

**LEXINGTON-FAYETTE URBAN COUNTY
AIRPORT BOARD**

FINANCIAL STATEMENTS
June 30, 2018 and 2017

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
Lexington, Kentucky

FINANCIAL STATEMENTS
June 30, 2018 and 2017

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	14
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	16
STATEMENTS OF CASH FLOWS.....	17
NOTES TO FINANCIAL STATEMENTS	18
SUPPLEMENTARY INFORMATION	
SCHEDULES OF OPERATING EXPENSES.....	32

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 (Airport), which is a component unit of the Lexington-Fayette Urban County Government in accordance with accounting principles generally accepted in the United States of America, as of and for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 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, 2018 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 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

The following Management's Discussion and Analysis (MD&A) of the Lexington-Fayette Urban County Airport Board's (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, 2018 (FY 2018) and June 30, 2017 (FY 2017). 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 2018, Blue Grass Airport continued to be served by four airline brands offering non-stop flights to 18 destinations and experienced an annual total of 655,775 enplaned passengers. While Allegiant Air no longer offers non-stop service to Baltimore, Maryland, the airline did add new non-stop service to Destin/Ft. Walton Beach, Florida. The Airport also continued to see the airline carriers transitioning away from the 50-seat jet and transitioning to aircraft such as the CRJ-700 and CRJ-900 that have 69 and 76 seats, including a first-class cabin.

In July 2017, local retailer Cork & Barrel opened a bourbon and fine wine shop at the Airport. Conveniently located post-security in the concourse area, the shop carries more than 100 bourbons so that passengers can travel with the finest spirits from Kentucky 's iconic distilleries. In addition, the store's owners collaborate with master distillers to sell special "barrel picks" that are personally selected by Cork & Barrel and uniquely branded, one-of-a-kind products. This new shop, combined with the two retail outlets operated by The Paradies Shops, provides visitors with the opportunity to purchase Kentucky merchandise before they return home.

As a growing airport, our momentum is focused on building new facilities that support operations that serve the traveling public. Work continues on the Airport's multi-year Taxiway Safety Enhancement Program to enhance operational safety on the airfield and improve the efficiency of aircraft movement. While the primary emphasis of this program focuses on the realignment of the main taxiway and additional connectivity for general aviation aircraft, the project also incorporated the relocation of the Airport's snow removal equipment complex as well as the upcoming relocation of the Airport's public safety facility. The relocation of these two facilities will make the necessary enhancements to the taxiways possible.

In addition to the Taxiway Safety Enhancement Program, the Airport is nearing completion of constructing new general aviation hangars and modern rental car service facilities.

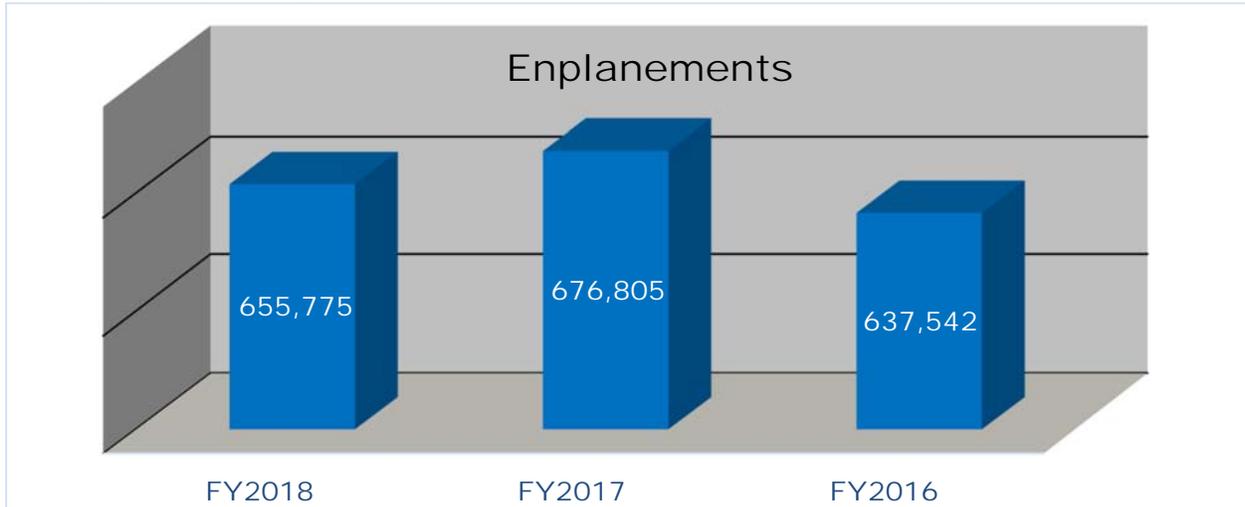
LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

Operations Statistical Data

	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>
Enplanements	655,775	676,805	637,542
Increase (decrease)	(21,030)	39,263	26,003
% Increase (decrease)	(3.11%)	6.16%	4.25%
Landed weight (1,000 pounds)	835,852	823,782	753,049
Increase	12,070	70,733	38,274
% Increase	1.47%	9.39%	5.35%
Aircraft operations – commercial	30,534	31,614	30,589
Increase (decrease)	(1,080)	1,025	(231)
% Increase (decrease)	(3.42%)	3.35%	(0.75%)
Aircraft operations – general aviation	38,260	37,045	38,173
Increase (decrease)	1,215	(1,128)	1,120
% Increase (decrease)	3.28%	(2.95%)	3.02%
Aircraft operations – military	2,195	1,712	1,951
Increase (decrease)	483	(239)	244
% Increase (decrease)	28.21%	(12.25%)	14.29%

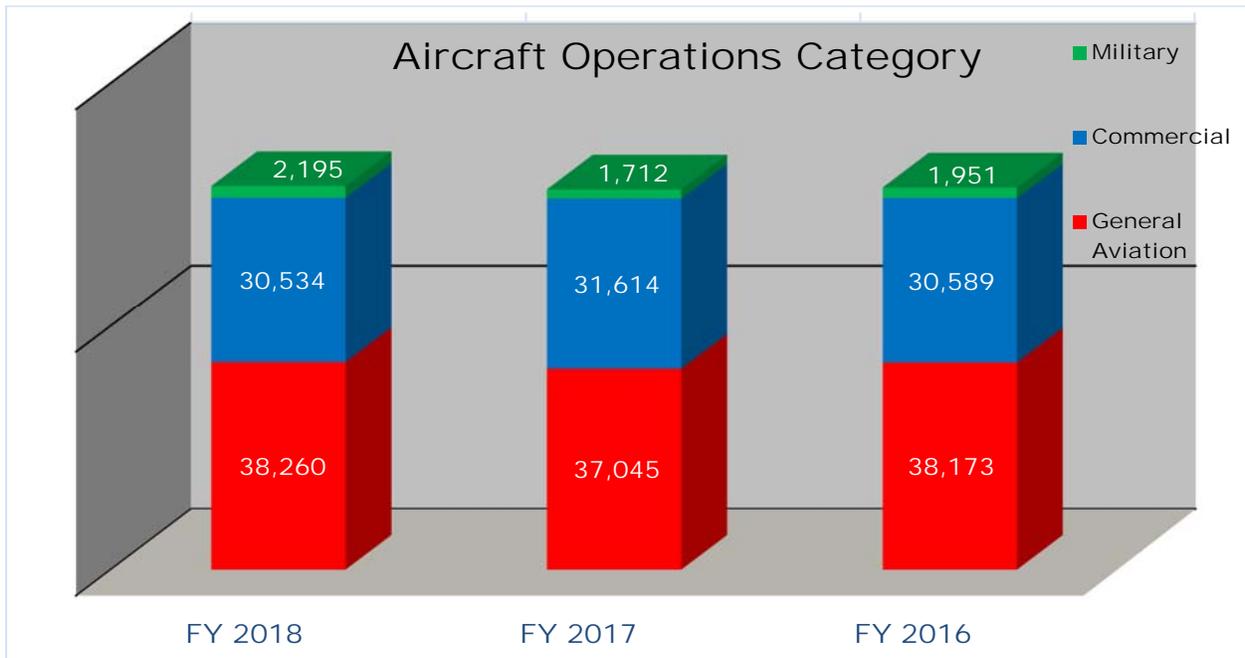
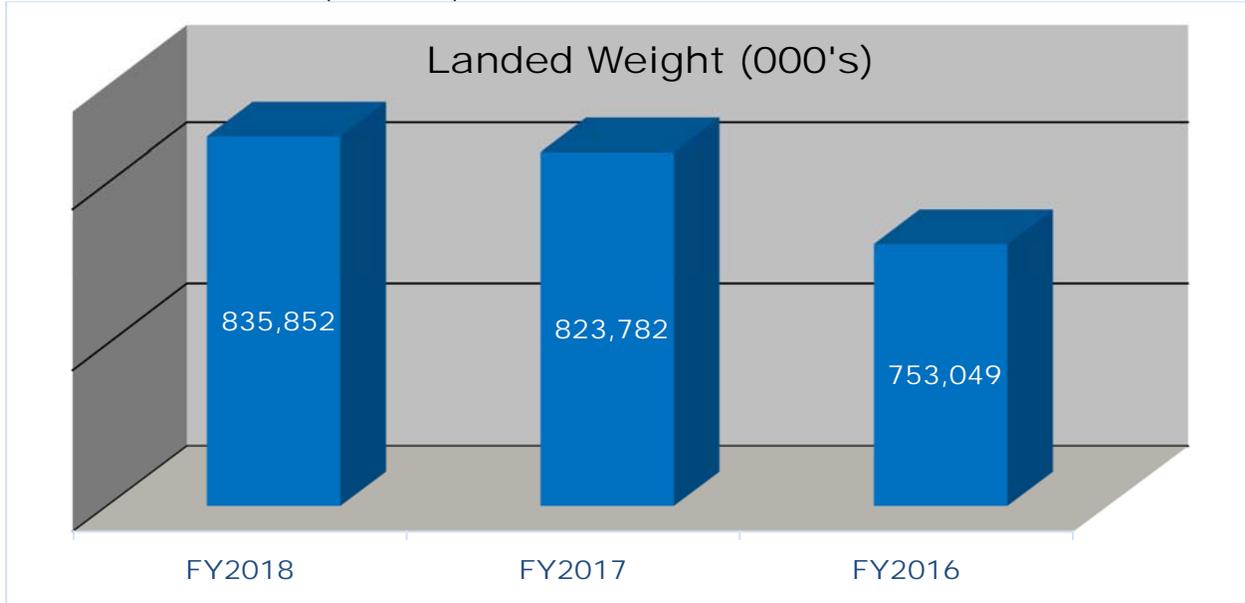
Enplanements represent the total number of passengers that boarded aircraft. Aircraft operations are the cumulative number of takeoffs and landings. Landed weight is the cumulative maximum gross weight, as defined by the aircraft manufacturer, of aircraft that have landed at the Airport.

STATISTICAL GRAPHS



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

STATISTICAL GRAPHS (continued)



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

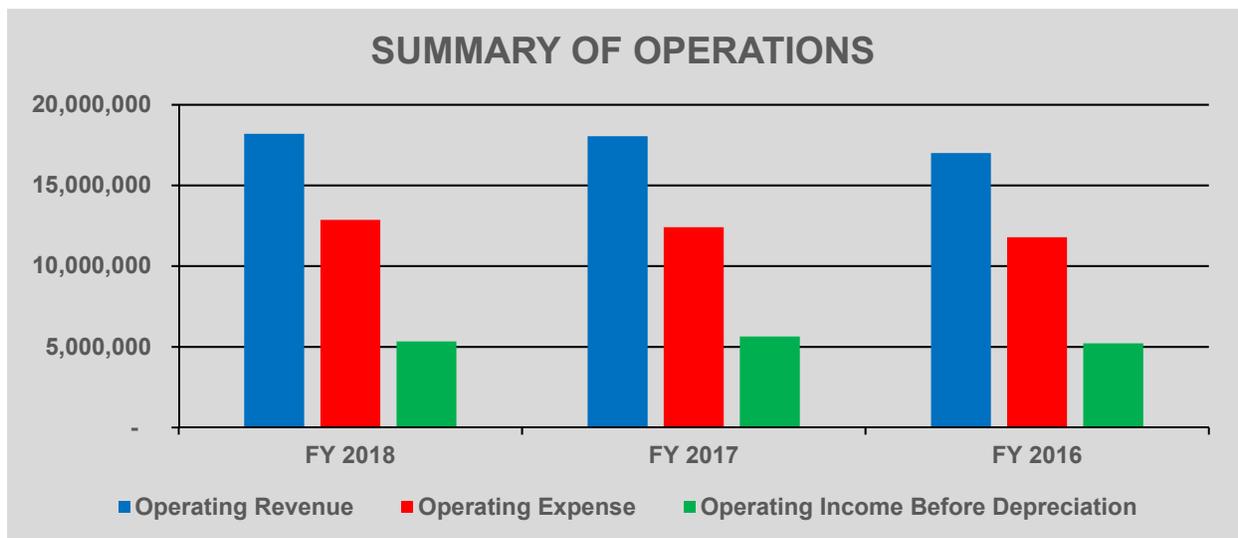
FINANCIAL STATEMENTS

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 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>
Operating revenue	\$ 18,196,511	\$ 18,044,607	\$ 17,000,444
Operating expense	<u>(12,863,833)</u>	<u>(12,404,297)</u>	<u>(11,787,878)</u>
Operating income before depreciation expense	5,332,678	5,640,310	5,212,566
Depreciation expense	<u>(10,311,573)</u>	<u>(9,894,394)</u>	<u>(9,893,043)</u>
Loss from operations	(4,978,895)	(4,254,084)	(4,680,477)
Net non-operating revenue	<u>1,301,781</u>	<u>987,255</u>	<u>1,374,324</u>
Loss before capital grants	(3,677,114)	(3,266,829)	(3,306,153)
Capital grants	<u>6,608,874</u>	<u>8,437,797</u>	<u>13,962,518</u>
Increase in net position	<u>\$ 2,931,760</u>	<u>\$ 5,170,968</u>	<u>\$ 10,656,365</u>



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

REVENUE

A summary of the revenue for FY 2018, FY 2017, and FY 2016 is as follows:

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>% Change</u> <u>2018/2017</u>
Operating:				
Airline operations	\$ 6,956,081	\$ 6,643,516	\$ 6,260,696	4.70%
Parking	5,881,620	6,195,064	5,769,435	(5.06%)
Ground transportation	2,526,243	2,579,618	2,442,772	(2.07%)
Concessions and rentals	613,279	592,008	568,058	3.59%
General aviation	1,420,191	1,353,774	1,268,379	4.91%
Advertising	476,497	415,608	440,405	14.65%
Other	<u>322,600</u>	<u>265,019</u>	<u>250,699</u>	<u>21.73%</u>
Total operating	<u>18,196,511</u>	<u>18,044,607</u>	<u>17,000,444</u>	<u>0.84%</u>
Non-operating:				
Passenger facility charges	2,694,643	2,641,342	2,501,697	2.02%
Contract facility charges	1,418,699	1,260,832	909,797	12.52%
Investment income, net of fees	842,004	321,515	295,416	161.89%
Net increase (decrease) in fair value of investments	<u>(529,954)</u>	<u>(326,219)</u>	<u>294,514</u>	<u>62.45%</u>
Total non-operating	4,425,392	3,897,470	4,001,424	13.55%
Capital grants	<u>6,608,874</u>	<u>8,437,797</u>	<u>13,962,518</u>	<u>(21.68%)</u>
Total revenue	<u>\$ 29,230,777</u>	<u>\$ 30,379,874</u>	<u>\$ 34,964,386</u>	<u>(3.78%)</u>

EXPENSE

A summary of the expense for FY 2018, FY 2017, and FY 2016 is as follows:

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>% Change</u> <u>2018/2017</u>
Operating:				
Administration	\$ 5,147,159	\$ 4,925,973	\$ 4,602,718	4.49%
General maintenance	3,160,465	3,210,369	2,930,272	(1.55%)
Safety, rescue and security	2,178,907	2,142,290	2,165,046	1.71%
Engineering	805,543	649,795	629,396	23.97%
Building maintenance	758,766	736,871	743,677	2.97%
Airport operations	812,993	737,461	700,601	10.24%
Drug task force	<u>-</u>	<u>1,538</u>	<u>16,168</u>	<u>(100.00%)</u>
Total operating	<u>12,863,833</u>	<u>12,404,297</u>	<u>11,787,878</u>	<u>3.70%</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>% Change</u> <u>2018/2017</u>
Non-operating:				
Interest expense and fees	\$ 3,001,047	\$ 2,502,988	\$ 2,107,987	19.90%
Debt issuance/financing costs	-	404,432	-	(100.00%)
Loss on disposal of capital assets	<u>122,564</u>	<u>2,795</u>	<u>519,113</u>	<u>4,285.12%</u>
Total non-operating	3,123,611	2,910,215	2,627,100	7.33%
Depreciation	<u>10,311,573</u>	<u>9,894,394</u>	<u>9,893,043</u>	<u>4.22%</u>
Total expense	<u>\$ 26,299,017</u>	<u>\$ 25,208,906</u>	<u>\$ 24,308,021</u>	<u>4.32%</u>

FY 2018 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$18.0 million in FY 2017 to \$18.2 million in FY 2018, an increase of 1%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$313,000 or 5%. Despite a 3% drop in enplanements, the Airport realized \$190,000 in savings in airlines incentives. With the decrease in enplanements, certain airline incentives incurred and paid in the prior year were not required in FY 2018. Also contributing to the increase in revenue was a 3% increase in the common space fee (per passenger) as well as a 1.5% increase in landed weight.
- Parking revenue decreased by \$313,000, or 5%. This decrease was primarily driven by higher usage of the park and shuttle lot. Utilization of the short and long-term lots decreased as customers opted for the cheaper rates being offered in the park and shuttle lot.
- Advertising revenue increased by \$61,000, or 15%, due primarily to an increased focus on advertising sales in the terminal.
- Other revenue increased by \$58,000, or 22%. The majority of this was due to an increase in registrations for firefighting training at the Airport Rescue and Firefighting Training Center.

Operating expense increased from \$12.4 million in FY 2017 to \$12.9 million in FY 2018, an increase of 4%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by \$221,000, or 4%. This was primarily due to increases in salaries & benefits. Included in this increase was the addition of two new full-time employees for human resources and marketing and advertising.
- Engineering expenses increased by \$156,000, or 24%. This was due to an increase in salaries & benefits and increased expenses for environmental services.
- Airport operations expenses increased by \$76,000, or 10%. This was due to an increase in salaries and benefits and start-up expenses for the new westside area of the Airport which will serve general aviation tenants beginning in FY 2019.

Net non-operating revenue increased from \$1.0 million in FY 2017 to \$1.3 million in FY 2018, an increase of 30%. The following describes the fluctuations of certain types of non-operating revenue:

- Investment income increased by \$520,000 over prior year. This was due to several factors including higher interest rates and short-term investments of available bond project funds.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- In FY 2018, the Airport experienced a \$530,000 decrease in the fair value of its investments, compared to a \$326,000 decrease in FY 2017. Due to the inverse relationship between interest rates and market value, the Airport's fixed income investments saw a decrease in their market value due to the rising interest rate environment.
- In FY 2018, the Taxiway Rehab work that was being depreciated from a previous year was demolished in the Taxiway Safety Enhancement Program Phase III. The net book value of the related asset was written off in FY 2018. The majority of the FY 2018 loss on disposal of capital assets of \$123,000 was due to this write off.

Capital grant revenue decreased from \$8.4 million in FY 2017 to \$6.6 million in FY 2018, a decrease of 22%. This decrease was primarily due to the timing of the grants awarded from the Federal Aviation Administration (FAA) and less discretionary grants required in FY 2018.

FY 2017 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$17.0 million in FY 2016 to \$18.0 million in FY 2017, an increase of 6%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$383,000, or 6%. The majority of this revenue growth can be attributed to the 6% increase in enplanements and the 9% increase in landed weight.
- Parking revenue increased by \$426,000, or 7%, due primarily to the increase in enplanements.
- Ground transportation revenue increased by \$137,000, or 6%, primarily due to the increase in enplanements as well as new operating contracts for taxi operators, Uber and Lyft.
- General aviation revenue increased by \$85,000, or 7%. This was due to additional hangar rentals and the transition of certain tenants from land rent agreements to building rentals.

Operating expense increased from \$11.8 million in FY 2016 to \$12.4 million in FY 2017, an increase of 5%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by \$323,000, or 7%. This was primarily due to an increase in salaries & benefits. A salary study was completed in FY 2017 to review current market rates. This study resulted in certain salary adjustments. In addition, an actuarial study was performed in FY 2016 on the Airport's post-employment medical plan which resulted in a one-time credit of \$129,000. No adjustments were made to the plan assumptions and related liability in FY 2017.
- General maintenance expenses increased by \$280,000, or 10%. This was due to general repairs including work performed on a fire truck, HVAC maintenance and jet bridge maintenance.
- Airport operations expenses increased by \$37,000, or 5%. This was primarily due to an increase in salaries and benefits from the salary study mentioned above as well as additional software costs.

In FY 2017, the Airport had net non-operating revenue of \$1.0 million versus net non-operating revenue of \$1.4 million in FY 2016 primarily due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively increased by \$491,000, or 14%, due primarily to increased enplanements as well as an increase in the CFC rate.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- In FY 2017, the Airport experienced a \$326,000 decrease in the fair value of its investments, compared to a \$295,000 increase in FY 2016. With most of the Airport's investments held in fixed income securities, the increase in interest rates in FY 2017 led to the decrease in the fair market value of the Airport's investments.
- In FY 2017, debt was issued which resulted in an increase of \$799,000 in additional interest expense and debt issuance cost.
- 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 in FY 2016 resulting in the loss of disposal of capital assets of \$493,000.

Capital grant revenue decreased from \$14.0 million in FY 2016 to \$8.4 million in FY 2017, a decrease of 40%. This decrease was primarily due to the timing of the grants awarded from the Federal Aviation Administration (FAA) and less discretionary grants required in FY 2017.

FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2018, 2017, and 2016. The Airport's assets exceeded liabilities by \$128.6 million at June 30, 2018, a \$2.9 million increase from June 30, 2017. The Airport's assets exceeded liabilities by \$125.7 million at June 30, 2017, a \$5.1 million increase from June 30, 2016.

	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>
Assets			
Current assets-unrestricted	\$ 16,756,149	\$ 14,877,368	\$ 13,049,128
Restricted assets	46,057,099	59,255,997	24,292,681
Capital assets	160,897,837	148,058,098	145,440,985
Deferred outflows of resources	<u>1,521,226</u>	<u>1,744,243</u>	<u>-</u>
Total assets	<u>\$ 225,232,311</u>	<u>\$ 223,935,706</u>	<u>\$ 182,782,794</u>
Liabilities			
Current liabilities-payable from unrestricted assets	\$ 1,711,469	\$ 1,743,719	\$ 1,798,110
Current liabilities-payable from restricted assets	9,681,357	7,229,019	6,149,085
Noncurrent liabilities	<u>85,144,633</u>	<u>89,199,876</u>	<u>54,243,475</u>
Total liabilities	<u>\$ 96,537,459</u>	<u>\$ 98,172,614</u>	<u>\$ 62,190,670</u>
Net Position			
Net investment in capital assets	\$ 89,796,131	\$ 88,170,786	\$ 89,551,176
Restricted	24,201,668	24,809,023	20,143,596
Unrestricted	<u>14,697,053</u>	<u>12,783,283</u>	<u>10,897,352</u>
Total net position	<u>\$ 128,694,852</u>	<u>\$ 125,763,092</u>	<u>\$ 120,592,124</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

CAPITAL ASSETS

Major capital projects in progress and expenditures incurred during FY 2018 included the following:

	<u>FY 2018</u>	<u>Cumulative</u>
• Rental Car Maintenance Facility	\$ 11,032,000	\$ 11,837,000
• General Aviation Improvements for Westside	3,663,000	4,465,000
• Taxiway Safety Enhancement Program – Phase III	5,497,000	10,718,000
• Baggage Belt System Replacement	501,000	501,000

Major capital projects in progress and expenditures incurred during FY 2017 included the following:

	<u>FY 2017</u>	<u>Cumulative</u>
• Taxiway Safety Enhancement Program – Phase II	\$ 3,167,000	\$ 9,626,000
• Taxiway Safety Enhancement Program – Phase II – IV Design	1,257,000	3,933,000
• Taxiway Safety Enhancement Program – Phase III	5,221,000	5,221,000
• Rental Car Maintenance Facility	805,000	805,000
• General Aviation Improvements for Westside	802,000	802,000

The Taxiway Safety Enhancement Program (TSEP) is an estimated \$63 million multi-year initiative funded approximately 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. Phase II, consisting of demolition of the previous maintenance complex and embankment construction was completed in FY 2017. Phase III was completed in June 2018 and consisted of removal of existing Taxiways A6 and C, construction of relocated Taxiway A and A6 and installation of FAA fiber optic communication cables. In FY 2019 the Airport expects to begin Phase IV, which includes the construction of a new Public Safety building and accompanying site work.

In order to finance other capital projects including: rental car maintenance facility; terminal improvements including the replacement of the baggage belt system; parking improvements; and general aviation improvements including hangar development, the Airport issued \$35,710,000 of General Airport Revenue Bonds, with net proceeds of \$36,724,000 (including original issue premium of \$1,480,000 less underwriters' discount of \$202,000 and other costs of issuance of \$264,000), on 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, 2018 and 2017 were \$84,430,000 and \$88,410,000, respectively. Fixed rate bonds make up approximately 94%, of the Airport's debt structure with \$79,030,000 in fixed rate bonds at June 30, 2018 and \$83,010,000 in fixed rate bonds at June 30, 2017. 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, 2018 and June 30, 2017 was 2.221% and 1.525%, respectively.

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

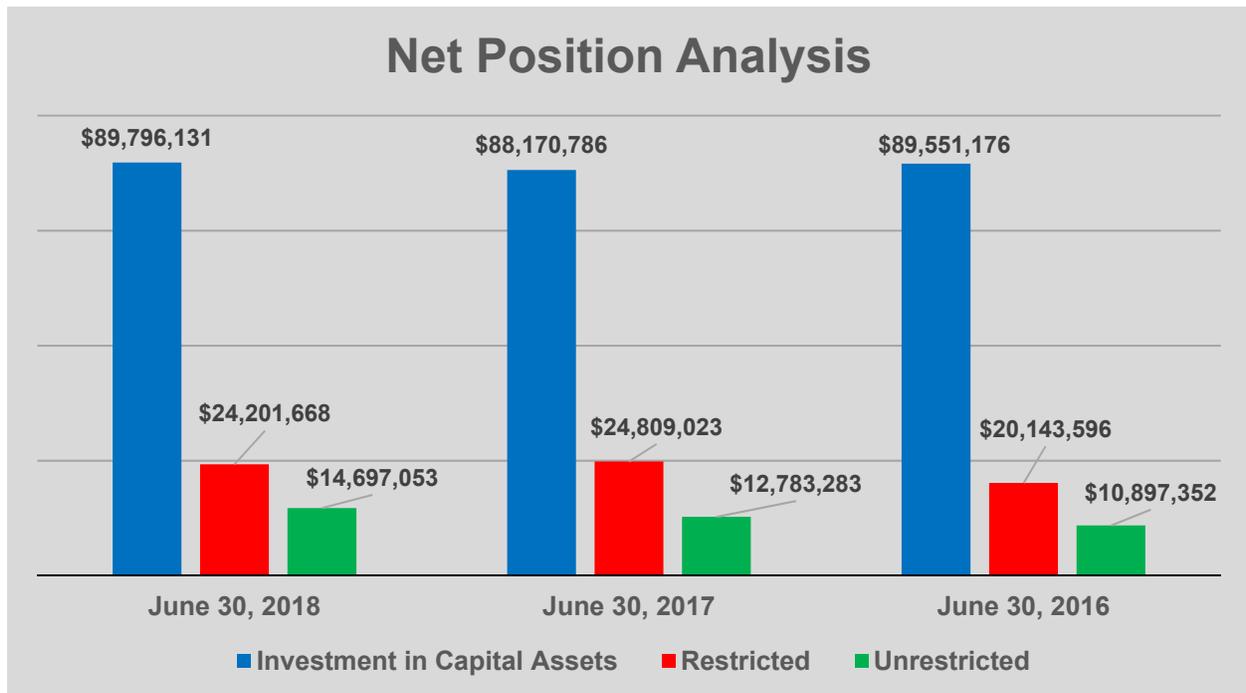
LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Years ended June 30, 2018 and 2017

NET POSITION

The largest portion of the Airport's net position each year (69.8% at June 30, 2018, and 70.4% at June 30, 2017) represents its investment in capital assets, net of accumulated depreciation (e.g., land, buildings, improvements, and equipment). The investment in capital assets is offset by the related debt used to acquire those assets, net of any unspent bond proceeds. 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 (18.8% at June 30, 2018, and 19.7% at June 30, 2017) are restricted and represent bond reserve and project funds that are subject to external restrictions on how they can be used under bond resolutions. Also included are Passenger Facility Charges received from the airlines and Contract Facility Charges received from the rental car 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 net assets (11.4% of the Airport's net assets at June 30, 2018, and 9.9% at June 30, 2017) consist of resources that do not meet the definition of "restricted" or "net investment in capital assets".



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2018 and 2017

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 2018</u>	<u>FY 2017</u>
Cash flows provided by operating activities	\$ 5,305,563	\$ 5,290,951
Cash flows provided (used) by capital and related financing activities	(16,720,387)	33,616,764
Cash flows provided (used) by investing activities	<u>1,884,883</u>	<u>(21,408,297)</u>
Net increase (decrease) in cash and cash equivalents	(9,529,941)	17,499,418
Cash and cash equivalents, beginning of year	<u>28,865,710</u>	<u>11,366,292</u>
Cash and cash equivalents, end of year	<u>\$ 19,335,769</u>	<u>\$ 28,865,710</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, 2018 and 2017

	<u>FY 2018</u>	<u>FY 2017</u>
Assets		
Current assets - unrestricted		
Cash and cash equivalents	\$ 5,761,679	\$ 9,028,426
Investments	8,744,546	3,476,197
Accounts receivable	1,670,203	1,824,348
Accrued interest receivable	20,254	9,890
Other assets	<u>559,467</u>	<u>538,507</u>
Total current assets	<u>16,756,149</u>	<u>14,877,368</u>
Restricted assets		
Cash and cash equivalents	13,574,090	19,837,284
Investments	30,873,861	37,916,638
Accounts receivable	678,592	529,210
Accrued interest receivable	116,190	46,062
Grants receivable	<u>814,366</u>	<u>926,803</u>
Total restricted assets	<u>46,057,099</u>	<u>59,255,997</u>
Capital assets		
Capital assets not being depreciated	31,650,430	22,710,543
Capital assets being depreciated	272,330,694	260,023,962
Accumulated depreciation	<u>(143,083,287)</u>	<u>(134,676,407)</u>
Total net capital assets	<u>160,897,837</u>	<u>148,058,098</u>
Deferred outflows of resources		
Deferred amount on refunding	<u>1,521,226</u>	<u>1,744,243</u>
Total assets and deferred outflows	<u>\$ 225,232,311</u>	<u>\$ 223,935,706</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET POSITION
 June 30, 2018 and 2017

	<u>FY 2018</u>	<u>FY 2017</u>
Liabilities		
Current liabilities (payable from unrestricted assets)		
Accounts payable	\$ 753,607	\$ 855,682
Accounts payable-construction	372,424	247,112
Accrued payroll and benefits	357,485	467,219
Unearned revenue	<u>227,953</u>	<u>173,706</u>
Total current liabilities (payable from unrestricted assets)	<u>1,711,469</u>	<u>1,743,719</u>
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	3,660,000	3,980,000
Accounts payable-construction	4,357,498	1,325,077
Accrued interest payable	1,438,756	1,759,042
Unearned revenue	<u>225,103</u>	<u>164,900</u>
Total current liabilities (payable from restricted assets)	<u>9,681,357</u>	<u>7,229,019</u>
Total current liabilities	<u>11,392,826</u>	<u>8,972,738</u>
Noncurrent liabilities		
Accrued post-employment benefits	347,627	350,366
Bonds payable	<u>84,797,006</u>	<u>88,849,510</u>
Total noncurrent liabilities	<u>85,144,633</u>	<u>89,199,876</u>
Total liabilities	<u>96,537,459</u>	<u>98,172,614</u>
Net position		
Net investment in capital assets	89,796,131	88,170,786
Restricted for debt service	23,387,302	23,882,220
Restricted for capital projects	814,366	926,803
Unrestricted	<u>14,697,053</u>	<u>12,783,283</u>
Total net position	<u>128,694,852</u>	<u>125,763,092</u>
Total liabilities and net position	<u>\$ 225,232,311</u>	<u>\$ 223,935,706</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, 2018 and 2017

	<u>FY 2018</u>	<u>FY 2017</u>
Operating revenue:		
Airline operations	\$ 6,956,081	\$ 6,643,516
Parking	5,881,620	6,195,064
Ground transportation	2,526,243	2,579,618
Concessions and rentals	613,279	592,008
General aviation	1,420,191	1,353,774
Advertising	476,497	415,608
Other	<u>322,600</u>	<u>265,019</u>
Total operating revenue	<u>18,196,511</u>	<u>18,044,607</u>
Operating expense:		
Administration	5,147,159	4,925,973
General maintenance	3,160,465	3,210,369
Safety, rescue and security	2,178,907	2,142,290
Engineering	805,543	649,795
Building maintenance	758,766	736,871
Operations	812,993	737,461
Drug task force	<u>-</u>	<u>1,538</u>
Total operating expense	<u>12,863,833</u>	<u>12,404,297</u>
Operating income before depreciation expense	5,332,678	5,640,310
Depreciation expense	<u>10,311,573</u>	<u>9,894,394</u>
Loss from operations	<u>(4,978,895)</u>	<u>(4,254,084)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,694,643	2,641,342
Contract facility charges	1,418,699	1,260,832
Investment income, net of fees	842,004	321,515
Net decrease in fair value of investments	(529,954)	(326,219)
Interest expense and fees	(3,001,047)	(2,502,988)
Debt issuance costs	-	(404,432)
Loss on disposal of capital assets	<u>(122,564)</u>	<u>(2,795)</u>
Net non-operating revenue	<u>1,301,781</u>	<u>987,255</u>
Capital grants	<u>6,608,874</u>	<u>8,437,797</u>
Increase in net position	2,931,760	5,170,968
Net position, beginning of year	<u>125,763,092</u>	<u>120,592,124</u>
Net position, end of year	<u>\$ 128,694,852</u>	<u>\$ 125,763,092</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2018 and 2017

	<u>FY 2018</u>	<u>FY 2017</u>
Cash flows from operating activities		
Receipts from customers	\$ 18,086,876	\$ 17,430,342
Payments to suppliers	(5,730,391)	(5,658,214)
Payments to employees	(7,368,950)	(6,740,992)
Other receipts	<u>318,028</u>	<u>259,815</u>
Net cash provided by operating activities	<u>5,305,563</u>	<u>5,290,951</u>
Cash flows from capital and related financing activities		
Proceeds from capital grants	6,721,309	10,956,504
Passenger facility charges	2,532,060	2,690,937
Contract facility charges	1,492,103	1,138,478
Proceeds from sale of bonds	-	37,537,182
Principal paid on bonds	(3,980,000)	(2,000,000)
Interest and fees paid on bonds	(3,369,717)	(2,334,209)
Proceeds from sale of equipment	11,324	12,972
Acquisition and construction of capital assets	<u>(20,127,466)</u>	<u>(14,385,100)</u>
Net cash provided (used) by capital and related financing activities	<u>(16,720,387)</u>	<u>33,616,764</u>
Cash flows from investing activities		
Interest received on investments	640,408	379,580
Purchase of investments	(60,946,772)	(27,968,814)
Proceeds from sales and maturities of investments	<u>62,191,247</u>	<u>6,180,937</u>
Net cash provided (used) by investing activities	<u>1,884,883</u>	<u>(21,408,297)</u>
Net increase (decrease) in cash and cash equivalents	(9,529,941)	17,499,418
Cash and cash equivalents, beginning of year	<u>28,865,710</u>	<u>11,366,292</u>
Cash and cash equivalents, end of year	<u>\$ 19,335,769</u>	<u>\$ 28,865,710</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (4,978,895)	\$ (4,254,084)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	10,311,573	9,894,394
Bad debt expense (recovery)	(1,580)	2,390
Increase (decrease) due to changes in:		
Accounts receivable	155,725	(354,815)
Other assets	(20,960)	22,843
Accounts payable	(102,075)	(87,000)
Unearned revenue	54,248	58,218
Accrued payroll and benefits	<u>(112,473)</u>	<u>9,005</u>
Net cash provided by operating activities	<u>\$ 5,305,563</u>	<u>\$ 5,290,951</u>
Supplemental schedule of noncash transactions		
Construction in progress included in accounts payable	\$ 4,729,922	\$ 1,572,189

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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/capital projects; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component represents its investment in capital assets, net of accumulated depreciation. The investment in capital assets is offset by the related debt used to acquire those capital assets, net of any unspent bond proceeds.
- Restricted for debt service/capital projects – This component includes bond reserve and project funds that are subject to external restrictions on how they can be used under bond resolutions. This includes Passenger Facility Charges received from airlines and Contract 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 and unspent bond proceeds, as well as resources set aside for the payment of the related bonds and passenger facility charges and contract facility charges that are restricted for the funding of eligible capital projects and the related debt service. In addition, accounts receivable from federal grants that 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 loss on investments was \$638,195 at June 30, 2018 and the unrealized loss at June 30, 2017 was \$118,561.

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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 200 to 453 paid time off hours annually, depending on their length of employment and classification. Employees can carry forward up to a maximum of 810 hours of paid time off 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: GASB Statement No. 87, *Leases*, effective for years beginning after December 15, 2019, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The Airport has not determined the effect, if any, that the adoption of this statement may have on its financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for years beginning after December 15, 2019 (with early adoption encouraged), requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred and therefore not included in the historical cost of a capital asset. The Airport's early adoption of this statement in FY 2018 did not have a material effect on its financial statements.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 2018</u>	<u>FY 2017</u>
Unrestricted	\$ 5,585,703	\$ 5,548,253
Restricted	<u>602,463</u>	<u>570,795</u>
Total cash	<u>\$ 6,188,166</u>	<u>\$ 6,119,048</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 \$3,901,413 and \$5,595,500 at June 30, 2018 and 2017, 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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

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, 2018 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Fidelity Government Cash Reserves	\$ 175,976	0.3%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	5,870,464	11.1%	2/25/20-12/15/41	AAA/NA	Aaa/NA
Corporate Bonds	864,471	1.6%	7/5/18-2/8/19	BBB+/A/NA	A1/A2/Aa3/NR
Municipal Bonds	24,546	0.1%	12/1/20	AA	NR
Certificate of Deposit	565,229	1.1%	11/29/18-7/30/19	NR	NR
US Treasury Notes	935,861	1.8%	9/30/18-9/29/21	AA+	Aaa
US Agency Bonds	<u>483,975</u>	<u>0.9%</u>	06/24/20-10/07/21	AA+	Aaa
Total unrestricted investments	<u>8,744,546</u>	<u>16.6%</u>			
Restricted cash equivalents					
First American Government Obligations	<u>12,971,627</u>	<u>24.6%</u>	N/A	N/A	N/A
Restricted investments					
Mortgage Backed Securities	6,695,174	11.1%	3/25/20-10/15/41	AAA/AA+/NR	Aaa/NR
Corporate Bonds	1,661,720	1.6%	7/5/18-8/21/21	A/AA+/BBB+/NR	A1/A2/Aa3/A/AA+NR
Municipal Bonds	493,180	0.1%	4/1/19-4/1/24	AA	Aa2/NR
Certificate of Deposit	1,546,098	1.1%	7/27/18-1/29/20	NR	NR
US Treasury Notes	16,285,363	0.9%	7/31/18-9/29/21	AA+	Aaa
US Agency Bonds	<u>4,192,326</u>	<u>1.8%</u>	3/8/19-10/7/21	AA+	Aaa
Total restricted investments	<u>30,873,861</u>	<u>58.5%</u>			
Total cash equivalents and investments	<u>\$ 52,766,010</u>	<u>100.0%</u>			

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2017 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	\$ 3,480,173	5.4%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	2,110,082	3.3%	12/21/21-12/15/41	NR	NR
US Agency Bonds	<u>1,366,115</u>	<u>2.1%</u>	06/24/20-10/07/21	AA+	Aaa
Total unrestricted investments	<u>3,476,197</u>	<u>5.4%</u>			
Restricted cash equivalents					
Federal Government Obligations	1,579,121	2.5%	N/A	N/A	N/A
Dryfus Govt Cash Mgt Funds	<u>17,687,368</u>	<u>27.6%</u>	N/A	N/A	N/A
Total restricted cash equivalents	<u>19,266,489</u>	<u>30.1%</u>			
Restricted investments					
Certificates of Deposit	2,881,083	4.5%	07/24/17-06/06/19	N/A	N/A
Mortgage Backed Securities	3,854,107	6.0%	12/01/17-10/15/41	Aa+/N/A	Aaa/N/A
Municipal Bonds	2,698,804	4.2%	04/01/18-06/01/23	A+/AA/AA+/N/A	Aa2/Aa3/Aaa/N/A
US Agency Bonds	4,239,078	6.6%	12/04/18-09/01/32	AAA / A+	Aaa /AA+/N/A
US Treasury Notes	<u>24,243,566</u>	<u>37.8%</u>	08/24/17-09/30/19	Aa+/N/A	Aaa
Total restricted investments	<u>37,916,638</u>	<u>59.1%</u>			
Total cash equivalents and investments	<u>\$ 64,139,497</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, 2018 and 2017, had an average duration of 2.3 and 3.7 years, respectively.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018 and 2017:

	Fair Value Measurements as of June 30, 2018			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities				
US Treasury Notes	\$ 17,221,224	\$ 17,221,224	\$ -	\$ -
US Agency Bonds	4,676,301	-	4,676,301	-
Corporate Bonds	2,526,191	-	2,526,191	-
Municipal Bonds	517,726	-	517,726	-
Certificate of Deposit	2,111,327	-	2,111,327	-
Mortgaged Backed Securities	<u>12,565,638</u>	<u>-</u>	<u>12,565,638</u>	<u>-</u>
 Total investments by fair value level	 <u>\$ 39,618,407</u>	 <u>\$ 17,221,224</u>	 <u>\$ 22,397,183</u>	 <u>\$ -</u>

	Fair Value Measurements as of June 30, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities				
US Treasury Notes	\$ 24,243,566	\$ 24,243,566	\$ -	\$ -
US Agency Bonds	5,605,193	-	5,605,193	-
Municipal Bonds	2,698,804	-	2,698,804	-
Certificate of Deposit	2,881,083	-	2,881,083	-
Mortgaged Backed Securities	<u>5,964,189</u>	<u>-</u>	<u>5,964,189</u>	<u>-</u>
 Total investments by fair value level	 <u>\$ 41,392,835</u>	 <u>\$ 24,243,566</u>	 <u>\$ 17,149,269</u>	 <u>\$ -</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 - CAPITAL ASSETS (Continued)

As of June 30, 2018, several uncompleted construction projects funded in-part by Federal grants and bond proceeds 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 \$10,549,421 at June 30, 2018 and \$17,815,464 at June 30, 2017.

NOTE 4 – LINE OF CREDIT

The Airport has a \$10,000,000 revolving line of credit (LOC) that expires on June 1, 2019. There have been no borrowings against the line through June 30, 2018. 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%) + 10 basis points. The interest rate is 2.208% at June 30, 2018. 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 2018 and FY 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
FY 2018	\$ 88,410,000	\$ -	\$ 3,980,000	\$ 84,430,000	\$ 3,660,000
FY 2017	\$ 52,180,000	\$ 58,410,000	\$ 22,480,000	\$ 88,410,000	\$ 3,980,000

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 – BONDS PAYABLE (Continued)

Bonds payable at June 30, 2018 and June 30, 2017 are as follows:

	<u>FY 2018</u>	<u>FY 2017</u>
2009 Series A, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2019 with coupon rates ranging from 3%-5%.	\$ 4,500,000	\$ 6,600,000
2009 Reissued Series B, Variable Rate General Airport, Revenue Refunding Bonds (AMT)	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%	11,230,000	11,230,000
2016A Series A, Fixed Rate General Airport, Revenue Bonds (non-AMT) due through July 2036 with coupon rates ranging from 2%-5%	4,615,000	4,840,000
2016B Series B, Fixed Rate General Airport, Revenue Bonds (AMT) due through July 2036 with coupon rates ranging from 3%-5%	4,660,000	4,880,000
2016C Series C, Fixed Rate General Airport, Revenue & Revenue Refunding Bonds (Federally Taxable) due through July 2036 with coupon rates ranging from 1.05%-3.85%	37,660,000	39,095,000
2016D Series D, Fixed Rate General Airport, Revenue Bonds (non – AMT) due through July 2036 with coupon rates ranging from 3%-5%	5,345,000	5,345,000
2016E Series E, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3%-4%	<u>4,250,000</u>	<u>4,250,000</u>
Total principal payable	84,430,000	88,410,000
Unamortized bond premiums	<u>4,027,006</u>	<u>4,419,510</u>
Total bonds payable	88,457,006	92,829,510
Less current portion	<u>3,660,000</u>	<u>3,980,000</u>
Noncurrent portion of bonds payable	<u>\$ 84,797,006</u>	<u>\$ 88,849,510</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018 and 2017, the variable interest rates are 2.221% and 1.525% respectively. The bonds are subject to mandatory tender on March 1, 2023 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, 2023, as identified by the Holder in a notice from the Holder to the Trustee and the Board.

2016 General Airport Revenue & Revenue Refunding Bonds

On October 20, 2016, the Airport issued \$58,410,000 of 2016 General Airport Revenue and Revenue Refunding Bonds (2016 Bonds) consisting of five series of bonds with effective interest rates of 3.69% (Series A), 3.82% (Series B), 3.11% (Series C), 2.92% (Series D), and 1.98% (Series E) and realized an original issue premium of \$2,054,713. The 2016 Bonds were issued in five series to fund the following projects 1) Rental car maintenance facility; 2) Terminal improvements including replacement of baggage belt system; 3) Parking improvements; 4) General Aviation improvements including hangar development and 5) refund a portion of the 2009 Series A Bonds.

The net proceeds of the refunding portion of the 2016 Bonds (portions of proceeds 2016 Series C and all of 2016 Series E) of \$22,992,792 (includes par amount of \$22,700,000 plus original premium of \$575,152, less underwriter's discount of \$117,009 and other costs of issuance of \$165,351) was deposited in an escrow fund with an escrow agent to provide for the refunding portion of outstanding interest and principal of the 2009 Series A Bonds due at redemption date, July 1, 2019. As a result, the refunding portion of 2009 Series A Bonds were defeased and the liability for those bonds was removed from the accompanying financial statements.

The refunding and defeasance resulted in a difference between the reacquisition price of the 2016 Bonds and the net carrying amount of the refunded portion of the 2009 Series A Bonds of \$1,805,445. The difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to interest expense through June 30, 2036, the final maturity of the 2016 Bonds, using the straight-line method. The Airport completed the refunding and defeasance to reduce its total debt service payments over the next ten years by \$1,089,763 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$974,353. At June 30, 2018, the outstanding principal balance of the refunded bonds to be paid from escrow was \$20,480,000.

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 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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 5 – BONDS PAYABLE (Continued)

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 and CFC revenues, 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, 2018 for all bonds outstanding are outlined below.

Year ending June 30:	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2019	\$ 3,660,000	\$ 2,929,436	\$ 6,589,436
2020	3,990,000	2,896,200	6,886,200
2021	4,100,000	2,775,963	6,875,963
2022	4,130,000	2,680,903	6,810,903
2023	4,210,000	2,569,947	6,779,947
2024-2028	21,715,000	10,843,808	32,558,808
2029-2033	24,955,000	6,349,262	31,304,262
2034-2038	16,990,000	1,490,110	18,480,110
2039	<u>680,000</u>	<u>15,899</u>	<u>695,899</u>
Total	<u>\$ 84,430,000</u>	<u>\$ 32,551,528</u>	<u>\$ 116,981,528</u>

* Variable rate debt of \$5.4 million makes up approximately 6% of the total principal balance. 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.

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 2018 and FY 2017 was \$9,453,423 and \$9,859,338, 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 2018 and FY 2017 were \$2,587,181 and \$3,059,263, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2018 are as follows:

Year ending June 30:	
2019	\$ 7,233,899
2020	7,115,650
2021	4,953,103
2022	4,736,748
2023	4,677,920
Thereafter through 2029	<u>19,580,019</u>
Total future minimum rental revenue	<u>\$ 48,297,339</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) of \$4.50 on passengers to be used to fund FAA-approved capital projects and debt service attributable to those projects. During FY 2018 and FY 2017, the Airport received PFCs, net of a \$.11 per passenger handling fee retained by the carriers, totaling \$2,694,643 and \$2,641,342, respectively. In future years, the Airport is authorized to collect and use PFCs for approved costs of \$63 million under the authority granted by the FAA.

NOTE 8 - CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2018 and FY 2017, the Airport earned approximately 44% and 45%, respectively, of airline operations revenue from one carrier.

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 \$520,000 and \$490,000 for FY 2018 and FY 2017, respectively. For FY 2018 and FY 2017, the required employer contributions were reduced by forfeitures of \$48,839 and \$13,372, respectively. Required contributions made by Plan participants for FY 2018 and FY 2017 were \$292,000 and \$275,000, 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 \$18,500. The Airport does not contribute to this Plan.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS

The Airport has a plan that provides medical insurance 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 post-employment benefits liability was evaluated by an independent actuary as of June 30, 2018 using a discount rate of 3.75%. Changes made to the study from the last plan study include an increase in the discount rate to 3.75% (from 3.50%) and the assumed mortality rate was adjusted. 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><i>BOY Liability</i></u>	<u><i>Adjustment</i></u>	<u><i>(Payments)</i></u>	<u><i>EOY Liability</i></u>
FY 2018	\$ 350,366	\$ 561	\$ (3,300)	\$ 347,627
FY 2017	\$ 353,666	\$ -	\$ (3,300)	\$ 350,366

The following presents the sensitivity of the Airport's post-employment benefits liability to changes in the discount rate. The liability is calculated using the discount rate of 3.75% percent, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.75% percent) or 1 percentage-point higher (4.75% percent) than the current rate:

	<u><i>1% Decrease (2.75%)</i></u>	<u><i>Current Discount Rate (3.75%)</i></u>	<u><i>1% Increase (4.75%)</i></u>
Post-Employment Benefits Liability	\$ 374,056	\$ 347,627	\$ 324,163

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, 2018

	<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	\$ 2,065,199	\$ 1,535,643	\$ 1,788,461	\$ 562,448	\$ 599,607	\$ 696,256	\$ -	\$ 7,247,614
Marketing and advertising	351,255	-	2,790	430	482	-	-	354,957
Insurance	447,038	-	-	-	-	-	-	447,038
Consulting fees	37,626	-	-	-	-	-	-	37,626
Computer maintenance	233,649	77	6,838	4,386	-	19,270	-	264,220
Customs expense	-	-	148,528	-	-	-	-	148,528
Equipment rental	20,353	-	-	-	-	145	-	20,498
Maintenance	25,056	1,343,597	35,563	115,235	7,259	26,946	-	1,553,656
Memberships and publications	56,545	3,066	9,867	1,695	199	3,177	-	74,549
Office supplies	55,534	3,290	2,371	2,692	433	1,737	-	66,057
Professional development	27,850	15,030	10,910	5,925	179	7,805	-	67,699
Professional services	275,509	-	-	94,147	-	-	-	369,656
Supplies	16,174	241,791	97,710	1,302	112,913	28,250	-	498,140
Travel expenses	38,796	15,218	35,817	17,057	-	10,222	-	117,110
Utilities & phone	1,177,565	270	22,857	-	35	20	-	1,200,747
Other expenses	320,590	2,483	17,195	226	37,659	19,165	-	397,318
Bad debt recovery	(1,580)	-	-	-	-	-	-	(1,580)
Total operating expenses	<u>\$ 5,147,159</u>	<u>\$ 3,160,465</u>	<u>\$ 2,178,907</u>	<u>\$ 805,543</u>	<u>\$ 758,766</u>	<u>\$ 812,993</u>	<u>\$ -</u>	<u>\$ 12,863,833</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2017

	<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	\$ 1,930,849	\$ 1,409,563	\$ 1,731,151	\$ 459,624	\$ 589,420	\$ 625,740	\$ -	\$ 6,746,347
Marketing and advertising	429,052	1,332	-	1,500	-	1,042	-	432,926
Insurance	409,959	-	-	-	-	-	-	409,959
Consulting fees	34,145	-	-	-	-	-	-	34,145
Computer maintenance	220,785	-	4,984	3,018	-	17,047	-	245,834
Customs expense	-	-	146,590	-	-	-	-	146,590
Equipment rental	20,887	-	-	-	-	-	-	20,887
Maintenance	23,133	1,493,178	24,136	88,040	5,628	24,498	-	1,658,613
Memberships and publications	49,773	4,215	8,351	1,337	-	2,765	-	66,441
Office supplies	40,093	4,669	1,525	3,999	-	3,889	-	54,175
Professional development	30,109	13,300	13,439	7,243	831	5,825	-	70,747
Professional services	281,080	-	22,705	67,581	-	7,771	-	379,137
Supplies	23,528	256,818	124,706	6,296	129,855	18,239	1,538	560,980
Travel expenses	28,051	18,661	34,166	10,542	16	7,425	-	98,861
Utilities & phone	1,143,177	7,263	22,323	-	210	70	-	1,173,043
Other expenses	258,962	1,370	8,214	615	10,911	23,150	-	303,222
Bad debt	2,390	-	-	-	-	-	-	2,390
	<u>2,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,390</u>
Total operating expenses	<u>\$ 4,925,973</u>	<u>\$ 3,210,369</u>	<u>\$ 2,142,290</u>	<u>\$ 649,795</u>	<u>\$ 736,871</u>	<u>\$ 737,461</u>	<u>\$ 1,538</u>	<u>\$ 12,404,297</u>