

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

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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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, 2016 and 2015, 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 from 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, 2016 and 2015, and the changes in its financial position and cash flows there of 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 3 through 13 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 28, 2016 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

Crowe Horwath LLP

Lexington, Kentucky
September 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

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, 2016 (FY 2016) and June 30, 2015 (FY 2015). 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 2016, Blue Grass Airport was served by four airline brands offering non-stop flights to 18 destinations. The Airport experienced a record number of passengers in FY 2016 with a total of 637,542 enplaned passengers, making this the highest passenger count in the Airport's 69-year history. This growth can partially be attributed to seasonal flights to Savannah, Georgia and Baltimore, Maryland, as well as Lexington's hosting of the 2015 Breeders' Cup World Championships in October 2015. 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

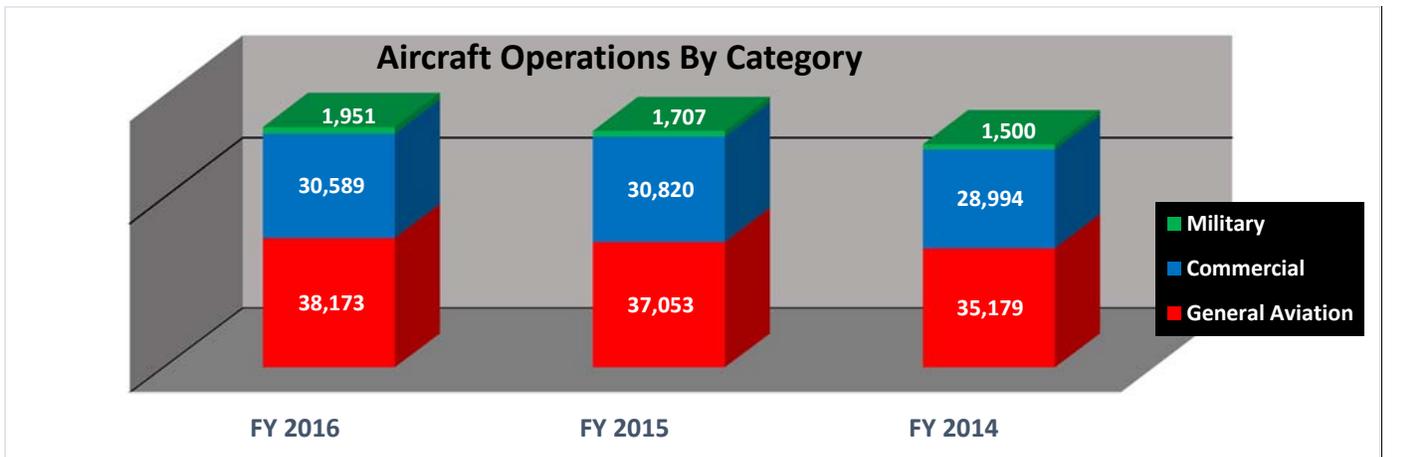
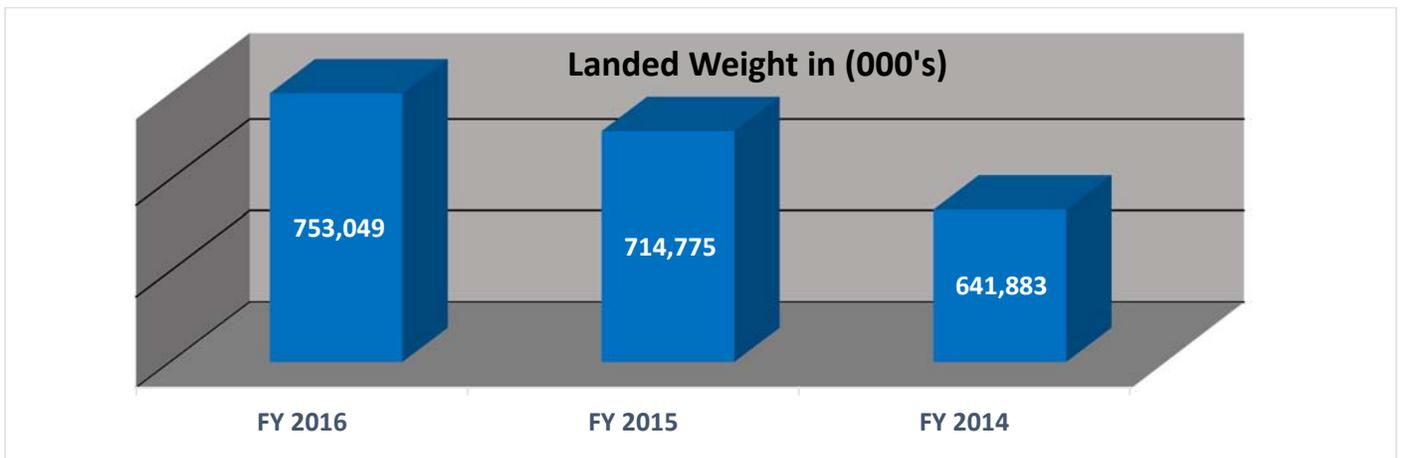
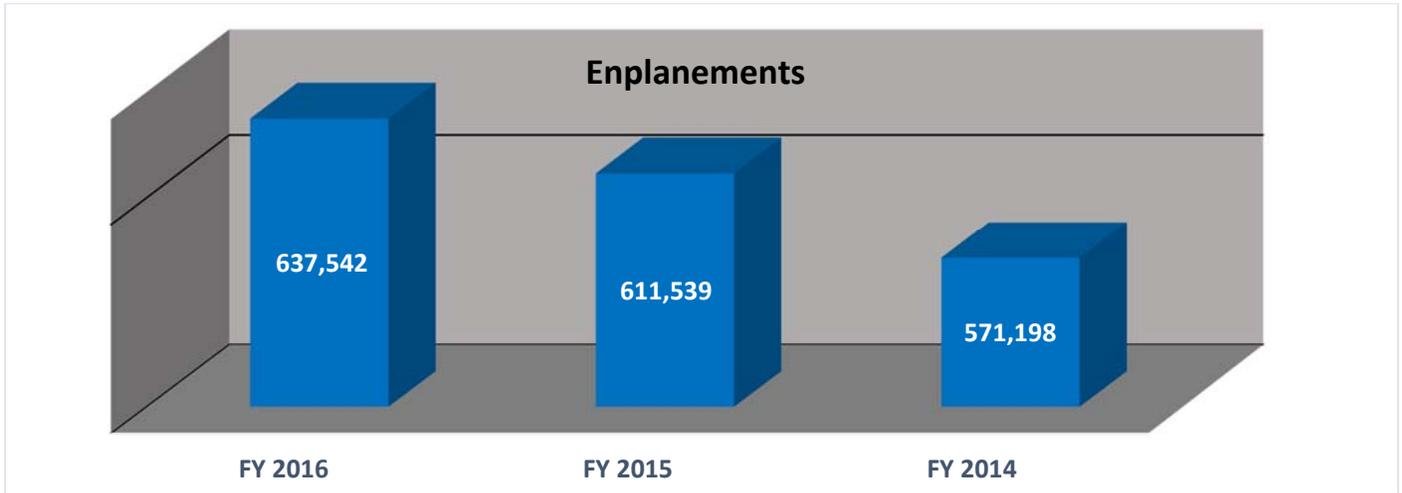
	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Enplanements	637,542	611,539	571,198
Increase	26,003	40,341	29,457
% Increase	4.3%	7.06%	5.44%
Aircraft operations – commercial	30,589	30,820	28,994
Increase (decrease)	(231)	1,826	74
% Increase (decrease)	(0.75%)	6.29%	0.26%
Aircraft operations – general aviation	38,173	37,053	35,179
Increase	1,120	1,874	1,329
% Increase	3.02%	5.32%	3.93%
Aircraft operations – military	1,951	1,707	1,500
Increase (decrease)	244	207	(260)
% Increase (decrease)	14.29%	13.80%	(14.8%)
Landed weight (1,000 pounds)	753,049	714,775	641,883
Increase	38,274	72,892	9,267
% Increase	5.4%	11.36%	1.46%

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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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

STATISTICAL GRAPHS



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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

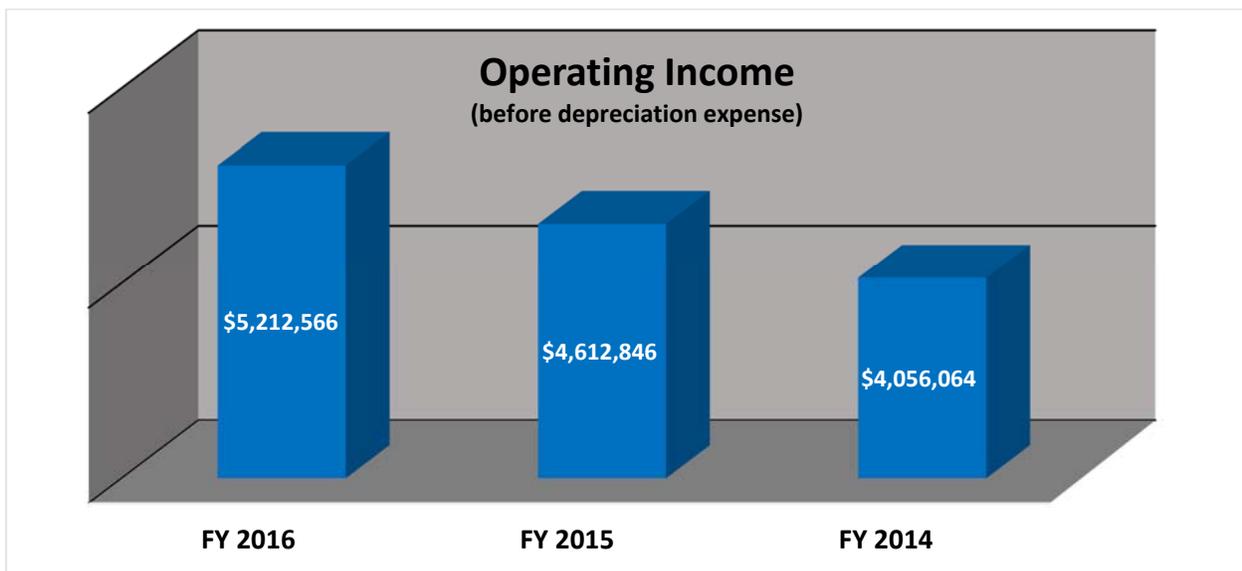
FINANCIAL STATEMENTS

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 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Operating revenue	\$ 17,000,444	\$ 15,584,396	\$ 14,395,201
Operating expense	<u>(11,787,878)</u>	<u>(10,971,550)</u>	<u>(10,339,137)</u>
Operating income before depreciation expense	5,212,566	4,612,846	4,056,064
Depreciation expense	<u>(9,893,043)</u>	<u>(9,365,655)</u>	<u>(9,607,242)</u>
Loss from operations	(4,680,477)	(4,752,809)	(5,551,178)
Net non-operating revenue (expense)	<u>1,374,324</u>	<u>1,331,653</u>	<u>(428,985)</u>
Loss before capital grants	(3,306,153)	(3,421,156)	(5,980,163)
Capital grants	<u>13,962,518</u>	<u>8,515,529</u>	<u>2,467,049</u>
Increase (decrease) in net position	<u>\$ 10,656,365</u>	<u>\$ 5,094,373</u>	<u>\$ (3,513,114)</u>



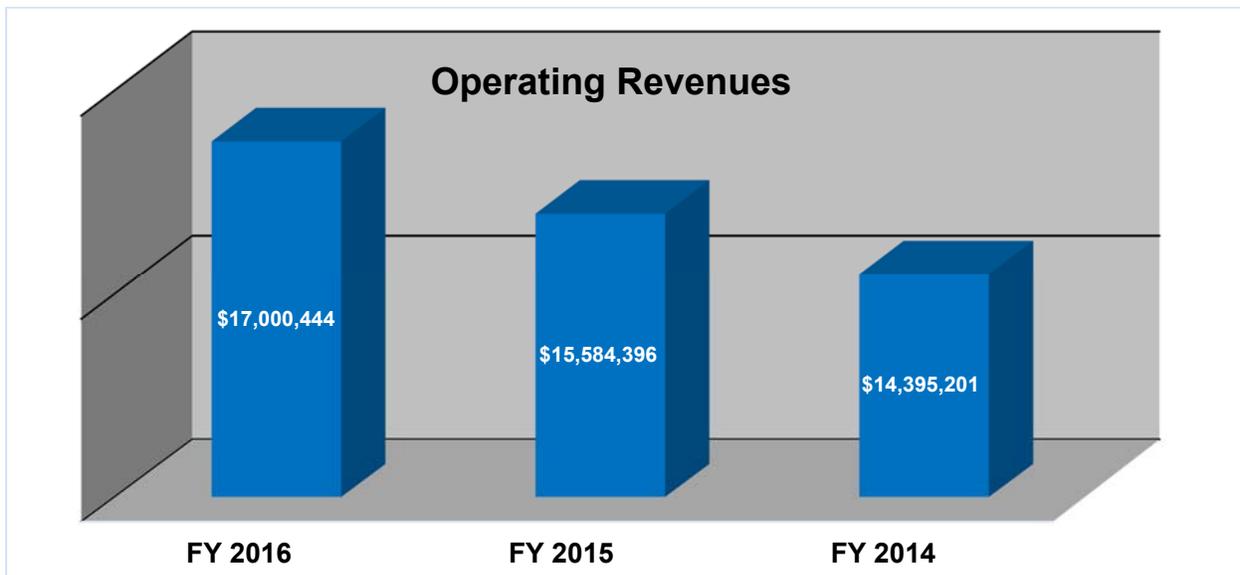
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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

REVENUE

A summary of the revenue for FY 2016, FY 2015, and FY 2014 is as follows:

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>2014</u> <u>Amount</u>	<u>% Change</u> <u>2016/2015</u>
Operating:				
Airline operations	\$ 6,260,696	\$ 5,718,210	\$ 5,167,235	9.49%
Auto parking	5,769,435	5,156,943	4,771,186	11.88%
Ground transportation	2,442,772	2,278,764	2,045,382	7.20%
Concessions and rentals	568,058	533,300	515,838	6.52%
General aviation	1,268,379	1,192,174	1,176,566	6.39%
Advertising	440,405	389,364	363,673	13.11%
Other	<u>250,699</u>	<u>315,641</u>	<u>355,321</u>	<u>(20.57%)</u>
Total operating	17,000,444	15,584,396	14,395,201	9.09%
Non-operating:				
Passenger facility charges	2,501,697	2,402,511	2,257,618	4.13%
Contract facility charges	909,797	716,064	712,826	27.06%
Investment income, net of fees	295,416	322,630	353,487	(8.44%)
Net increase in fair value of investments	<u>294,514</u>	<u>57,502</u>	<u>190,369</u>	<u>412.18%</u>
Total non-operating	4,001,424	3,498,707	3,514,300	14.37%
Capital grants	<u>13,962,518</u>	<u>8,515,529</u>	<u>2,467,049</u>	<u>63.97%</u>
Total revenue	<u>\$ 34,964,386</u>	<u>\$ 27,598,632</u>	<u>\$ 20,376,550</u>	<u>26.69%</u>



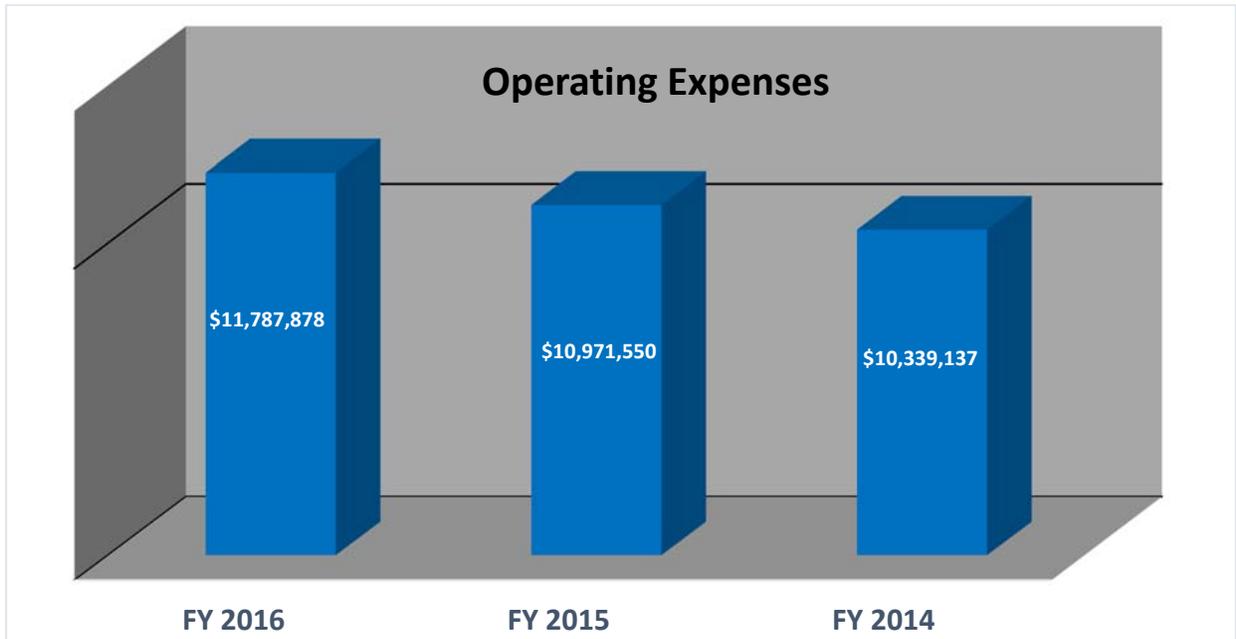
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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

EXPENSE

A summary of the expense for FY 2016, FY 2015, and FY 2014 is as follows:

	2016 <u>Amount</u>	2015 <u>Amount</u>	2014 <u>Amount</u>	<u>% Change 2016/2015</u>
Operating:				
Administration	\$ 4,602,718	\$ 4,353,658	\$ 3,952,642	5.72%
General maintenance	2,930,272	2,641,460	2,771,303	10.93%
Safety, rescue and security	2,165,046	1,996,875	1,798,021	8.42%
Engineering	629,396	588,962	547,219	6.87%
Building maintenance	743,677	696,329	604,208	6.80%
Operations	700,601	692,552	642,124	1.16%
Drug task force	<u>16,168</u>	<u>1,714</u>	<u>23,620</u>	<u>843.29%</u>
Total operating	11,787,878	10,971,550	10,339,137	7.44%
Non-operating:				
Interest expense and fees	2,107,987	2,157,104	2,201,397	(2.28%)
Debt/financing costs	-	1,250	86,360	NA
Loss on disposal of capital assets	<u>519,113</u>	<u>8,700</u>	<u>1,655,528</u>	<u>5,866.82%</u>
Total non-operating	2,627,100	2,167,054	3,943,285	21.23%
Depreciation	<u>9,893,043</u>	<u>9,365,655</u>	<u>9,607,242</u>	<u>5.63%</u>
Total expense	<u>\$ 24,308,021</u>	<u>\$ 22,504,259</u>	<u>\$ 23,889,664</u>	<u>8.02%</u>



(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

FY 2016 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$15.6 million in FY 2015 to \$17.0 million in FY 2016, an increase of 9%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$543,000, or 9%. The majority of this revenue growth can be attributed to the 4% increase in enplanements and the 5% increase in landed weight. Revenue from landed weight increased by 15% due to the weight increase noted above along with a 10% price adjustment made in FY 2016.
- Parking revenue increased by \$612,000, or 12%, due to the increase in enplanements and a new and more favorable agreement with the parking concessionaire that increased valet commissions on February 1, 2016.
- Ground transportation revenue increased by \$164,000, or 7%, primarily due to the increase in enplanements.
- Advertising revenue increased by \$51,000, or 13%, due to an increase in ad rates as well as additional advertising revenue generated from the Breeders Cup event.

Operating expense increased from \$11.0 million in FY 2015 to \$11.8 million in FY 2016, an increase of 7%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by \$249,000, or 6%. This increase was primarily due to additional airline incentives and one-time expenses incurred for the Breeders Cup event. In addition, the Airport saw a \$57,000, or 5% increase in utilities expense for FY 2016.
- General maintenance expenses increased by \$289,000, or 11% due to the retexturing of Runway 4-22 and repairs made to the baggage handling system.
- Safety, rescue and security expenses increased by \$168,000, or 8%. This was primarily due to a one-time settlement to the remaining participants of the deferred compensation plan and additional salaries and benefits for overtime related to the Breeders Cup and additional staff training.

In FY 2016, the Airport had net non-operating revenue of \$1.4 million versus net non-operating revenue of \$1.3 million in FY 2015 primarily due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively increased by \$293,000, or 9%, due primarily to increased enplanements.
- In FY 2016, the Airport experienced a \$295,000 increase in the fair value of its investments, compared to a \$58,000 increase in FY 2015.
- In FY 2016, the Airport completed construction on a new maintenance facility. The balance of the old maintenance buildings were demolished and the balance was written off resulting in the loss of disposal of capital assets of \$493,000.

Capital grant revenue increased from \$8.5 million in FY 2015 to \$14.0 million in FY 2016, an increase of 65%. This increase was primarily from the Federal Aviation Administration (FAA) funding of the Taxiway Safety Enhancement Program (TSEP).

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

FY 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.
- 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.

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 primarily from FAA funding of the TSEP.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2016, 2015, and 2014. The Airport's assets exceeded liabilities by \$120.6 million at June 30, 2016, a \$10.7 million increase from June 30, 2015. The Airport's assets exceeded liabilities by \$109.9 million at June 30, 2015, a \$5.1 million increase from June 30, 2014.

	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Assets			
Current assets-unrestricted	\$ 13,049,128	\$ 9,685,910	\$ 11,431,286
Restricted assets	24,292,681	24,625,974	19,763,182
Capital assets	<u>145,440,985</u>	<u>142,068,905</u>	<u>136,772,138</u>
Total assets	<u>\$ 182,782,794</u>	<u>\$ 176,380,789</u>	<u>\$ 167,966,606</u>
Liabilities			
Current liabilities-payable from unrestricted assets	\$ 1,798,110	\$ 2,164,124	\$ 1,798,757
Current liabilities-payable from restricted assets	6,149,085	7,429,478	2,522,692
Noncurrent liabilities	<u>54,243,475</u>	<u>56,851,428</u>	<u>58,803,771</u>
Total liabilities	<u>\$ 62,190,670</u>	<u>\$ 66,445,030</u>	<u>\$ 63,125,220</u>
Net Position			
Net investment in capital assets	\$ 89,551,176	\$ 84,233,355	\$ 77,590,845
Restricted	20,143,596	18,896,495	18,340,490
Unrestricted	<u>10,897,352</u>	<u>6,805,909</u>	<u>8,910,051</u>
Total net position	<u>\$ 120,592,124</u>	<u>\$ 109,935,759</u>	<u>\$ 104,841,386</u>

CAPITAL ASSETS

Major capital projects in progress and expenditures incurred during FY 2016 included the following:

	<u>FY 2016</u>	<u>Cumulative</u>
• Taxiway Safety Enhancement Program – Phase I	\$ 4,671,000	\$ 15,515,000
• Taxiway Safety Enhancement Program – Phase II – IV Design	718,000	2,676,000
• Taxiway Safety Enhancement Program – Phase II	6,459,000	6,459,000

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

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

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

CAPITAL ASSETS (Continued)

The Taxiway Safety Enhancement Program (TSEP) is a \$63 million multi-year initiative funded 90% by grants from the Federal Aviation Administration with a 10% matching contribution from the Airport. Phase I of this project concluded in October 2015 with the opening of a new 63,000 square foot maintenance complex, and Phase II, consisting of demolition of the previous maintenance complex and property grading, is currently underway and is expected to be completed in FY 2017. In FY 2017, the Airport received additional funding for Phase III which will consist of the demolition of two Taxiway connectors and the realignment of the northernmost portion of Taxiway A.

In order to finance other capital projects including: Maintenance facility for the rental car companies; Terminal improvements including the replacement of the Baggage Belt System; Parking improvements; and General aviation improvements including hangar development, the Airport Board approved the issuance of approximately \$34 million of General Airport Revenue Bonds. The Airport plans to issue the bonds as 20 year fixed rate debt on or about October 20, 2016.

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

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, 2016 and June 30, 2015 were \$52,480,000 and \$54,180,000, respectively. Fixed rate bonds make up approximately 90% of the Airport's debt structure with \$47,080,000 in fixed rate bonds at June 30, 2016 and \$48,780,000 in fixed rate bonds at June 30, 2015. 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, 2016 and June 30, 2015 was 1.087% and 0.877%, respectively.

In addition to the General Airport Revenue Bonds discussed in Capital Assets, in order to take advantage of current low long-term interest rates, the Airport Board approved the issuance of approximately \$23 million in General Airport Revenue Refunding Bonds for an advance refunding of a portion of the 2009 Series A bonds. The Refunding Bonds will be issued on or about October 20, 2016 along with the Revenue Bonds in order to realize savings on issuance costs.

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 (74.3% at June 30, 2016, and 76.6% at June 30, 2015) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be sold to pay liabilities.

An additional portion of the Airport's net assets (16.7% at June 30, 2016, and 17.2% at June 30, 2015) are restricted and represent bond reserve funds that are subject to external restrictions on how they can be

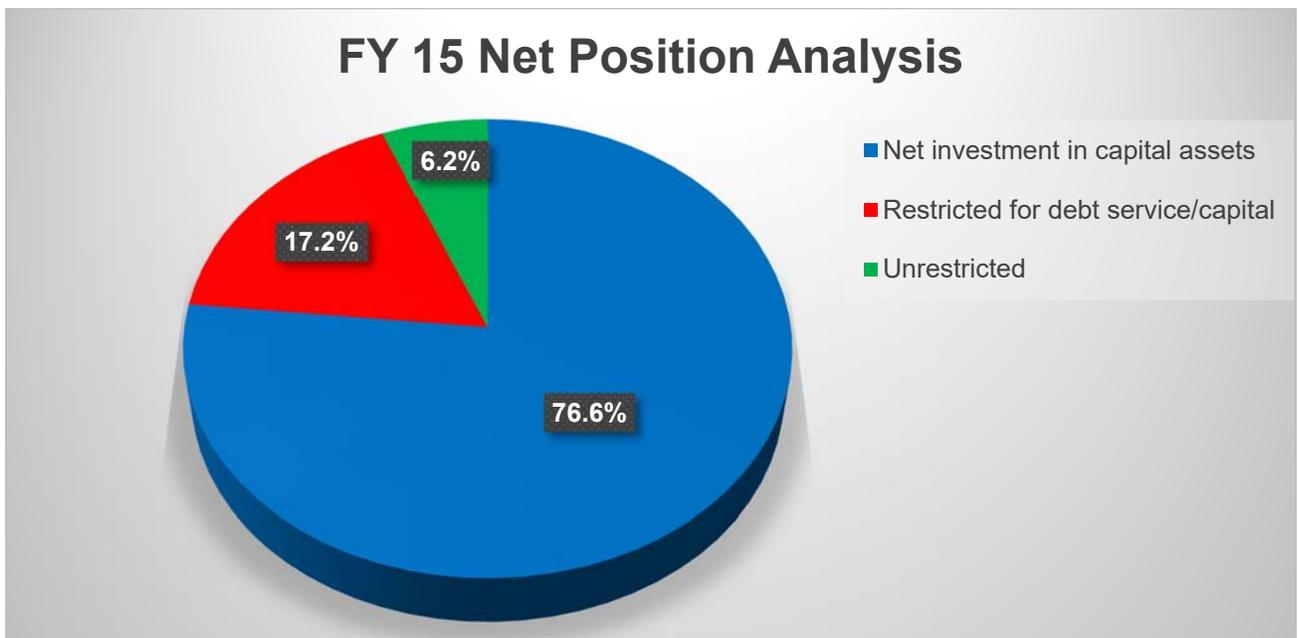
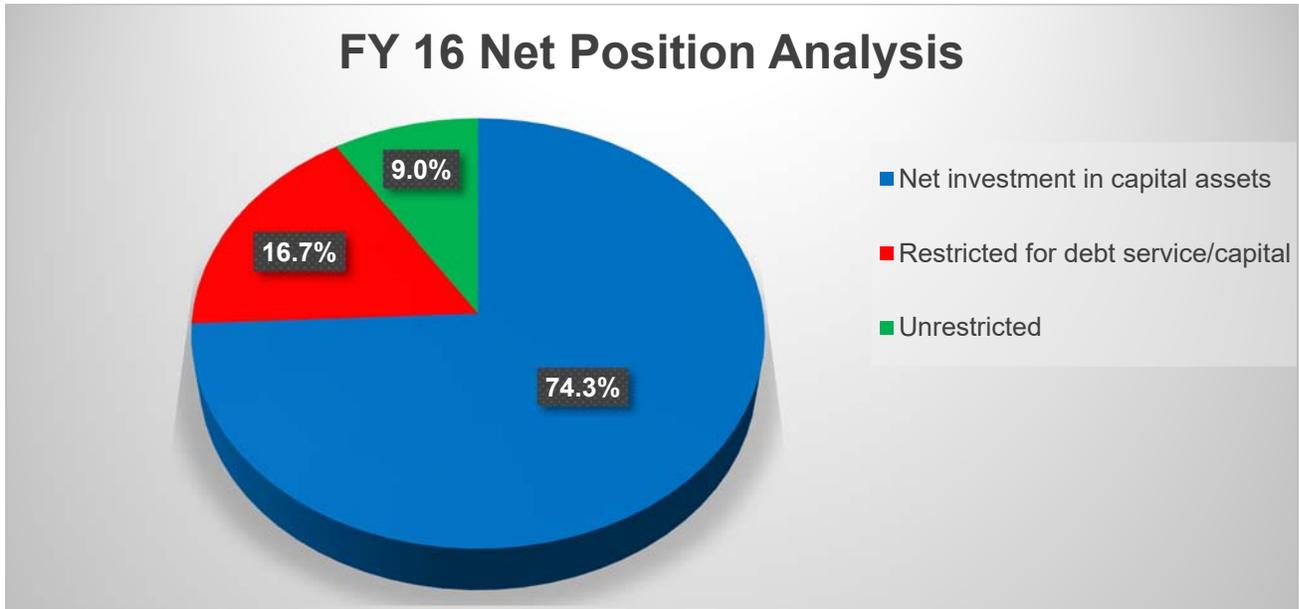
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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

NET POSITION (Continued)

used under bond resolutions. Also included are 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 (9.0% of the Airport's net assets at June 30, 2016, and 6.2% at June 30, 2015) may be used to meet any of the Airport's ongoing obligations.



(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2016 and 2015

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 2016</u>	<u>FY 2015</u>
Cash flows provided by operating activities	\$ 5,207,353	\$ 4,562,676
Cash flows used in capital and related financing activities	(1,860,125)	(6,267,580)
Cash flows provided (used) by investing activities	<u>(242,591)</u>	<u>1,009,272</u>
Net increase (decrease) in cash and cash equivalents	3,104,637	(695,632)
Cash and cash equivalents, beginning of year	<u>8,261,655</u>	<u>8,957,287</u>
Cash and cash equivalents, end of year	<u>\$ 11,366,292</u>	<u>\$ 8,261,655</u>

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>
Assets		
Current assets - unrestricted		
Cash and cash equivalents	\$ 6,504,008	\$ 3,578,827
Investments	4,500,997	3,785,949
Accounts receivable	1,471,923	1,869,342
Accrued interest receivable	10,850	9,672
Other assets	<u>561,350</u>	<u>442,120</u>
Total current assets	<u>13,049,128</u>	<u>9,685,910</u>
Restricted assets		
Cash and cash equivalents	4,862,284	4,682,828
Certificates of deposit	3,885,645	3,787,789
Investments	11,544,535	11,469,536
Accounts receivable	698,437	443,375
Accrued interest receivable	43,688	46,556
Grants receivable	<u>3,258,092</u>	<u>4,195,890</u>
Total restricted assets	<u>24,292,681</u>	<u>24,625,974</u>
Noncurrent assets		
Capital assets, net	<u>145,440,985</u>	<u>142,068,905</u>
Total assets	<u>\$ 182,782,794</u>	<u>\$ 176,380,789</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET POSITION
 June 30, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>
Liabilities		
Current liabilities (payable from unrestricted assets)		
Accounts payable	\$ 1,058,170	\$ 944,872
Accounts payable-construction	285,026	710,849
Accrued payroll and benefits	<u>454,914</u>	<u>508,403</u>
Total current liabilities (payable from unrestricted assets)	<u>1,798,110</u>	<u>2,164,124</u>
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	2,000,000	1,700,000
Accounts payable	219,466	210,336
Accounts payable-construction	2,763,052	4,332,129
Accrued interest payable	<u>1,166,567</u>	<u>1,187,013</u>
Total current liabilities (payable from restricted assets)	<u>6,149,085</u>	<u>7,429,478</u>
Total current liabilities	<u>7,947,195</u>	<u>9,593,602</u>
Noncurrent liabilities		
Accrued post-employment benefits	353,666	715,878
Bonds payable	<u>53,889,809</u>	<u>56,135,550</u>
Total noncurrent liabilities	<u>54,243,475</u>	<u>56,851,428</u>
Total liabilities	<u>62,190,670</u>	<u>66,445,030</u>
Net position		
Net investment in capital assets	89,551,176	84,233,355
Restricted for debt service/capital projects	20,143,596	18,896,495
Unrestricted	<u>10,897,352</u>	<u>6,805,909</u>
Total net position	<u>120,592,124</u>	<u>109,935,759</u>
Total liabilities and net position	<u>\$ 182,782,794</u>	<u>\$ 176,380,789</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, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>
Operating revenue:		
Airline operations	\$ 6,260,696	\$ 5,718,210
Auto parking	5,769,435	5,156,943
Ground transportation	2,442,772	2,278,764
Concessions and rentals	568,058	533,300
General aviation	1,268,379	1,192,174
Advertising	440,405	389,364
Other	<u>250,699</u>	<u>315,641</u>
Total operating revenue	<u>17,000,444</u>	<u>15,584,396</u>
Operating expense:		
Administration	4,602,718	4,353,658
General maintenance	2,930,272	2,641,460
Safety, rescue and security	2,165,046	1,996,875
Engineering	629,396	588,962
Building maintenance	743,677	696,329
Operations	700,601	692,552
Drug task force	<u>16,168</u>	<u>1,714</u>
Total operating expense	<u>11,787,878</u>	<u>10,971,550</u>
Operating income before depreciation expense	5,212,566	4,612,846
Depreciation expense	<u>9,893,043</u>	<u>9,365,655</u>
Loss from operations	<u>(4,680,477)</u>	<u>(4,752,809)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,501,697	2,402,511
Contract facility charges	909,797	716,064
Investment income, net of fees	295,416	322,630
Net increase in fair value of investments	294,514	57,502
Interest expense and fees	(2,107,987)	(2,157,104)
Debt/financing costs	-	(1,250)
Loss on disposal of capital assets	<u>(519,113)</u>	<u>(8,700)</u>
Net non-operating revenue	1,374,324	1,331,653
Capital grants	<u>13,962,518</u>	<u>8,515,529</u>
Increase in net position	10,656,365	5,094,373
Net position, beginning of year	<u>109,935,759</u>	<u>104,841,386</u>
Net position, end of year	<u>\$ 120,592,124</u>	<u>\$ 109,935,759</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>
Cash flows provided by operating activities		
Receipts from customers	\$ 17,147,164	\$ 15,077,345
Payments to suppliers	(5,189,214)	(4,814,157)
Payments to employees	(7,001,296)	(6,016,153)
Other receipts	<u>250,699</u>	<u>315,641</u>
Net cash provided by operating activities	<u>5,207,353</u>	<u>4,562,676</u>
Cash flows used in capital and related financing activities		
Proceeds from capital grants	14,712,898	4,319,639
Passenger facility charges	2,434,785	2,381,471
Contract facility charges	918,166	890,703
Principal paid on bonds	(1,700,000)	(1,100,000)
Interest and fees paid on bonds	(2,427,839)	(2,456,213)
Acquisition and construction of capital assets	<u>(15,798,135)</u>	<u>(10,303,180)</u>
Net cash used in capital and related financing activities	<u>(1,860,125)</u>	<u>(6,267,580)</u>
Cash flows provided (used) by investing activities		
Interest received on investments	350,770	359,688
Net sales (purchases) of investments	<u>(593,361)</u>	<u>649,584</u>
Net cash provided (used) by investing activities	<u>(242,591)</u>	<u>1,009,272</u>
Net increase (decrease) in cash and cash equivalents	3,104,637	(695,632)
Cash and cash equivalents, beginning of year	<u>8,261,655</u>	<u>8,957,287</u>
Cash and cash equivalents, end of year	<u>\$ 11,366,292</u>	<u>\$ 8,261,655</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (4,680,477)	\$ (4,752,809)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	9,893,043	9,365,655
Bad debt expense	175	40,780
Increase (decrease) due to changes in:		
Accounts receivable	397,244	(236,884)
Other assets	(100,230)	(13,298)
Accounts payable	113,298	106,505
Accrued payroll and benefits	<u>(415,700)</u>	<u>52,727</u>
Net cash provided by operating activities	<u>\$ 5,207,353</u>	<u>\$ 4,562,676</u>
Supplemental schedule of noncash transactions		
Construction in progress included in accounts payable	\$ 3,048,078	\$ 5,042,978

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 (GAAP) 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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position: Net position is classified into three components – 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 indebtedness outstanding used for the acquisition, construction, or improvement of those capital assets.
- Restricted for debt service/capital projects - This component consists of Passenger Facility Charges received from airlines and Customer Facility Charges received from car rental companies that are restricted for the funding of eligible capital projects and the related debt service. Also included are 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 in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The unrealized gain on investments was \$182,907 at June 30, 2016 and the unrealized loss at June 30, 2015 was \$111,311.

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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, car rental, and concession 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: In 2016, the GASB issued Statement 72, *Fair Value Measurement and Application*. The objective is to address accounting and financial reporting issues related to fair value measurements and provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. It is effective for the Airport's fiscal year ended June 30, 2016. The adoption of this Standard had no effect on the Airport's net position or changes therein.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for years beginning after June 15, 2017, 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. The Airport has not determined the effect, if any, that the adoption of this statement may have on its financial statements.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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. The Airport's investments policy is to invest funds in accordance with the provisions of KRS 66.480.

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: The following is a summary of the Airport's cash:

	<u>FY 2016</u>	<u>FY 2015</u>
Unrestricted	\$ 4,020,842	\$ 2,829,526
Restricted	<u>815,986</u>	<u>812,750</u>
Total cash	<u>\$ 4,836,828</u>	<u>\$ 3,642,276</u>

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's cash bank balances are insured by the FDIC up to \$250,000. Bank balances in excess of \$250,000 were \$5,223,790 and \$3,023,415 at June 30, 2016 and 2015, respectively. These amounts were not insured by the FDIC but were collateralized by securities held in the Airport's name; therefore, none of the cash balances are subject to custodial credit risk.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Federated Government Obligations	\$ 2,483,166	9.4%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	2,838,078	10.8%	6/4/20-12/15/41	AA+/NR	AAA/NR
US Agency Bonds	912,109	3.4%	10/17/19-7/25/40	A+	Aa3
US Treasury Notes	<u>750,810</u>	<u>2.8%</u>	2/15/17	AA+	AAA
Total unrestricted investments	<u>4,500,997</u>	<u>17.0%</u>			
Restricted cash equivalents					
Federal Government Obligations	648,466	2.5%	N/A	N/A	N/A
Dryfus Govt Cash Mgt Funds	<u>3,397,832</u>	<u>12.8%</u>	N/A	N/A	N/A
Total restricted cash equivalents	<u>4,046,298</u>	<u>15.3%</u>			
Restricted investments					
Certificates of Deposit	3,885,645	14.7%	8/1/16-6/6/19	N/A	N/A
Mortgage Backed Securities	5,007,657	18.9%	12/21/15-7/25/40	AA/AA+/N/A	Aaa/N/A
Municipal Bonds	1,621,432	6.1%	11/1/15-4/1/18	AAA/AA+/A+/N/A	Aa2/Aa3/A3/N/A
US Agency Bonds	3,078,452	11.6%	11/12/15-10/21/25	AAA / A+	Aaa / Aa
US Treasury Notes	<u>1,836,994</u>	<u>6.9%</u>	5/15/17-7/31/19	AA+	Aaa
Total restricted investments	<u>15,430,180</u>	<u>58.3%</u>			
Total cash equivalents and investments	<u>\$26,460,641</u>	<u>100.0%</u>			

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Goldman Sachs Govt Money Market	<u>\$749,301</u>	3.2%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	2,467,410	10.4%	2/1/28-7/25/40	N/A	N/A
Municipal Bonds	180,152	0.8%	2/1/28-5/1/32	A+	Aa3
US Agency Bonds	<u>1,138,387</u>	<u>4.8%</u>	8/28/19-12/15/41	AA+	Aaa
Total unrestricted investments	<u>3,785,949</u>	<u>16.0%</u>			
Restricted cash equivalents					
Goldman Sachs Govt Money Market	698,805	3.0%	N/A	N/A	N/A
Dryfus Govt Cash Mgt Funds	<u>3,171,273</u>	<u>13.4%</u>	N/A	N/A	N/A
Total restricted cash equivalents	<u>3,870,078</u>	<u>16.4%</u>			
Restricted investments					
Certificates of Deposit	3,787,789	16.0%	8/1/16-6/6/19	N/A	N/A
Mortgage Backed Securities	4,382,789	18.5%	12/21/15-7/25/40	AA+/N/A	Aaa/N/A
Municipal Bonds	1,374,441	5.8%	11/1/15-4/1/18	AAA/AA+/A+/N/A	Aa2/Aa3/A3/N/A
US Agency Bonds	3,456,591	14.6%	11/12/15-10/21/25	AAA / A+	Aaa / Aa
US Treasury Notes	<u>2,255,716</u>	<u>9.5%</u>	5/15/17-7/31/19	AA+	Aaa
Total restricted investments	<u>15,257,326</u>	<u>64.4%</u>			
Total cash equivalents and investments	<u>\$23,662,654</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 certificates of deposits are insured by the Federal Depository Insurance Company (FDIC) and the Airport monitors the certificate of deposit purchases to ensure that holdings at each institution do not exceed FDIC coverage limits. The Airport's other 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, 2016 and June 30, 2015, had an average duration of 3.09 and 3.89 years, respectively.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

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

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 that the Airport may invest in any one issuer.

Fair Value Measurement: The Airport categorizes its fair value measurements within the fair value hierarchy established by GAAP. The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; matrix pricing technique, such as used by the Airport, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the reporting entity's own assumptions about the fair value of an asset or liability.

The Airport has the following recurring fair value measurements as of June 30, 2016 and June 30, 2015:

Fair Value Measurements As of 6/30/2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level			
Debt Securities			
US Treasury Notes	\$2,587,804	\$2,587,804	\$ -
US Agency Notes	3,990,561	3,990,561	-
Municipal Bonds	1,621,432	1,621,432	-
Certificates of Deposit	3,885,647	-	3,885,647
Mortgage Backed Securities	7,845,733	-	7,845,733
	<u> </u>	<u> </u>	<u> </u>
Total Investments by fair value level	<u>\$19,931,177</u>	<u>\$8,199,797</u>	<u>\$11,731,380</u>
	<u> </u>	<u> </u>	<u>\$ -</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Fair Value Measurements As of 6/30/2015

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt Securities				
US Treasury Notes	\$2,255,716	\$2,255,716	\$ -	\$ -
US Agency Notes	4,594,978	4,594,978	-	-
Municipal Bonds	1,554,593	1,554,593	-	-
Certificates of Deposit	3,787,789	-	3,787,789	-
Mortgage Backed Securities	6,850,199	-	6,850,199	-
	<u>6,850,199</u>	<u>-</u>	<u>6,850,199</u>	<u>-</u>
Total Investments by fair value level	<u>\$19,043,275</u>	<u>\$8,405,287</u>	<u>\$10,637,988</u>	<u>\$ -</u>

NOTE 3 - CAPITAL ASSETS

Capital asset activity for FY 2016 and FY 2015 is as follows:

	<u>Beginning Balance</u>	<u>FY 2016</u>			<u>Ending Balance</u>
		<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	
Capital assets:					
Land improvements	\$ 59,800,551	\$ 18,450	\$ (15,462)	\$ 316,124	\$ 60,119,663
Structures and other improvements	172,997,222	31,600	(2,059,528)	16,358,478	187,327,772
Equipment	8,033,038	311,757	(502,242)	998,378	8,840,931
Land	4,528,145	-	-	-	4,528,145
Construction in progress	14,001,459	13,441,429	(19,000)	(17,672,980)	9,750,908
Total capital assets	<u>259,360,415</u>	<u>13,803,236</u>	<u>(2,596,232)</u>	<u>-</u>	<u>270,567,419</u>
Less accumulated depreciation:					
Land improvements	23,629,640	2,362,353	(10,823)	-	25,981,170
Structures and other Improvements	90,156,301	6,795,107	(1,564,821)	-	95,386,587
Equipment	3,505,569	735,583	(482,475)	-	3,758,677
Total accumulated depreciation	<u>117,291,510</u>	<u>9,893,043</u>	<u>(2,058,119)</u>	<u>-</u>	<u>125,126,434</u>
Net capital assets	<u>\$142,068,905</u>	<u>\$ 3,910,193</u>	<u>\$ (538,113)</u>	<u>\$ -</u>	<u>\$145,440,985</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 - CAPITAL ASSETS (Continued)

	FY 2015				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
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>

As of June 30, 2016, 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 \$3,632,079 at June 30, 2016 and \$5,316,235 at June 30, 2015.

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, 2016. 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 1.0663% at June 30, 2016. 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 2016 and FY 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
FY 2016	\$ 54,180,000	-	1,700,000	\$ 52,480,000	\$ 2,000,000
FY 2015	\$ 55,280,000	-	1,100,000	\$ 54,180,000	\$ 1,700,000

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 – BONDS PAYABLE (Continued)

Bonds payable at June 30, 2016 and June 30, 2015 are as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
2009 Series A, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3%-5%	\$ 29,080,000	\$ 30,780,000
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	52,480,000	54,180,000
Unamortized bond premiums	<u>3,409,809</u>	<u>3,655,550</u>
Total bonds payable	55,889,809	57,835,550
Less current portion	<u>2,000,000</u>	<u>1,700,000</u>
Noncurrent portion of bonds payable	<u>\$ 53,889,809</u>	<u>\$ 56,135,550</u>

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, 2016 and 2015, the variable interest rates are 1.087% and 0.877% 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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 – BONDS PAYABLE (Continued)

Interest Rate Caps: At June 30, 2016, 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.

Debt service requirements for principal and estimated interest using the interest rate in effect at June 30, 2016 for all bonds outstanding are outlined below.

Year ending June 30:	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2017	\$ 2,000,000	\$ 2,269,212	\$ 4,269,212
2018	2,100,000	2,185,212	4,285,212
2019	2,200,000	2,097,212	4,297,212
2020	2,300,000	1,982,371	4,282,371
2021	2,350,000	1,864,712	4,214,712
2022-2026	13,115,000	7,420,969	20,535,969
2027-2031	13,540,000	4,060,719	17,600,719
2032-2036	12,650,000	1,065,057	13,715,057
2037-2039	<u>2,225,000</u>	<u>99,813</u>	<u>2,324,813</u>
Total	<u>\$ 52,480,000</u>	<u>\$ 23,045,277</u>	<u>\$ 75,525,277</u>

* The interest payments on the variable rate debt 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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 2016 and FY 2015 was \$9,304,509 and \$8,477,667, 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 2016 and FY 2015 were \$2,811,606 and \$4,670,206, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2016 are as follows:

Year ending June 30:	
2017	\$ 7,243,772
2018	7,134,742
2019	7,123,505
2020	7,086,568
2021	4,875,643
Thereafter through 2031	<u>29,440,638</u>
Total future minimum rental revenue	<u>\$ 62,904,868</u>

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 2016 and FY 2015, 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 2016 and FY 2015, net PFC's received by the Airport were \$2,501,697 and \$2,402,511, respectively. The FAA has authorized the Airport to collect total PFC revenues of \$87,804,742 to be used to fund FAA-approved capital projects and debt service attributable to such approved projects. As of June 30, 2016, \$18,821,128 has been closed and the remaining balance of \$68,983,614 will be used to fund debt for the approved projects.

NOTE 8 - CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2016, the Airport earned approximately 46% of airline operations revenue from one carrier, and 47% from one carrier in FY 2015.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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%. For all employees, vesting in the plan occurs over a 5 year period as follows: 1 year-0%; 2 years-25%; 3 years-50%; 4 years-75%; 5 years-100%. A year of service is defined as completion of at least 1,000 hours of service during the applicable computation period.

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 \$476,000 and \$424,000 for FY 2016 and FY 2015, respectively. For FY 2016 and FY 2015, the required employer contributions were reduced by forfeitures of \$28,670 and \$11,932, respectively. Required contributions made by Plan participants for FY 2016 and FY 2015 were \$268,000 and \$238,000, 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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

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, 2016 using a discount rate of 3.5% vs. a 5.0% discount rate at June 30, 2015. The liability was evaluated by an independent actuary as of June 30, 2016 and certain adjustments were made to the turnover assumptions in the plan which resulted in a reduction of the liability, despite the decrease in the discount rate. There is no required employee contribution related to this benefit. The table below outlines the beginning of year (BOY) balance, the actuarial adjustments and payments, and the end of year (EOY) balance.

	<u>BOY Balance</u>	<u>(Adjustment)</u>	<u>(Payments)</u>	<u>EOY Balance</u>
FY 2016	\$ 486,190	(\$ 122,074)	\$(10,450)	\$ 353,666
FY 2015	\$ 492,790	\$ -	\$ (6,600)	\$ 486,190

Deferred Compensation: A "non-qualified" deferred compensation agreement was established by the Airport to facilitate the retirement of five employees who may 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, two retirees remained in the plan and a liability was recorded for the value of the estimated future cash payments. During FY 2016, agreements were made with the two remaining participants and they were issued final settlements and no further obligation remains as of June 30, 2016.

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 2016	\$ 229,688	\$ 74,754	\$ (304,442)	\$ -
FY 2015	\$ 229,688	\$ 58,464	\$ (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, 2016

	<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	\$ 1,842,109	\$ 1,378,380	\$ 1,732,441	\$ 470,597	\$ 615,440	\$ 600,822	\$ -	\$ 6,639,789
Marketing & advertising	511,132	-	(4)	821	-	-	-	511,949
Insurance	401,759	-	-	-	-	-	-	401,759
Consulting fees	53,850	-	-	-	-	-	-	53,850
Computer maintenance	194,542	3,045	2,161	3,018	-	5,727	-	208,493
Customs expense	-	-	147,558	-	-	-	-	147,558
Equipment rental	17,890	-	105	875	-	-	-	18,870
Maintenance	14,938	1,227,063	14,912	94,175	4,324	46,856	-	1,402,268
Memberships & publications	53,443	4,819	13,101	1,032	-	2,480	-	74,875
Office supplies	26,405	6,953	1,883	2,692	275	1,733	-	39,941
Professional development	29,876	11,765	15,085	6,840	308	4,990	-	68,864
Professional services	207,391	-	31,500	33,988	-	-	-	272,879
Supplies	11,356	277,499	76,616	1,642	119,290	14,516	16,168	517,087
Travel expenses	32,151	19,188	37,093	13,295	40	8,325	-	110,092
Utilities & phone	1,083,533	805	14,808	-	195	-	-	1,099,341
Other expenses	122,168	755	77,787	421	3,805	15,152	-	220,088
Bad debt	175	-	-	-	-	-	-	175
Total operating expenses	<u>\$ 4,602,718</u>	<u>\$ 2,930,272</u>	<u>\$ 2,165,046</u>	<u>\$ 629,396</u>	<u>\$743,677</u>	<u>\$ 700,601</u>	<u>\$ 16,168</u>	<u>\$11,787,878</u>

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>