

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

**FINANCIAL STATEMENTS**  
June 30, 2015 and 2014

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

FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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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 financial statements of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

***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, 2015 and 2014, and the changes in its financial position and its 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 basic financial statements. Such information, although not a part of the basic 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 basic 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 basic financial statements, and other knowledge we obtain during our audit of the basic 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport's basic financial statements. The schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 schedules of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 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 Airport's internal control over financial reporting and compliance.



Crowe Horwath LLP

Lexington, Kentucky  
September 23, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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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, 2015 (FY 2015) and June 30, 2014 (FY 2014). 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 2015, Blue Grass Airport was served by four airline brands offering non-stop flights to 15 destinations. The Airport experienced a record number of passengers in FY 2015 with a total of 611,539 passengers, making this the highest passenger count in the Airport's 68-year history. This growth can partially be attributed to new daily flights to Philadelphia, Pennsylvania and seasonal flights to Myrtle Beach, South Carolina. In addition, as the industry continues to transition away from the use of regional jets, the Airport has been fortunate to receive larger aircraft while still being able to maintain most of its flight frequency.

**Operations Statistical Data**

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
Enplanements	611,539	571,198	541,741
Increase (decrease)	40,341	29,457	(18,547)
% Increase (decrease)	7.06%	5.44%	(3.31%)
Aircraft operations – commercial	30,820	28,994	28,920
Increase (decrease)	1,826	74	(968)
% Increase (decrease)	6.29%	0.26%	(3.24%)
Aircraft operations – general aviation	37,053	35,179	33,850
Increase (decrease)	1,874	1,329	(2,544)
% Increase (decrease)	5.32%	3.93%	(6.99%)
Aircraft operations – military	1,707	1,500	1,760
Increase (decrease)	207	(260)	209
% Increase (decrease)	13.80%	(14.8%)	13.48%
Landed weight (1,000 pounds)	714,775	641,883	632,616
Increase (decrease)	72,892	9,267	(18,947)
% Increase (decrease)	11.36%	1.46%	(2.91%)

Enplanements represent the total number of passengers that boarded aircraft. Aircraft operations are the cumulative number of takeoffs and landings. Landed weight is the cumulative maximum gross weight, as defined by the aircraft manufacturer, of aircraft that have landed at the Airport.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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**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.

**FINANCIAL OPERATIONS AND HIGHLIGHTS**

**SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION**

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
Operating revenue	\$ 15,584,396	\$ 14,395,201	\$ 13,873,495
Operating expense	<u>(10,971,550)</u>	<u>(10,339,137)</u>	<u>(9,577,388)</u>
Operating income before depreciation expense	4,612,846	4,056,064	4,296,107
Depreciation expense	<u>(9,365,655)</u>	<u>(9,607,242)</u>	<u>(9,425,228)</u>
Loss from operations	(4,752,809)	(5,551,178)	(5,129,121)
Net non-operating revenue (expense)	<u>1,331,653</u>	<u>(428,985)</u>	<u>19,509</u>
Loss before capital grants	(3,421,156)	(5,980,163)	(5,109,612)
Capital grants	<u>8,515,529</u>	<u>2,467,049</u>	<u>4,295,303</u>
Increase (decrease) in net position	<u>\$ 5,094,373</u>	<u>\$ (3,513,114)</u>	<u>\$ (814,309)</u>

**REVENUE**

A summary of the revenue for FY 2015, FY 2014, and FY 2013 is as follows:

	<u>2015</u> <u>Amount</u>	<u>2014</u> <u>Amount</u>	<u>2013</u> <u>Amount</u>	<u>% Change</u> <u>2015/2014</u>
<b>Operating:</b>				
Airline operations	\$5,718,210	\$5,167,235	\$5,129,541	10.66%
Auto parking	5,156,943	4,771,186	4,393,472	8.09%
Ground transportation	2,278,764	2,045,382	2,056,522	11.41%
Concessions and rentals	533,300	515,838	558,738	3.39%
General aviation	1,192,174	1,176,566	1,082,031	1.33%
Advertising	389,364	363,673	362,928	7.06%
Other	<u>315,641</u>	<u>355,321</u>	<u>290,263</u>	<u>(11.17%)</u>
Total operating	15,584,396	14,395,201	13,873,495	8.26%

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

	2015 <u>Amount</u>	2014 <u>Amount</u>	2013 <u>Amount</u>	% Change <u>2015/2014</u>
<b>Non-operating:</b>				
Passenger facility charges	2,402,511	2,257,618	2,116,850	6.42%
Contract facility charges	716,064	712,826	635,412	0.45%
Investment income, net of fees	322,630	353,487	322,471	(8.73%)
Net increase in fair value of investments	57,502	190,369	-	(69.79%)
Gain on disposal of capital assets	<u>-</u>	<u>-</u>	<u>16,347</u>	<u>NA</u>
Total non-operating	3,498,707	3,514,300	3,091,080	(0.44%)
<b>Capital grants</b>	<u>8,515,529</u>	<u>2,467,049</u>	<u>4,295,303</u>	<u>245.17%</u>
<b>Total revenue</b>	<u>\$ 27,598,632</u>	<u>\$ 20,376,550</u>	<u>\$ 21,259,878</u>	<u>35.44%</u>

**EXPENSE**

A summary of the expense for FY 2015, FY 2014, and FY 2013 is as follows:

	2015 <u>Amount</u>	2014 <u>Amount</u>	2013 <u>Amount</u>	% Change <u>2015/2014</u>
<b>Operating:</b>				
Administration	\$ 4,353,658	\$ 3,952,642	\$ 4,024,110	10.15%
General maintenance	2,641,460	2,771,303	2,375,558	(4.69%)
Safety, rescue and security	1,996,875	1,798,021	1,502,558	11.06%
Engineering	588,962	547,219	531,252	7.63%
Building maintenance	696,329	604,208	532,449	15.25%
Operations	692,552	642,124	604,623	7.85%
Drug task force	<u>1,714</u>	<u>23,620</u>	<u>6,838</u>	<u>(92.75%)</u>
Total operating	10,971,550	10,339,137	9,577,388	6.12%
<b>Non-operating:</b>				
Net decrease in fair value of investments	-	-	622,114	NA
Interest expense and fees	2,157,104	2,201,397	2,091,914	(2.01%)
Debt/financing costs	1,250	86,360	357,543	(98.55%)
Loss on disposal of capital assets	<u>8,700</u>	<u>1,655,528</u>	<u>-</u>	<u>(99.47%)</u>
Total non-operating	2,167,054	3,943,285	3,071,571	(45.04%)
<b>Depreciation</b>	<u>9,365,655</u>	<u>9,607,242</u>	<u>9,425,228</u>	<u>(2.51%)</u>
<b>Total expense</b>	<u>\$ 22,504,259</u>	<u>\$ 23,889,664</u>	<u>\$ 22,074,187</u>	<u>(5.80%)</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

**2015 REVENUE AND EXPENSE ANALYSIS**

Operating revenue increased from \$14.4 million in FY 2014 to \$15.6 million in FY 2015, an increase of 8%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$551,000, or 11%. The majority of this revenue growth can be attributed to the 7% increase in enplanements and the 11% increase in landed weight. A corresponding 9% increase in landed weight revenue was realized as the airlines continued their strategy of transitioning away from the 50-seat regional jet and introducing larger, higher capacity planes, in the Lexington market.
- Auto parking revenue increased by \$386,000, or 8%, primarily due to the increase in enplanements. Additional revenue was also generated by a parking rate increase that went into effect on April 1, 2015.
- Ground transportation revenue increased by \$233,000, or 11%, primarily due to increase in enplanements.
- Other revenue decreased by \$40,000, or 11%. During FY 2014, sponsorships were sold for the Airport's history book.

Operating expense increased from \$10.3 million in FY 2014 to \$11.0 million in FY 2015, an increase of 6%, primarily due to the following:

- Administration expenses increased by \$231,000 excluding the recovery of a previously written off bad debt of \$170,000 in FY 2014. The Airport spent approximately \$50,000 on Cyber security issues including the development of an Incident Response Plan. With the increase in enplanements, the Airport also saw an increased demand for parking and initiated a parking study and a shuttle bus service which cost an additional \$60,000. During FY 2015, the Airport issued a Request for Proposal (RFP) for parking and luggage cart services and spent approximately \$60,000 for services related to the preparation and issuance of the RFP.
- Safety, rescue and security expense increased \$199,000, or 11%, due to general maintenance and repairs to the Air Rescue Fire Fighter Training Center (ARFFTC).

In FY 2015, the Airport had a net non-operating revenue of \$1,332,000 versus net non-operating expense of \$429,000 in FY 2014 primarily due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively increased by \$150,000, or 7%, due primarily to increased enplanements.
- In FY 2015, the Airport experienced a \$58,000 increase in the fair value of its investments, compared to a \$190,000 net increase in FY 2014.
- Debt and financing costs decreased by \$85,000 or 99% in FY 2015. In FY 2014, the Airport incurred \$86,000 in costs to secure a revolving line of credit.
- Capital grant revenue increased from \$2.5 million in FY 2014 to \$8.5 million in FY 2015, an increase of 245%. This increase was driven by the funding request made by the Airport and approved by the Federal Aviation Administration (FAA) for Phase I and II of the Taxiway Safety Enhancement Program (TSEP). This is a \$63 million multi-year initiative requiring the relocation of the Airport's maintenance/snow removal complex and public safety building to allow for the realignment of the Airport's primary taxiway.

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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

**2014 REVENUE AND EXPENSE ANALYSIS**

Operating revenue increased from \$13.9 million in FY 2013 to \$14.4 million in FY 2014, an increase of 4%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$38,000, or 1%. Although enplanements increased 5% in FY 2014, the revenue growth is relatively flat due to the mix of enplaned passengers on the traditional airlines versus the per-turn airline. In lieu of fees based on the number of passengers, a per-turn airline is charged a fixed fee for each landing and takeoff.
- Auto parking revenue increased by \$378,000, or 9%, primarily due to the increase in enplanements.
- Concessions and rentals revenue decreased by \$43,000, or 8%, primarily due to a reduction of space for the Transportation Security Administration lease.
- General aviation revenue increased by \$95,000, or 9%, as a result of increased hangar rental revenue associated with the purchase of three general aviation hangars.
- Other revenue increased by \$65,000, or 22%, due to production and sale of the Airport's history book and the sale of one interest rate cap.

Operating expense increased from \$9.6 million in FY 2013 to \$10.3 million in FY 2014, an increase of 8%, primarily due to the following:

- General maintenance expense increased \$396,000, or 17%, primarily due to increased expense for labor and deicing materials as a result of prolonged winter conditions, and repairs to various areas including the terminal building, parking garage, airfield, and the jet bridges.
- Safety, rescue and security expense increased \$295,000, or 20%, due to a deferred compensation adjustment that reduced expense in FY 2013. The adjustment was a result of a one-time lump sum settlement which was settled using a more favorable discount rate than originally recorded.
- Building maintenance expense increased \$72,000, or 13%, primarily due to full staffing levels.

In FY 2014, the Airport had a net non-operating expense of \$429,000 versus net non-operating revenue of \$20,000 in FY 2013 primarily due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively increased by \$218,000, or 8%, due primarily to increased enplanements and an increase in the CFC rate.
- In FY 2014, the Airport experienced a \$190,000 increase in the fair value of its investments, compared to a \$622,114 net decrease in FY 2013, 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 \$109,000 or 6% in FY 2014. FY 2014 reflected a full year and FY 2013 only seven months of interest expense for the bonds issued on November 27, 2012.
- Debt/Financing costs decreased by \$271,000 from FY 2013 to FY 2014. In FY 2013, the Airport issued fixed rate bonds which resulted in \$358,000 in issuance costs. In FY 2014, the Airport incurred \$86,000 in costs to secure a revolving line of credit.
- In FY 2014, the Airport completed a master plan study. The balance of the old master plan study was written off resulting in the loss on disposal of capital assets of \$1.7 million.

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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

**FINANCIAL POSITION SUMMARY**

The following represents the Airport's financial position at June 30, 2015, 2014, and 2013. The Airport's assets exceeded liabilities by \$109.9 million at June 30, 2015, a \$5.1 million increase from June 30, 2014. The Airport's assets exceeded liabilities by \$104.8 million at June 30, 2014, a \$3.5 million decrease from June 30, 2013.

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
<b>Assets</b>			
Current assets-unrestricted	\$ 9,685,910	\$ 11,431,286	\$ 11,883,724
Restricted assets	24,625,974	19,763,182	18,688,094
Capital assets	<u>142,068,905</u>	<u>136,772,138</u>	<u>140,365,180</u>
Total assets	<u>\$ 176,380,789</u>	<u>\$ 167,966,606</u>	<u>\$ 170,936,998</u>
<b>Liabilities</b>			
Current liabilities-payable from unrestricted assets	\$ 2,164,124	\$ 1,798,757	\$ 1,250,169
Current liabilities-payable from restricted assets	7,429,478	2,522,692	1,191,000
Noncurrent liabilities	<u>56,851,428</u>	<u>58,803,771</u>	<u>60,141,329</u>
Total liabilities	<u>\$ 66,445,030</u>	<u>\$ 63,125,220</u>	<u>\$ 62,582,498</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 79,901,225	\$ 77,427,123	\$ 80,950,700
Restricted	23,228,625	18,504,212	17,484,539
Unrestricted	<u>6,805,909</u>	<u>8,910,051</u>	<u>9,919,261</u>
Total net position	<u>\$ 109,935,759</u>	<u>\$ 104,841,386</u>	<u>\$ 108,354,500</u>

**CAPITAL ASSETS**

Major capital projects in progress and expenditures incurred during FY 2015 included the following:

	<u>FY 2015</u>	<u>Cumulative</u>
• West Side T-Hangars and Fuel Facility	\$ 1,327,000	\$ 4,516,000
• Taxiway Safety Enhancement Program – Phase I	9,909,000	10,844,000
• TSEP Phase II – IV Design	1,024,000	1,958,000

Major capital projects in progress and expenditures incurred during FY 2014 included the following:

	<u>FY 2014</u>	<u>Cumulative</u>
• West Side T-Hangars and Fuel Facility	\$ 2,971,000	\$ 3,189,000
• Taxiway Safety Enhancement Program - Phase I	935,000	935,000
• TSEP Phase II – IV Design	934,000	934,000

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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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**CAPITAL ASSETS** (Continued)

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**

Total bonds payable at June 30, 2015 and June 30, 2014 were \$54,180,000 and \$55,280,000, respectively. Fixed rate bonds make up approximately 90% of the Airport's debt structure with \$48,780,000 in fixed rate bonds at June 30, 2015 and \$49,880,000 in fixed rate bonds at June 30, 2014. For both years, variable rate debt remained unchanged at \$5,400,000. The index interest rate for the variable rate bonds is based on 74% of 30 day LIBOR plus a 1% margin. The variable rate at June 30, 2015 and June 30, 2014 was 0.877% and 0.852%, respectively.

Additional information regarding bonds payable is provided in Note 5 to the financial statements.

**NET POSITION**

The largest portion of the Airport's net position each year (73% at June 30, 2015, and 74% at June 30, 2014) 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 (21% at June 30, 2015, and 18% at June 30, 2014) are restricted and represent bond reserve funds that are subject to external restrictions on how they can be used under bond resolutions, Passenger Facility Charges received from the airlines that are restricted by Federal regulations and grant receivables from the federal government that are restricted for the funding of eligible capital projects.

Unrestricted net assets (6% of the Airport's net assets at June 30, 2015, and 8% June 30, 2014) may be used to meet any of the Airport's ongoing obligations. Through June 30, 2015, the Airport had spent approximately \$4,000,000 for capital projects that resulted in a reduction of unrestricted net assets. These projects are eligible for federal funding and the reimbursement will increase unrestricted net assets when received.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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**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>FY 2015</u>	<u>FY 2014</u>
Cash flows provided by operating activities	\$ 4,562,676	\$ 4,274,137
Cash flows used in capital and related financing activities	(6,267,580)	(4,124,836)
Cash flows provided by investing activities	<u>1,009,272</u>	<u>4,087,052</u>
Net increase (decrease) in cash and cash equivalents	(695,632)	4,236,353
Cash and cash equivalents, beginning of year	<u>8,957,287</u>	<u>4,720,934</u>
Cash and cash equivalents, end of year	<u>\$ 8,261,655</u>	<u>\$ 8,957,287</u>

**DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, CONDITIONS AND OTHER MATTERS**

The Airport experienced another year of consistent air service growth despite several challenges and unknowns in the industry. Airport administration is watchful of the forecasted pilot shortage in the airline industry and how it could potentially impact our airport. The Airport is served mostly by regional carriers who operate jets on behalf of the network carriers. It is the regional carriers who are beginning to experience difficulty in obtaining pilots, and therefore, forcing the network carriers to make tough decisions on which routes to continue serving. The Airport saw impact from this with Delta's Minneapolis flight that was eliminated for several months in spring 2015.

Airlines are also continuing their transition away from the 50-seat regional jet and beginning to introduce larger planes in the Lexington market. The Airport has been fortunate that many of these aircraft changes have not led to a reduction in the number of daily flights and that in most cases has increased the seat capacity to and from Lexington, thus resulting in additional enplanements.

The Airport has applied for funding from the Federal Aviation Administration for Phase II of its Taxiway Safety Enhancement Program (TSEP). This \$63 million multi-year initiative, requires the relocation of the Airport's maintenance/snow removal equipment complex and public safety building to allow for realignment of the Airport's primary taxiway. Phase I of this project, estimated at \$15 million, is expected to conclude later this year with the opening of the new 63,000 square foot maintenance complex. The TSEP is funded 90% through federal grants with a 10% matching contribution from the Airport.

On October 30 & 31, 2015, Lexington will serve as the host for the 2015 Breeders' Cup World Championship. With this event, the Airport is expecting to see an increase in enplanements during the months of October and November as passengers travel to and from our region. The Airport also anticipates there will be additional expenses associated with preparations needed to host an event of this size.

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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended June 30, 2015 and 2014

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**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.

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(Continued)

## **FINANCIAL STATEMENTS**

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 STATEMENTS OF NET POSITION  
 June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>
<b>Assets</b>		
<b>Current assets - unrestricted</b>		
Cash and cash equivalents	\$ 3,578,827	\$ 4,604,916
Certificates of deposit	-	75,036
Investments	3,785,949	4,635,922
Accounts receivable, net	1,869,342	1,673,238
Accrued interest receivable	9,672	13,352
Other assets	<u>442,120</u>	<u>428,822</u>
Total current assets	<u>9,685,910</u>	<u>11,431,286</u>
<b>Restricted assets</b>		
Cash and cash equivalents	4,682,828	4,352,371
Certificates of deposit	3,787,789	4,443,908
Investments	11,469,536	10,480,491
Accounts receivable, net	443,375	431,456
Accrued interest receivable	46,556	54,956
Grants receivable	<u>4,195,890</u>	<u>-</u>
Total restricted assets	<u>24,625,974</u>	<u>19,763,182</u>
<b>Noncurrent assets</b>		
Capital assets, net	<u>142,068,905</u>	<u>136,772,138</u>
<b>Total assets</b>	<u>\$ 176,380,789</u>	<u>\$ 167,966,606</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 STATEMENTS OF NET POSITION  
 June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>
<b>Liabilities</b>		
<b>Current liabilities (payable from unrestricted assets)</b>		
Accounts payable	\$ 944,872	\$ 838,367
Accounts payable-construction	710,849	511,315
Accrued payroll and benefits	<u>508,403</u>	<u>449,075</u>
Total current liabilities (payable from unrestricted assets)	<u>2,164,124</u>	<u>1,798,757</u>
<b>Current liabilities (payable from restricted assets)</b>		
Current portion of bonds payable	1,700,000	1,100,000
Accounts payable	210,336	44,852
Accounts payable-construction	4,332,129	163,721
Accrued interest payable	<u>1,187,013</u>	<u>1,214,119</u>
Total current liabilities (payable from restricted assets)	<u>7,429,478</u>	<u>2,522,692</u>
Total current liabilities	<u>9,593,602</u>	<u>4,321,449</u>
<b>Noncurrent liabilities</b>		
Accrued post-employment benefits	715,878	722,478
Bonds payable	<u>56,135,550</u>	<u>58,081,293</u>
Total noncurrent liabilities	<u>56,851,428</u>	<u>58,803,771</u>
<b>Total liabilities</b>	<u>66,445,030</u>	<u>63,125,220</u>
<b>Net position</b>		
Net investment in capital assets	79,901,225	77,427,123
Restricted for debt service	19,032,735	18,504,212
Restricted for capital projects	4,195,890	-
Unrestricted	<u>6,805,909</u>	<u>8,910,051</u>
<b>Total net position</b>	<u>109,935,759</u>	<u>104,841,386</u>
<b>Total liabilities and net position</b>	<u>\$ 176,380,789</u>	<u>\$ 167,966,606</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, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>
<b>Operating revenue:</b>		
Airline operations	\$ 5,718,210	\$ 5,167,235
Auto parking	5,156,943	4,771,186
Ground transportation	2,278,764	2,045,382
Concessions and rentals	533,300	515,838
General aviation	1,192,174	1,176,566
Advertising	389,364	363,673
Other	<u>315,641</u>	<u>355,321</u>
Total operating revenue	<u>15,584,396</u>	<u>14,395,201</u>
<b>Operating expense:</b>		
Administration	4,353,658	3,952,642
General maintenance	2,641,460	2,771,303
Safety, rescue and security	1,996,875	1,798,021
Engineering	588,962	547,219
Building maintenance	696,329	604,208
Operations	692,552	642,124
Drug task force	<u>1,714</u>	<u>23,620</u>
Total operating expense	<u>10,971,550</u>	<u>10,339,137</u>
<b>Operating income before depreciation expense</b>	4,612,846	4,056,064
<b>Depreciation expense</b>	<u>9,365,655</u>	<u>9,607,242</u>
<b>Loss from operations</b>	<u>(4,752,809)</u>	<u>(5,551,178)</u>
<b>Non-operating revenue (expense):</b>		
Passenger facility charges	2,402,511	2,257,618
Contract facility charges	716,064	712,826
Investment income, net of fees	322,630	353,487
Net increase in fair value of investments	57,502	190,369
Interest expense and fees	(2,157,104)	(2,201,397)
Debt/Financing costs	(1,250)	(86,360)
Loss on disposal of capital assets	<u>(8,700)</u>	<u>(1,655,528)</u>
Net non-operating revenue (expense)	1,331,653	(428,985)
<b>Capital grants</b>	<u>8,515,529</u>	<u>2,467,049</u>
<b>Increase/(decrease) in net position</b>	5,094,373	(3,513,114)
<b>Net position, beginning of year</b>	<u>104,841,386</u>	<u>108,354,500</u>
<b>Net position, end of year</b>	<u>\$ 109,935,759</u>	<u>\$ 104,841,386</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>
<b>Cash flows provided by operating activities</b>		
Receipts from customers	\$ 15,077,345	\$ 14,363,884
Payments to suppliers	(4,814,157)	(4,425,769)
Payments to employees	(6,016,153)	(6,019,301)
Other receipts	<u>315,641</u>	<u>355,323</u>
Net cash provided by operating activities	<u>4,562,676</u>	<u>4,274,137</u>
<b>Cash flows used in capital and related financing activities</b>		
Proceeds from capital grants	4,319,639	2,413,563
Passenger facility charges	2,381,471	2,282,870
Contract facility charges	890,703	699,320
Principal paid on bonds	(1,100,000)	-
Interest and fees paid on bonds	(2,456,213)	(2,611,237)
Acquisition and construction of capital assets	<u>(10,303,180)</u>	<u>(6,909,352)</u>
Net cash used in capital and related financing activities	<u>(6,267,580)</u>	<u>(4,124,836)</u>
<b>Cash flows provided by investing activities</b>		
Interest received on investments	359,688	466,876
Net sales of certificates of deposit and investments	<u>649,584</u>	<u>3,620,176</u>
Net cash provided by investing activities	<u>1,009,272</u>	<u>4,087,052</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(695,632)	4,236,353
<b>Cash and cash equivalents, beginning of year</b>	<u>8,957,287</u>	<u>4,720,934</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 8,261,655</u>	<u>\$ 8,957,287</u>
<b>Reconciliation of loss from operations to net cash provided by operating activities</b>		
Loss from operations	\$ (4,752,809)	\$ (5,551,178)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	9,365,655	9,607,242
Bad debt expense (recovery)	40,780	(129,264)
Increase (decrease) due to changes in:		
Accounts receivable	(236,884)	316,904
Other assets	(13,298)	7,001
Accounts payable	106,505	54,880
Accrued payroll and benefits	<u>52,727</u>	<u>(31,448)</u>
Net cash provided by operating activities	<u>\$ 4,562,676</u>	<u>\$ 4,274,137</u>
<b>Supplemental schedule of noncash transactions</b>		
Change in construction in progress included in accounts payable	\$ 4,367,942	\$ 760,375

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**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.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**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 four components – net investment in capital assets; restricted for debt service; restricted for capital projects; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - 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 for debt service - This component consists of funds with constraints imposed by creditors, contributors, or laws or regulations of other governments for the payment of debt service.
- Restricted for capital projects – This component consist of accounts receivable for federal grants that restrict the use of monies for eligible capital projects.
- Unrestricted - This component consists of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

Restricted Assets: Monies held in debt service reserve accounts, as well as resources set aside for the payment of the related bonds and passenger facility charges are restricted for debt service. In addition, accounts receivable from federal grants are restricted for capital projects.

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 loss on investments was \$111,311 and \$182,756 at June 30, 2015 and June 30, 2014 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 \$0 at June 30, 2015 and \$5,000 at June 30, 2014.

Capital Assets: Capital assets are stated at cost. Construction in progress consists of the costs of construction contracts and direct engineering costs incurred in the design and construction of Airport properties.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**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.

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 104 to 308 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 308 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.

New Financial Reporting Standards: The GASB has issued several reporting standards that will become effective for FY 2016 and later year financial statements. Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 73 includes amendments to certain provisions of a previously issued Statement related to disclosures for defined contribution retirement plans. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, provides guidance for measuring the present value of the projected benefits to be provided to employees that is attributed to those employees' past periods of service. Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles ("GAAP") for State and Local Governments*, addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Airport has not yet determined the effect, if any, that the adoption of these Statements may have on its financial statements.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**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.

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.

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 2015</u>	<u>FY 2014</u>
Cash	\$ 3,641,391	\$ 4,217,080
Certificates of deposit	3,787,789	4,518,944
Petty cash	<u>885</u>	<u>635</u>
Total cash and certificates of deposit	<u>\$ 7,430,065</u>	<u>\$ 8,736,659</u>

Cash and certificates of deposit shown above include \$4,600,539 and \$5,361,637 of restricted amounts as of June 30, 2015 and June 30, 2014, respectively.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Airport will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Airport monitors the certificate of deposit purchases to ensure that holdings at each institution do not exceed FDIC coverage limits. The Airport's cash bank balances of \$3,023,415 and \$4,534,573 at June 30, 2015 and 2014, respectively, were not insured by the FDIC, are collateralized by securities held by the pledging financial institution but not in the Airport's name and are subject to custodial credit risk.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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

Cash Equivalents and Investments: Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2015 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard &amp; Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Goldman Sachs Govt Money Market	\$749,301	3.8%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	2,467,410	12.4%	2/1/28-7/25/40	N/A	N/A
Municipal Bonds	180,152	0.9%	2/1/28-5/1/32	A+	Aa3
US Agency Bonds	<u>1,138,387</u>	<u>5.7%</u>	8/28/19-12/15/41	AA+	Aaa
Total unrestricted investments	<u>3,785,949</u>	<u>19.0%</u>			
Restricted cash equivalents					
Goldman Sachs Govt Money Market	698,805	3.5%	N/A	N/A	N/A
Dryfus Govt Cash Mgt Funds	<u>3,171,273</u>	<u>16.0%</u>	N/A	N/A	N/A
Total restricted cash equivalents	<u>3,870,078</u>	<u>19.5%</u>			
Restricted investments					
Corporates	764,365	3.8%	12/1/17-8/21/21	N/A	N/A
Mortgage Backed Securities	3,618,424	18.2%	12/21/15-7/25/40	AA+/N/A	Aaa/N/A
Municipal Bonds	1,374,441	6.9%	11/1/15-4/1/18	AAA/AA+/A+/N/A	Aa2/Aa3/A3/N/A
US Agency Bonds	3,456,591	17.4%	11/12/15-10/21/25	AAA / A+	Aaa / Aa
US Treasury Notes	<u>2,255,715</u>	<u>11.4%</u>	5/15/17-7/31/19	AA+	Aaa
Total restricted investments	<u>11,469,536</u>	<u>57.7%</u>			
Total cash equivalents and investments	<u>\$19,874,864</u>	<u>100.0%</u>			

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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

Cash Equivalents and Investments: Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2014 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard &amp; Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Goldman Sachs Govt Money Market	\$1,304,931	6.6%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	2,278,581	11.5%	2/1/28-7/25/40	N/A	N/A
Municipal Bonds	415,259	2.1%	2/1/28-5/1/32	A+	Aa3
US Agency Bonds	<u>1,942,082</u>	<u>9.7%</u>	8/28/19-12/30/20	AA+	Aaa
Total unrestricted investments	<u>4,635,922</u>	<u>23.3%</u>			
Restricted cash equivalents					
Dryfus Govt Cash Mgt Funds	2,837,921	14.3%	N/A	N/A	N/A
Dryfus Govt Cash Mgt Funds	<u>596,718</u>	<u>3.0%</u>	N/A	N/A	N/A
Total restricted cash equivalents	<u>3,434,641</u>	<u>17.3%</u>			
Restricted investments					
Mortgage Backed Securities	3,090,017	15.6%	12/21/15-4/16/32	AA+/N/A	Aaa/N/A
Municipal Bonds	3,644,222	18.4%	9/1/14-4/1/18	AAA/AA+/A+/N/A	Aa2/Aa3/A3/N/A
US Agency Bonds	2,764,807	13.9%	11/12/15-6/24/20	AAA / A+	Aaa / Aa
US Treasury Notes	<u>981,445</u>	<u>4.9%</u>	5/15/17-7/31/19	AA+	Aaa
Total restricted investments	<u>10,480,491</u>	<u>52.8%</u>			
Total cash equivalents and investments	<u>\$19,855,985</u>	<u>100.0%</u>			

Custodial credit risk for cash equivalents and investments is the risk that, in the event of the failure of the counterparty to a transaction, the Airport will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Airport's cash equivalents and investments are uninsured and unregistered, but are held in the Airport's name; therefore, none of the cash equivalents and investments are 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, 2015 had an average duration of 3.89 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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for FY 2015 and FY 2014 is as follows:

	FY 2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land improvements	\$ 59,360,654	\$ -	\$ -	\$ 439,897	\$ 59,800,551
Structures and other improvements	168,204,482	93,254	-	4,699,486	172,997,222
Equipment	7,473,832	383,688	(610,169)	785,687	8,033,038
Land	4,528,145	-	-	-	4,528,145
Construction in progress	<u>5,732,349</u>	<u>14,194,180</u>	<u>-</u>	<u>(5,925,070)</u>	<u>14,001,459</u>
Total capital assets	<u>245,299,462</u>	<u>14,671,122</u>	<u>(610,169)</u>	<u>-</u>	<u>259,360,415</u>
Less accumulated depreciation:					
Land improvements	21,271,209	2,358,431	-	-	23,629,640
Structures and other Improvements	83,744,200	6,403,710	-	8,391	90,156,301
Equipment	<u>3,511,915</u>	<u>603,514</u>	<u>(601,469)</u>	<u>(8,391)</u>	<u>3,505,569</u>
Total accumulated depreciation	<u>108,527,324</u>	<u>9,365,655</u>	<u>(601,469)</u>	<u>-</u>	<u>117,291,510</u>
Net capital assets	<u>\$136,772,138</u>	<u>\$ 5,305,467</u>	<u>\$ (8,700)</u>	<u>\$ -</u>	<u>\$142,068,905</u>
	FY 2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land improvements	\$ 59,203,626	\$ 4,852	\$ -	\$ 152,176	\$ 59,360,654
Structures and other improvements	171,233,849	738,161	(4,691,244)	923,716	168,204,482
Equipment	6,013,683	366,825	(218,759)	1,312,083	7,473,832
Land	4,528,145	-	-	-	4,528,145
Construction in progress	<u>1,560,434</u>	<u>6,559,890</u>	<u>-</u>	<u>(2,387,975)</u>	<u>5,732,349</u>
Total capital assets	<u>242,539,737</u>	<u>7,669,728</u>	<u>(4,910,003)</u>	<u>-</u>	<u>245,299,462</u>
Less accumulated depreciation:					
Land improvements	18,909,169	2,362,040	-	-	21,271,209
Structures and other Improvements	80,017,819	6,765,076	(3,038,695)	-	83,744,200
Equipment	<u>3,247,569</u>	<u>480,126</u>	<u>(215,780)</u>	<u>-</u>	<u>3,511,915</u>
Total accumulated depreciation	<u>102,174,557</u>	<u>9,607,242</u>	<u>(3,254,475)</u>	<u>-</u>	<u>108,527,324</u>
Net capital assets	<u>\$140,365,180</u>	<u>\$ (1,937,514)</u>	<u>\$ (1,655,528)</u>	<u>\$ -</u>	<u>\$136,772,138</u>

As of June 30, 2015, 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 \$5,316,235 at June 30, 2015 and \$2,291,000 at June 30, 2014.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

**NOTE 4 – LINE OF CREDIT**

The Airport secured a \$10,000,000 revolving line of credit (LOC) on June 25, 2014. There have been no borrowings against the line through June 30, 2015. Borrowings under the LOC bear interest at a variable rate and the rate is adjusted monthly on the first day of each month. The interest rate is calculated as follows: (30-Day LIBOR x 68%) + (115 basis points x 65%). The interest rate is 0.8744% at June 30, 2015. The LOC expires June 1, 2019. The LOC is secured by the general revenues of the Airport and is further secured by a lease agreement between the Airport, as lessor, and the Lexington-Fayette Urban County Government, as lessee. The Airport is in compliance with certain financial covenants as imposed by the LOC agreement.

**NOTE 5 – BONDS PAYABLE**

The following is a summary of the changes in the principal amount of bonds payable during FY 2015 and FY 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
FY 2015	\$ 55,280,000	-	1,100,000	\$ 54,180,000	\$ 1,700,000
FY 2014	\$ 55,280,000	-	-	\$ 55,280,000	\$ 1,100,000

Bonds payable at June 2015 and 2014 are as follows:

	<u>FY 2015</u>	<u>FY 2014</u>
2009 Series A, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3%-5%	\$ 30,780,000	\$ 31,880,000
2009 Reissued Series B, Variable Rate General Airport, Revenue Refunding Bonds (AMT) due through July 2038	5,400,000	5,400,000
2012A Series A, Fixed Rate General Airport, Revenue Refunding Bonds (AMT) due through July 2031 with a coupon rate of 5%	6,770,000	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>11,230,000</u>
Total principal payable	54,180,000	55,280,000
Unamortized bond premiums	<u>3,655,550</u>	<u>3,901,293</u>
Total bonds payable	57,835,550	59,181,293
Less current portion	<u>1,700,000</u>	<u>1,100,000</u>
Noncurrent portion of bonds payable	<u>\$ 56,135,550</u>	<u>\$ 58,081,293</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 5 – BONDS PAYABLE** (Continued)

Reissued Series 2009 B Bonds:

The Reissued 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, 2015 and 2014, the variable interest rates are 0.877% and 0.852% respectively. The 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 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.

Security for 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 the annual principal of and interest due on the 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: At June 30, 2015, the Airport had one interest rate cap with an effective date through January 2, 2018 with a notional amount of \$7,800,000 and \$0 fair value. The Airport currently carries \$5,400,000 in variable rate debt.

Debt Covenants: The 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.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

**NOTE 5 – BONDS PAYABLE** (Continued)

Debt service requirements for principal and estimated interest using the interest rate in effect at June 30, 2015 for all bonds outstanding are outlined below.

Year ending June 30:	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2016	\$ 1,700,000	\$ 2,323,488	\$ 4,023,488
2017	2,000,000	2,258,358	4,258,358
2018	2,100,000	2,174,358	4,274,358
2019	2,200,000	2,086,358	4,286,358
2020	2,300,000	1,971,488	4,271,488
2021-2025	12,525,000	8,022,420	20,547,420
2026-2030	13,480,000	4,683,420	18,163,420
2031-2035	14,565,000	1,465,125	16,030,125
2036-2039	<u>3,310,000</u>	<u>198,282</u>	<u>3,508,282</u>
 Total	 <u>\$ 54,180,000</u>	 <u>\$ 25,183,297</u>	 <u>\$ 79,363,297</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 for the Reissued Series 2009B bonds.

**NOTE 6 - 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 2015 and FY 2014 was \$8,477,667 and \$7,888,485, 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 2015 and FY 2014 were \$4,670,206 and \$3,883,899, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2015 are as follows:

Year ending June 30:	
2016	\$ 5,689,462
2017	7,006,067
2018	6,995,891
2019	6,985,074
2020	6,950,555
Thereafter through 2030	<u>35,068,377</u>
 Total future minimum rental revenue	 <u>\$68,695,426</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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**NOTE 7 - PASSENGER FACILITY CHARGES**

The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on passengers. During FY 2015 and FY 2014, the Airport continued to impose a \$4.50 PFC on enplaning passengers, less a \$0.11 per passenger handling fee retained by the carriers. During FY 2015 and FY 2014, net passenger facility charges received by the Airport were \$2,402,511 and \$2,257,618, respectively. The Federal Aviation Administration (FAA) has authorized the Airport to collect total net PFC revenues of \$87,804,742 to be used to fund FAA-approved capital projects and debt service attributable to such approved projects.

**NOTE 8 - CONCENTRATIONS OF CUSTOMER REVENUE**

During FY 2015, the Airport earned approximately 47% of airline operations revenue from one carrier, and 46% from one carrier in FY 2014.

**NOTE 9 - 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 is administered by John Hancock Plan Services. The Plan was established by the Board and may be amended at the discretion of the Board. The Plan 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%.

On termination of service, participants 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 who 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 \$424,000 and \$426,000 for FY 2015 and FY 2014, respectively. Required contributions made by Plan participants for FY 2015 and FY 2014 were \$238,000 and \$231,000, respectively. 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 statement 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 \$18,000. The Airport does not contribute to this Plan.

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(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015 and 2014

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**NOTE 10 - 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, 2015 and June 30, 2014 using a discount rate of 5%. There is no required employee contribution related to this benefit. The liability was last evaluated by an independent actuary as of June 30, 2014. 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 2015	\$ 492,790	\$ 0	\$ (6,600)	\$ 486,190
FY 2014	\$ 426,142	\$ 73,248	\$ (6,600)	\$ 492,790

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, 2015, and June 30, 2014, two retirees remained in the plan and a liability was recorded for the value of the estimated future cash payments. 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 in FY 2015 or FY 2014.

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 2015	\$ 229,688	\$ 58,464	\$ (58,464)	\$ 229,688
FY 2014	\$ 288,152	\$ -	\$ (58,464)	\$ 229,688

**NOTE 11 - 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, 2015

	<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>
Operating Expenses								
Salaries and benefits	\$ 1,617,207	\$ 1,314,099	\$ 1,474,763	\$ 430,863	\$ 584,768	\$ 588,713	\$ -	\$ 6,010,413
Marketing & advertising	422,092	-	4,665	671	-	1,730	-	429,158
Insurance	375,446	-	-	-	-	-	-	375,446
Consulting fees	89,419	-	-	-	-	-	-	89,419
Computer maintenance	180,000	221	5,409	3,198	-	11,730	-	200,558
Customs expense	-	-	144,880	-	-	-	-	144,880
Equipment rental	22,840	6	-	-	-	-	-	22,846
Maintenance	35,338	1,042,727	84,561	98,570	718	37,036	-	1,298,950
Memberships & publications	54,429	3,900	10,503	1,407	-	2,117	-	72,356
Office supplies	14,642	6,163	1,041	2,524	26	2,189	-	26,585
Professional development	34,220	17,914	7,642	6,335	-	10,605	-	76,716
Professional services	267,421	-	-	30,350	-	-	-	297,771
Supplies	39,010	239,850	160,593	1,042	104,749	15,346	1,714	562,304
Travel expenses	23,477	14,753	18,985	13,303	6	8,778	-	79,302
Utilities & phone	1,020,205	748	20,700	384	75	318	-	1,042,430
Other expenses	117,132	1,079	63,133	315	5,987	13,990	-	201,636
Bad debt	40,780	-	-	-	-	-	-	40,780
Total operating expenses	<u>\$ 4,353,658</u>	<u>\$ 2,641,460</u>	<u>\$ 1,996,875</u>	<u>\$ 588,962</u>	<u>\$696,329</u>	<u>\$ 692,552</u>	<u>\$ 1,714</u>	<u>\$10,971,550</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
SCHEDULE OF OPERATING EXPENSES  
Year ended June 30, 2014

	<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>
Operating Expenses								
Salaries and benefits	\$ 1,530,383	\$ 1,315,038	\$ 1,494,765	\$ 411,880	\$ 589,963	\$ 572,577	\$ -	\$ 5,914,606
Marketing & advertising	427,164	-	-	95	-	-	-	427,259
Insurance	335,730	-	-	40	-	-	-	335,770
Consulting fees	45,709	-	-	-	-	-	-	45,709
Computer maintenance	135,502	1,483	1,579	5,265	-	474	-	144,303
Customs expense	-	-	143,614	-	-	-	-	143,614
Equipment rental	16,217	-	-	396	-	-	-	16,613
Maintenance	18,704	1,068,754	27,458	91,579	-	29,839	-	1,236,334
Memberships & publications	44,318	4,379	10,140	1,037	-	2,337	-	62,211
Office supplies	17,617	4,304	796	3,503	61	2,422	-	28,703
Professional development	35,691	21,872	5,237	5,896	897	3,455	-	73,048
Professional services	205,809	-	-	13,507	-	-	-	219,316
Supplies	8,910	338,448	84,269	2,338	9,109	15,299	23,620	481,993
Travel expenses	33,115	14,757	15,056	11,164	-	3,206	-	77,298
Utilities & phone	1,032,457	407	9,969	-	-	-	-	1,042,833
Pension settlement adjustment	73,248	-	-	-	-	-	-	73,248
Other expenses	121,332	1,861	5,138	519	4,178	12,515	-	145,543
Bad debt recovery	<u>(129,264)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(129,264)</u>
Total operating expenses	<u>\$ 3,952,642</u>	<u>\$ 2,771,303</u>	<u>\$ 1,798,021</u>	<u>\$ 547,219</u>	<u>\$ 604,208</u>	<u>\$ 642,124</u>	<u>\$ 23,620</u>	<u>\$ 10,339,137</u>