114	3,699,114
2018-2022	11,350,000	7,219,977	18,569,977
2023-2027	13,565,000	4,242,302	17,807,302
2028-2032	15,850,000	1,491,134	17,341,134
2033-2037	11,785,000	441,065	12,226,065
2038-2039	<u>2,090,000</u>	<u>36,081</u>	<u>2,126,081</u>
 Total	 <u>\$ 59,440,000</u>	 <u>\$ 22,292,846</u>	 <u>\$ 81,732,846</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 2012 and FY 2011 was \$7,734,860 and \$7,612,000, 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 2012 and FY 2011 were \$4,036,147 and \$4,107,284, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2012 are as follows:

2013	\$ 3,863,178
2014	3,788,736
2015	3,717,883
2016	1,409,916
2017	507,916
Thereafter through 2030	<u>5,871,312</u>
 Total future minimum rental revenue	 <u>\$19,158,941</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 - PASSENGER FACILITY CHARGES

During FY 2012, the Airport continued to impose a \$4.50 PFC on enplaning passengers. During FY 2012 and FY 2011, passenger facility charges were \$2,522,652 and \$2,180,585, respectively. As of October 15, 2009, the FAA authorized the Airport to collect total net PFC revenue of \$37,400,347 under Application #09-07-C-00-LEX with a charge expiration date of February 1, 2038. The cumulative PFC Authority, including the current application, is \$100,206,268. As collected, the PFC revenue will be used to fund debt for the following projects:

Runway safety area improvements	\$ 15,515,021
Terminal interior modifications	6,134,298
Concourse gate addition	24,046,447
Replace runway 8/26	19,377,935
Taxiway D relocation	2,908,820
Terminal curb-front improvements	5,426,937
PFC application development	100,000
Sanitary sewer improvements - partial	885,841
Terminal interior renovation phase II - partial	<u>8,700,814</u>
Total	<u>\$ 83,096,113</u>

The Airport has disbursed \$9,385,182 on these projects through June 30, 2012.

NOTE 7 - CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2012, the Airport earned approximately 53% of airline operations revenue from one carrier, versus 50% from one carrier in FY 2011.

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 basic 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%.

The Plan is administered by American Funds Retirement Resources. 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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 8 - RETIREMENT PLANS (Continued)

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 and \$406,000 for FY 2012 and FY 2011 respectively. Required contributions made by Plan participants for FY 2012 and FY 2011 were \$230,000 and \$229,000. 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 assets.

The Airport has an additional retirement plan under Internal Revenue Code section 457(b) that allows for annual employee salary deferrals up to \$17,000. 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, 2012 and June 30, 2011 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 2012	\$ 363,746	\$ 78,346	\$ (9,350)	\$ 432,742
FY 2011	\$ 373,603	\$ -	\$ (9,857)	\$ 363,746

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, 2012, and June 30, 2011, a liability was recorded for the present value of the estimated future cash payments, less any balance in the employees' defined contribution retirement plan, using a discount rate of 3%. In July 2010, the Airport Board approved a resolution to freeze benefit accruals under this agreement at present levels and intends to terminate the plan and payout the accrued liability once negotiations with the remaining participants are settled. However, in FY 2011 the discount rate was reduced from 5% to 3% resulting in expense in FY 2011.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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 2012	\$ 1,502,057	\$ -	\$ (271,817)	\$ 1,230,240
FY 2011	\$ 1,208,375	\$ 352,125	\$ (58,443)	\$ 1,502,057

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 - 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
 SCHEDULE – OPERATING EXPENSES
 Year ended June 30, 2011

	<u>Administration</u>	<u>General Maintenance</u>	<u>Safety, Rescue & Security</u>	<u>Engineering</u>	<u>Building Maintenance</u>	<u>Operations</u>	<u>Total</u>
Expenses							
Salaries and benefits	\$ 1,421,806	\$ 1,227,959	\$ 1,434,357	\$ 384,540	\$ 526,690	\$ 561,991	\$ 5,557,343
Marketing & advertising	818,864	-	-	-	-	-	818,864
Insurance	365,058	-	-	-	-	-	365,058
Computer maintenance	109,757	3,308	6,311	1,591	-	15,019	135,986
Consulting fees	43,659	-	-	-	-	-	43,659
Customs expense	-	-	144,943	-	-	-	144,943
Equipment rental	9,520	-	-	509	-	-	10,029
Maintenance	4,594	826,325	3,751	110,931	-	13,381	958,982
Memberships & publications	47,927	4,150	3,772	2,087	-	3,185	61,121
Office supplies	32,422	7,357	-	-	-	4,478	44,257
Professional development	25,136	11,512	5,430	5,333	-	9,565	56,976
Professional services	432,900	-	-	31,277	-	-	464,177
Supplies	30,319	304,866	106,624	3,462	-	19,183	464,454
Travel expenses	18,948	10,115	13,042	11,143	-	4,215	57,463
Utilities & phone	1,126,296	-	-	-	-	-	1,126,296
Other expenses	105,441	1,875	355,508	2,645	1,139	20,953	487,561
Bad debt	14,132	-	-	-	-	-	14,132
Total expenses	<u>\$ 4,606,779</u>	<u>\$ 2,397,467</u>	<u>\$ 2,073,738</u>	<u>\$ 553,518</u>	<u>\$ 527,829</u>	<u>\$ 651,970</u>	<u>\$ 10,811,301</u>

See report of independent auditors.