

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

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of the net assets of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of Lexington-Fayette Urban County Government, as of June 30, 2011 and 2010, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Airport taken as a whole. The accompanying supplementary information on pages 31 and 32 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Crowe Horwath LLP

Lexington, Kentucky
October 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2011 and 2010

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, 2011 (FY 2011) and June 30, 2010 (FY 2010). The information contained in this MD&A should be considered in conjunction with the information contained in the Airport's financial statements and related notes which follow this MD&A.

AIRPORT ACTIVITIES AND HIGHLIGHTS

At June 30, 2011, the Airport was served by seven airline brands offering non-stop service to fifteen destinations. At June 30, 2010, the Airport was served by seven airline brands offering non-stop service to thirteen destinations.

Operations Statistical Data

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Enplanements	555,377	495,670	485,977
Increase (decrease)	59,707	9,693	(34,097)
% Increase (decrease)	12.05%	1.99%	(6.55%)
Aircraft operations – commercial	26,741	23,770	27,216
Increase (decrease)	2,971	(3,446)	(803)
% Increase (decrease)	12.50%	(12.66%)	(2.87%)
Aircraft operations – general aviation	41,178	43,146	40,536
Increase (decrease)	(1,968)	2,610	(8,035)
% Increase (decrease)	(4.56%)	6.44%	(16.54%)
Aircraft operations – military	1,306	1,172	1,538
Increase (decrease)	134	(366)	182
% Increase (decrease)	11.43%	(23.8%)	13.42%
Landed weight (1,000 pounds)	681,120	594,387	665,843
Increase (decrease)	86,733	(71,456)	8,793
% Increase (decrease)	14.59%	(10.7%)	1.34%

FINANCIAL STATEMENTS

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

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
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FINANCIAL OPERATIONS AND HIGHLIGHTS

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 12,918,020	\$ 11,195,067	\$ 11,549,238
Operating expense	<u>(10,811,301)</u>	<u>(10,715,578)</u>	<u>(11,676,293)</u>
Operating income (loss) before depreciation	2,106,719	479,489	(127,055)
Depreciation	<u>(8,716,163)</u>	<u>(7,282,455)</u>	<u>(7,678,890)</u>
Loss from operations	(6,609,444)	(6,802,966)	(7,805,945)
Net non-operating revenue	<u>1,054,396</u>	<u>974,040</u>	<u>1,259,000</u>
Loss before capital grants	(5,555,048)	(5,828,926)	(6,546,945)
Capital grants	<u>3,156,111</u>	<u>17,665,396</u>	<u>15,006,183</u>
Increase (decrease) in net assets	<u>\$ (2,398,937)</u>	<u>\$ 11,836,470</u>	<u>\$ 8,459,238</u>

REVENUE

A summary of the revenue for FY 2011, FY 2010, and FY 2009 is as follows:

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>% Change 2011/2010</u>
Operating:				
Airline landing fees and related operations	\$ 4,512,347	\$ 3,660,918	\$ 4,157,236	23.26%
Auto parking	4,353,446	3,528,938	3,756,900	23.36
Ground transportation	1,975,181	2,257,719	2,194,330	(12.51)
Concessions and rentals	725,304	605,812	669,231	19.72
General aviation	1,027,302	884,902	608,262	16.09
Other	<u>324,440</u>	<u>256,778</u>	<u>163,279</u>	<u>26.35</u>
Total operating	12,918,020	11,195,067	11,549,238	15.39
Non-operating:				
Passenger facility charges	\$ 2,180,585	\$ 1,833,308	\$ 1,872,343	18.94
Contract facility charges	636,336	524,094	721,218	21.42
Investment earnings, net	150,596	101,069	133,122	49.00
Gain on disposal of capital assets	<u>72,116</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total non-operating	3,039,633	2,458,471	2,726,683	23.64
Capital grants	<u>3,156,111</u>	<u>17,665,396</u>	<u>15,006,183</u>	<u>(82.13)</u>
Total revenue	<u>\$ 19,113,764</u>	<u>\$ 31,318,934</u>	<u>\$ 29,282,104</u>	<u>(38.97)%</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2011 and 2010

EXPENSE

A summary of the expense for FY 2011, FY 2010, and FY 2009 is as follows:

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>% Change 2011/2010</u>
Operating:				
Administration	\$ 4,606,779	\$ 4,602,780	\$ 5,876,740	0.10%
Grants	-	880,176	-	N/A
General maintenance	2,397,467	2,245,892	2,072,463	6.75
Safety, rescue and security	2,073,738	1,555,461	2,343,770	33.32
Engineering	553,518	453,915	469,110	21.94
Building maintenance	527,829	494,541	509,355	6.73
Operations	<u>651,970</u>	<u>482,813</u>	<u>404,855</u>	<u>35.04</u>
Total operating	10,811,301	10,715,578	11,676,293	0.89
Non-operating:				
Interest expense	\$ 1,985,237	\$ 1,431,904	\$ 903,554	38.64
Loss on disposal of capital assets	<u>N/A</u>	<u>52,527</u>	<u>564,129</u>	<u>N/A</u>
Total non-operating	1,985,237	1,484,431	1,467,683	33.74
Depreciation and amortization	<u>8,716,163</u>	<u>7,282,455</u>	<u>7,678,890</u>	<u>19.69</u>
Total expense	<u>\$ 21,512,701</u>	<u>\$ 19,482,464</u>	<u>\$ 20,822,866</u>	<u>10.42%</u>

2011 REVENUE AND EXPENSE ANALYSIS

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

- Airline landing fees and related operations revenue increased \$851,000, an increase of 23%, due primarily to the increase in enplanements and the expiration of waived revenues for certain airline incentives.
- Auto parking revenue increased \$825,000, an increase of 23%, due to the increase in enplanements and a new rate increase for parking that went into effect on July 1, 2010.
- Ground transportation revenue decreased \$282,538, or 13%. This decrease was due to a reduction in the car rental payments from October 2010 to June 2011. During this 9 month period, the minimum required payments were substantially lower than originally contracted due to restructuring of the car rental agreements.
- General aviation revenue increased \$142,000, an increase of 16%, due primarily to the full year impact of the new fixed base operator lease.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
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FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

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

- Airline incentives and revenue guarantee expense decreased \$732,000, or 68%, in FY 2011. In FY 2010, airline incentives and revenue guarantees were put into place for the new Allegiant and AirTran air service. In FY 2011, the incentives were materially complete, which resulted in significantly lower advertising expense for the current year.
- Salaries and benefits increased by \$325,000, or 6%, from FY 2010 to FY 2011. This increase is attributable to several factors including an increase in health care costs, an increase in unemployment insurance expense, scheduled salary adjustments, and the transition of selected employees from contract labor to full time employees.
- Retirement benefit expense increased by \$179,000, or 32%, from FY 2010. In FY 2010, the discount rate used for the deferred compensation agreements was computed at 5%. In FY 2011, in order to more accurately reflect the present value of the obligation, management elected to reduce the discount rate to 3.0%. The reduction in the discount rate resulted in significantly higher actuarial expense for the current year.
- Utility expense increased \$242,000, or 27%, from FY 2010. This was primarily attributable to an increase in the electric rates and a new Water Quality Management Fee (WQMF) ordinance. This ordinance went into effect on January 1, 2010 and the Airport absorbed the full year impact of the WQMF in FY 2011.

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

- Passenger Facility Charges (PFC) and Customer Facility Charges (CFC) increased \$460,000, or 20%, primarily due to higher enplanements in FY 2011.
- Interest expense increased \$553,000, or 39% in FY 2011. This increase is directly attributable to the higher interest rates incurred on the \$32 million in variable rate debt that was converted to a fixed rate debt structure in FY 2010.
- The Airport realized a \$72,000 gain on disposal of capital assets in FY 2011 versus a \$52,000 loss in FY 2010. This resulted in a \$124,000 increase in net non-operating revenue. In FY 2010, the airport incurred a loss on disposal of capital assets due to the write off of several obsolete and impaired assets.

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

2010 REVENUE AND EXPENSE ANALYSIS

Operating revenue decreased from \$11.5 million in FY 2009 to \$11.2 million in FY 2010, a decrease of 3%. The following describes the fluctuations of certain types of operating revenue:

- Airline landing fees and related operations income decreased \$496,000, a decrease of 12%, due primarily to an airline downsizing its aircraft and waived revenues for airline incentives.
 - Auto parking revenue decreased \$228,000, a decrease of 6%, due primarily to a prior period revenue adjustment in FY 2009.
 - Ground transportation revenue increased \$63,000, or 3%, which reflected continued financial returns from the updated lease agreements.
 - General aviation revenue increased \$277,000, an increase of 45%, due to increased traffic and the successful renegotiation of the fixed base operator lease.
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LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
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FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

Operating expense decreased from \$11.7 million in FY 2009 to \$10.7 million in FY 2010, a decrease of 8%, primarily due to the following:

- Legal fees decreased \$850,000, or 74%, in FY 2010. In FY 2009, legal fees were driven higher by responses to the Freedom of Information Act requests by the local newspaper, an audit conducted by the Kentucky Auditor of Public Accounts, fees related to the issuance of new bonds, and work on various lease agreements. In FY 2010, this work was materially complete which resulted in significantly lower legal expenses for the current year.
- Consulting fees decreased by \$297,000, or 88%, from FY 2009 to FY 2010. This is primarily a result of staff performing more job functions in-house and the transition from contractual agreements for the temporary Executive Director position to the hiring of a full time Executive Director.
- Retirement benefit expense decreased by \$444,000, or 71% from FY 2009. In FY 2009, the discount rate used for the deferred compensation agreements was adjusted from 10% to 5% in order to more accurately reflect the present value of the obligation, resulting in significantly higher actuarial expense in the prior year.
- Revenue guarantee expense increased by \$880,000 in FY 2010. This was directly attributed to the addition of a new low cost carrier service beginning in February 2010 and the expense was substantially offset by federal grant revenue.

Net non-operating revenue decreased \$285,000 due to the following:

- Passenger Facility Charges (PFC) and Customer Facility Charges (CFC) decreased \$236,000, or 9%, primarily due to a one-time settlement in FY 2009.
- Interest expense increased \$528,000, or 58%, in FY 2010. This increase is directly attributable to the conversion of \$32 million of variable rate debt to a fixed rate debt structure.
- The airport incurred a \$53,000 loss on disposal of assets in FY 2010 versus a \$564,000 loss in FY 2009. This resulted in a \$511,000 increase in net non-operating revenue. In FY 2009, the airport incurred a significant loss on disposal of capital assets due to the write off of several obsolete and impaired assets.

Capital grants increased \$2.7 million due to more construction and related reimbursement in FY 2010.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
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FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2011, 2010, and 2009. The Airport's assets exceeded liabilities by \$111.8 million at June 30, 2011, a \$2.4 million decrease from June 30, 2010. The Airport's assets exceeded liabilities by \$114.2 million at June 30, 2010, an \$11.8 million increase from June 30, 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current and other assets	\$ 29,774,511	\$ 38,351,337	\$ 61,616,234
Capital assets	<u>148,166,759</u>	<u>146,749,602</u>	<u>123,964,733</u>
Total assets	<u>\$ 177,941,270</u>	<u>\$ 185,100,939</u>	<u>\$ 185,580,967</u>
Liabilities			
Current liabilities	\$ 2,557,918	\$ 6,687,415	\$ 5,723,042
Noncurrent liabilities	<u>63,561,107</u>	<u>64,192,342</u>	<u>77,473,213</u>
Total liabilities	<u>\$ 66,119,025</u>	<u>\$ 70,879,757</u>	<u>\$ 83,196,255</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 89,165,917	\$ 89,466,406	\$ 72,872,451
Restricted	16,848,827	16,878,020	21,993,158
Unrestricted	<u>5,807,501</u>	<u>7,876,756</u>	<u>7,519,103</u>
Total net assets	<u>\$ 111,822,245</u>	<u>\$ 114,221,182</u>	<u>\$ 102,384,712</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2011 and 2010

CAPITAL ASSETS

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

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

Major capital projects in progress and expenditures incurred during FY 2010 included the following:

	<u>FY 2010</u>	<u>Cumulative</u>
• Runway 9/27	12,500,000	29,000,000
• Taxiway D relocation	3,000,000	7,800,000
• Airfield electrical vault relocation	1,800,000	1,900,000
• ARFFTC Refurbishment	240,000	245,000
• Parallel Taxiway B design and construction	2,600,000	2,600,000
• Air Carrier Ramp Rehab	200,000	200,000
• Baggage Claim Belt Replacement	200,000	200,000
• Main entrance enhancement	793,000	1,300,000
• Terminal Lobby Renovation	2,000,000	2,100,000
• Terminal façade and curbside renovation	980,000	980,000
• Terminal median signage improvements	580,000	580,000

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

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

In FY 2010, the Airport experienced an unusually high level of capital asset activity. Several factors including the federal stimulus package, funding for the new runway, and preparation for the Alltech FEI World Equestrian Games all contributed to the increased level of activity. In FY 2011, the Airport resumed a more normal level of capital funding.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
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BONDS PAYABLE

In FY 2011, the Airport Board elected to retire \$740,000 of its variable rate debt in advance of the scheduled principal pay down dates to create interest savings. In addition, the Board entered into a new Letter of Credit agreement (LOC) which began July 25, 2011, and extends the current agreement until December 15, 2014 and lowers the annual LOC fee.

In FY 2010, interest rates were at historically low levels and the Airport issued fixed rate debt to lock in long term funding costs. By issuing \$31.9 million of fixed rate debt to retire a portion of the existing variable rate debt and paying down \$9.8 million in variable debt with existing cash on hand, the Airport was able to achieve approximately a 50-50 mix of variable versus fixed rate debt and provide a more desirable overall debt profile for the future.

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

NET ASSETS

The largest portion of the Airport's net assets each year (80% at June 30, 2011, and 78% at June 30, 2010) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be sold to pay liabilities. An additional portion of the Airport's net assets (15% at June 30, 2011, and 15% at June 30, 2010) represents bond reserve funds that are subject to external restrictions on how they can be used under bond resolutions and Passenger Facility Charges that are restricted by Federal regulations. Unrestricted net assets (5% of the Airport's net assets at June 30, 2011 and 7% at June 30, 2010) may be used to meet any of the Airport's ongoing obligations.

SUMMARY OF CASH FLOW ACTIVITIES

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

	<u>2011</u>	<u>2010</u>
Cash flows provided by operating activities	\$ 2,440,283	\$ 1,727,607
Cash flows used in capital and related financing activities	(9,962,450)	(29,305,880)
Cash flows used in investing activities	<u>(1,102,624)</u>	<u>(7,517,311)</u>
Net decrease in cash and cash equivalents	(8,624,791)	(35,095,581)
Cash and cash equivalents, beginning of year	<u>19,481,396</u>	<u>54,576,980</u>
Cash and cash equivalents, end of year	<u>\$ 10,856,605</u>	<u>\$ 19,481,396</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
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DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Airport experienced significant passenger growth in FY 2011. In October 2010, the Airport served as the Official Airport of the largest sporting event ever to be held in Lexington, Kentucky—the 2010 Alltech FEI World Equestrian Games. Attendance for the event exceeded 500,000 and included representation from 58 countries. For the month of October 2011, passenger enplanements increased by 39% over October 2009. During the 16-day event, Blue Grass Airport and its partners welcomed more than 460 international athletes, provided security for international dignitaries and hosted 18 special event charter flights. Private aircraft activity grew to three times its normal activity with approximately 700 private and corporate airplanes receiving services during the Games. The Airport also provided special customer service amenities during this time such as currency exchange, language translation, a tourism information program and more than 30 live Bluegrass music performances.

In FY 2011, the Airport commissioned an economic impact study to determine its role as a contributor to the region's social and economic well-being. This study, conducted by a well-respected aviation consulting firm, Wilbur Smith Associates, quantified the economic contributions the Airport provides to the community as well as numerous qualitative benefits. Findings from the study showed that the Airport contributed to the employment of approximately 3,500 jobs and a total economic output of \$370 million. The economic impact of the Airport was estimated using a Federal Aviation Administration-approved methodology that has been widely accepted by the aviation industry and considers the impacts associated with airport operations, on-airport capital improvement projects, visitors who arrive via commercial airlines and visitors who arrive on general aviation/private aircraft.

FY 2011 marked the completion of more than \$66 million worth of airport improvement projects. A new 4,000 foot runway (Runway 9-27) was opened for private and corporate general aviation aircraft, which accounts for approximately 65% of the total aircraft operations (take-offs and landings) at the Airport. This runway enhances safety during crosswind conditions and replaces the Airport's previous 3,500 foot runway. Other capital improvement projects completed include refurbishment of the Airport's regional fire training center, a corporate ramp addition, terminal interior improvements such as new ticket counters, modern restroom facilities and energy efficient lighting, and terminal exterior improvements such as a redesigned access road and enhanced passenger wayfinding.

The Airport was fortunate to see new cities added to its route map, including twice per week service to Punta Gorda, Florida on Allegiant Air, twice daily service to Chicago O'Hare on American Eagle and daily service to Minneapolis on Delta Air Lines. Since the end of FY 2011, two airlines have announced changes in their service. Delta Air Lines is discontinuing its twice daily service to Memphis beginning September 9, 2011, in efforts to redirect traffic through its Atlanta and Detroit hubs. US Airways will be discontinuing its twice daily service to New York's LaGuardia Airport beginning September 7, 2011. The Airport still maintains daily service to LaGuardia on Delta Air Lines.

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET ASSETS
 June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets		
Unrestricted:		
Cash	\$ 3,752,687	\$ 2,207,684
Certificates of deposit	-	3,000,000
Accounts receivable, net	1,689,951	1,779,827
Other assets	<u>375,040</u>	<u>440,871</u>
Total unrestricted current assets	<u>5,817,678</u>	<u>7,428,382</u>
Restricted:		
Cash and cash equivalents	7,103,918	17,273,712
Certificates of deposit	425,766	5,958,151
Investments	12,994,410	2,856,197
Accrued interest receivable	11,674	13,646
Grants receivable	<u>444,217</u>	<u>1,682,635</u>
Total restricted current assets	<u>20,979,985</u>	<u>27,784,341</u>
Total current assets	<u>26,797,663</u>	<u>35,212,723</u>
Noncurrent assets:		
Bond issue costs, net	2,834,294	2,937,884
Fair value of interest rate caps	142,554	200,730
Capital assets, net	<u>148,166,759</u>	<u>146,749,602</u>
Total noncurrent assets	<u>151,143,607</u>	<u>149,888,216</u>
Total assets	<u>\$ 177,941,270</u>	<u>\$ 185,100,939</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET ASSETS
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	<u>2011</u>	<u>2010</u>
Liabilities		
Current liabilities (payable from unrestricted assets)		
Accounts payable	\$ 675,040	\$ 767,074
Accrued payroll and benefits	377,549	393,455
Other payable	<u>-</u>	<u>1,647,277</u>
Total unrestricted current liabilities	<u>1,052,589</u>	<u>2,807,806</u>
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	65,000	70,000
Accounts payable	699,329	3,068,609
Accrued interest payable	<u>741,000</u>	<u>741,000</u>
Total restricted current liabilities	<u>1,505,329</u>	<u>3,879,609</u>
Total current liabilities	<u>2,557,918</u>	<u>6,687,415</u>
Noncurrent liabilities		
Accrued post employment benefits	1,865,803	1,581,978
Deferred inflow from interest rate caps	142,554	200,730
Bonds payable, net of current portion	<u>61,552,750</u>	<u>62,409,634</u>
Total noncurrent liabilities	<u>63,561,107</u>	<u>64,192,342</u>
Total liabilities	<u>66,119,025</u>	<u>70,879,757</u>
Net assets		
Invested in capital assets, net of related debt	<u>89,165,917</u>	<u>89,466,406</u>
Restricted		
Debt service	16,412,450	15,354,580
Construction	<u>436,377</u>	<u>1,523,440</u>
Total restricted net assets	<u>16,848,827</u>	<u>16,878,020</u>
Unrestricted		
Airline partnership fund	-	500,000
Board designated for maintenance and operations	-	500,000
Undesignated	<u>5,807,501</u>	<u>6,876,756</u>
Total unrestricted net assets	<u>5,807,501</u>	<u>7,876,756</u>
Total net assets	<u>111,822,245</u>	<u>114,221,182</u>
Total liabilities and net assets	<u>\$ 177,941,270</u>	<u>\$ 185,100,939</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Airline landing fees and related operations	\$ 4,512,347	\$ 3,660,918
Auto parking	4,353,446	3,528,938
Ground transportation	1,975,181	2,257,719
Concessions and rentals	725,304	605,812
General aviation	1,027,302	884,902
Other	<u>324,440</u>	<u>256,778</u>
Total operating revenue	<u>12,918,020</u>	<u>11,195,067</u>
Operating expense:		
Administration	4,606,779	4,602,780
Grants	-	880,176
General maintenance	2,397,467	2,245,892
Safety, rescue and security	2,073,738	1,555,461
Engineering	553,518	453,915
Building maintenance	527,829	494,541
Operations	<u>651,970</u>	<u>482,813</u>
Total operating expense	<u>10,811,301</u>	<u>10,715,578</u>
Operating income before depreciation	2,106,719	479,489
Depreciation	<u>8,716,163</u>	<u>7,282,455</u>
Loss from operations	<u>(6,609,444)</u>	<u>(6,802,966)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,180,585	1,833,308
Contract facility charges	636,336	524,094
Investment earnings, net	150,596	101,069
Interest expense, including related annual fees	(1,985,237)	(1,431,904)
Gain (loss) on disposal of capital assets	<u>72,116</u>	<u>(52,527)</u>
Net non-operating revenue	1,054,396	974,040
Capital grants	<u>3,156,111</u>	<u>17,665,396</u>
(Decrease) increase in net assets	(2,398,937)	11,836,470
Net assets, beginning of year	<u>114,221,182</u>	<u>102,384,712</u>
Net assets, end of year	<u>\$ 111,822,245</u>	<u>\$ 114,221,182</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows provided by operating activities		
Receipts from customers	\$ 12,683,455	\$ 12,446,755
Payments to suppliers	(4,722,649)	(5,217,369)
Payments to employees	(5,844,963)	(5,715,573)
Other receipts	<u>324,440</u>	<u>213,794</u>
Net cash provided by operating activities	<u>2,440,283</u>	<u>1,727,607</u>
Cash flows used in capital and related financing activities		
Proceeds from capital grant contributions	4,394,524	15,982,761
Passenger facility charges	2,180,585	1,833,308
Contract facility charges	636,336	524,094
Proceeds from bonds and bond premium	-	49,830,575
Principal paid on bonds	(810,000)	(65,930,575)
Payments of bond issuance costs	-	(536,517)
Interest and fees paid on bonds	(1,985,178)	(727,337)
Acquisition and construction of capital assets	<u>(14,378,717)</u>	<u>(30,282,189)</u>
Net cash used in capital and related financing activities	<u>(9,962,450)</u>	<u>(29,305,880)</u>
Cash flows used in investing activities		
Interest received on investments	251,602	101,069
Purchases of certificates of deposit and investments, net	<u>(1,354,226)</u>	<u>(7,618,380)</u>
Net cash used in investing activities	<u>(1,102,624)</u>	<u>(7,517,311)</u>
Net decrease in cash and cash equivalents	(8,624,791)	(35,095,584)
Cash and cash equivalents, beginning of year	<u>19,481,396</u>	<u>54,576,980</u>
Cash and cash equivalents, end of year	<u>\$ 10,856,605</u>	<u>\$ 19,481,396</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (6,609,444)	\$ (6,802,966)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	8,716,163	7,282,455
Bad debt expense	14,132	-
Increase (decrease) due to changes in:		
Accounts receivable	(64,838)	1,451,836
Other assets	266,561	(77,658)
Accounts payable	(150,210)	(56,529)
Accrued payroll and benefits	<u>267,919</u>	<u>(69,531)</u>
Net cash provided by operating activities	<u>\$ 2,440,283</u>	<u>\$ 1,727,607</u>
Supplemental schedule of noncash transactions		
Change in construction in progress included in accounts payable	\$ (2,369,280)	\$ 422,764
Change in capital assets included in other payables	\$ (1,647,277)	\$ 1,647,277

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*," the Airport has elected to apply all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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

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

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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

Net Assets: GASB Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These net asset classifications are defined as follows:

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

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

Cash Equivalents: Cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash.

Investments: Investment securities are recorded at fair value.

Accounts Receivable: Receivables are reduced by the estimated portion that is expected to be uncollectible. Interest is not normally charged on receivables. An allowance is established for losses based on historic loss experience and current economic conditions. Losses are charged off to the allowance when further collection efforts will not produce additional recoveries. The allowance was \$868 at June 30, 2011 and \$41,618 at June 30, 2010.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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

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

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

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

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

Derivative Instruments: The Airport uses derivatives to manage risks related to interest rate movements. Interest rate cap contracts designated and qualifying as cash flow hedges are reported at fair value. Fair value is determined by obtaining a price for the same or similar instrument as of year end. For June 30, 2011 and 2010, this price was obtained from the counterparty. The Airport documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Airport's interest rate risk management strategy is to limit future cash flow requirements by maintaining interest rate cap contracts which provide for reimbursement of interest payments for amounts exceeding the cap rate.

Operating and Non-operating Revenues and Expenses: Revenues from landing fees, terminal space rental, auto parking, concessions and aircraft tie down fees are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. PFC's are collected by the airlines 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.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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

Compensated Absences: Full-time employees may earn from 12 to 37.5 vacation days annually and from 12 to 18 sick days annually, depending on their length of employment and classification. Employees can carry forward up to a maximum of 300 hours of their vacation accrual and up to a maximum of 810 hours of sick leave for use in subsequent years depending on their length of employment and classification. Liabilities for such benefits are accrued at current rates of compensation.

New Financial Reporting Standards: In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for years beginning after June 15, 2010. The Airport has evaluated this Statement and has determined that the Statement is not applicable to the Airport's financial statements.

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

Reclassification: Certain amounts in the 2010 statement of net assets and statement of cash flows have been reclassified to conform to the 2011 presentation.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

	<u>FY 2011</u>	<u>FY 2010</u>
Cash	4,955,312	7,131,194
Certificates of deposit	425,766	8,958,151
Petty cash	660	410
Total cash and certificates of deposit	<u>\$ 5,381,738</u>	<u>\$ 16,089,755</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Cash and certificates of deposit shown above include \$1,629,050 and \$10,882,032 of restricted amounts as of June 30, 2011 and June 30, 2010, respectively.

Custodial credit risk is the risk that the Airport will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party if the counterparty fails. Cash and certificates of deposit shown above that were not insured by the FDIC but were collateralized by securities held by the pledging financial institution are subject to custodial credit risk. Total cash and certificate of deposit balances subject to custodial credit risk are \$2,483,503 and \$15,052,321 for June 30, 2011 and 2010, respectively.

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

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Restricted cash equivalents					
JP Morgan US Treas Plus Inv Funds	\$ 976,321	5.2%	N/A	AAAm	Aaa-mf
Dryfus Govt Cash Mgt Funds	3,991,480	21.1%	N/A	AAAm	Aaa-mf
Fidelity Institutional Money Market	<u>932,833</u>	<u>4.9%</u>	N/A	AAAm	Aaa
Total restricted cash equivalents	<u>5,900,634</u>	<u>31.2%</u>			
Restricted investments:					
Fannie Mae Bonds	2,487,029	13.2%	10/28/14 – 6/15/2016	AA+	Aaa
Fannie Mae Mortgage Backed Securities	3,636,858	19.3%	3/25/2014 – 9/1/2025	N/A	N/A
Freddie Mac Bonds	600,905	3.2%	8/12/2015 – 9/30/2015	AA+	Aaa
Freddie Mac Mortgage Backed Securities	2,063,130	10.9%	1/15/2014 – 4/1/2025	N/A	N/A
Municipal Bonds	1,329,839	7.0%	12/9/2011 - 6/1/2016	N/R	MIG2
Federal Farm Credit Bank	1,633,777	8.6%	11/17/2014 - 6/13/2016	AA+	Aaa
Federal Home Loan Bank	<u>1,242,872</u>	<u>6.6%</u>	8/20/2015 - 3/30/2016	AA+	Aaa
Total restricted investments	<u>12,994,410</u>	<u>68.8%</u>			
Total cash equivalents and investments	<u>\$ 18,895,044</u>	<u>100.0%</u>			

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Restricted cash equivalents and investments of the Airport as of June 30, 2010 were as follows:

		<u>Percentage of total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Restricted cash equivalents					
Dryfus Govt Cash Mgt Funds	\$ 12,349,793	82.0%	N/A	AAAm	Aaa-mf
Restricted Investments:					
Fannie Mae Bonds	711,332	4.5%	4/5/2012	AAA	Aaa
Federal Home Loan Bank	2,144,865	13.5%	3/10/2010 - 4/20/2015	AAA	Aaa
Total restricted investments	2,856,197	18.0%			
Total cash equivalents and investments	\$ 15,205,990	100.0%			

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Airport does not have a formal policy on interest rate risk but maintains an average weighted life on its investment portfolio of 5 years or less to comply with trust indentures and to limit the exposure to interest rate market risks. The investment portfolio as of June 30, 2011 had an average duration of 3.56 years.

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

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All deposits and investments are denominated in United States currency.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 3 - CAPITAL ASSETS

Capital asset activity for FY 2011 and FY 2010 is as follows:

	FY 2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land improvements	\$ 27,406,180	\$ 6,681	\$ -	\$ 28,340,331	\$ 55,753,192
Structures and other improvements	156,905,691	440,749	161,868	8,453,046	165,637,618
Equipment	4,742,487	375,427	271,543	8,150	4,854,518
Land	4,396,612	131,533	-	-	4,528,145
Construction in progress	31,317,260	9,196,027	-	(36,801,527)	3,711,760
Total capital assets	<u>224,768,230</u>	<u>10,150,417</u>	<u>433,411</u>	<u>-</u>	<u>234,485,233</u>
Less accumulated depreciation:					
Land improvements	12,952,606	1,698,928	-	-	14,651,534
Structures and other improvements	61,942,971	6,577,463	161,619	-	68,358,812
Equipment	3,123,051	439,772	254,695	-	3,308,128
Less accumulated depreciation	<u>78,018,628</u>	<u>8,716,163</u>	<u>416,314</u>	<u>-</u>	<u>86,318,474</u>
Net capital assets	<u>\$ 146,749,602</u>	<u>\$ 1,434,254</u>	<u>\$ 17,097</u>	<u>\$ -</u>	<u>\$ 148,166,759</u>
	FY 2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land improvements	\$ 26,670,761	\$ -	\$ 548,465	\$ 1,283,884	\$ 27,406,180
Structures and other improvements	146,885,429	5,660	859,208	10,873,810	156,905,691
Equipment	4,434,753	551,251	500,798	257,281	4,742,487
Land	2,749,335	1,647,277	-	-	4,396,612
Construction in progress	15,770,165	37,535,376	9,573,306	(12,414,975)	31,317,260
Total capital assets	<u>196,510,443</u>	<u>39,739,564</u>	<u>11,481,777</u>	<u>-</u>	<u>224,768,230</u>
Less accumulated depreciation:					
Land improvements	12,493,911	936,820	478,125	-	12,952,606
Structures and other improvements	56,895,394	5,886,015	838,438	-	61,942,971
Equipment	3,156,405	459,620	492,974	-	3,123,051
Less accumulated depreciation	<u>72,545,710</u>	<u>7,282,455</u>	<u>1,809,537</u>	<u>-</u>	<u>78,018,628</u>
Net capital assets	<u>\$ 123,964,733</u>	<u>\$ 32,457,109</u>	<u>\$ 9,672,240</u>	<u>\$ -</u>	<u>\$ 146,749,602</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 3 - CAPITAL ASSETS (Continued)

At June 30, 2010, the Airport recorded \$1,647,277 as an addition to land and to other payable to reflect an arbitration award to a previous owner of land related to a prior condemnation of that land by the Airport.

As of June 30, 2011, 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 \$3,126,000 at June 30, 2011 and \$6,423,000 at June 30, 2010.

NOTE 4 – BONDS PAYABLE

The following is a summary of the changes in bonds payable during FY 2011 and FY 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
FY 2011	\$ 60,975,000	-	(810,000)	\$ 60,165,000	\$ 65,000
FY 2010	\$ 77,075,000	48,300,000	(64,400,000)	\$ 60,975,000	\$ 70,000

Bonds payable at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
2009 Series A, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3% - 5%	\$ 31,880,000	\$ 31,880,000
2009 Series B, Variable Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2038	16,420,000	16,420,000
2008 Series B, Variable Rate General Airport, Revenue and Refunding Bonds (non - AMT) due through July 2038	11,140,000	11,280,000
2008 Series C, Variable Rate General Airport Refunding Bonds (Taxable) due through July 2023	<u>725,000</u>	<u>1,395,000</u>
Total principal payable	60,165,000	60,975,000
Unamortized bond premiums	<u>1,452,750</u>	<u>1,504,634</u>
Total bonds payable	61,617,750	62,479,634
Less current portion	<u>65,000</u>	<u>70,000</u>
Noncurrent portion of bonds payable	<u>\$ 61,552,750</u>	<u>\$ 62,409,634</u>

On December 3, 2009, a portion of the 2008A and 2008B bonds were redeemed using unspent Series 2008 project funds. The project funds were available due to the discontinuation of a Terminal Drive Relocation project originally funded by 2008 bond proceeds. Project funds were used to redeem \$4,820,000 of 2008A and \$5,065,000 of 2008B bonds.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 4 – BONDS PAYABLE (Continued)

In November 2009, the Airport issued \$48,300,000 of General Airport Revenue Refunding Bonds, Series 2009A with maturities through July 1, 2027, and 2009B with maturities through July 1, 2038. These bonds, along with available debt services reserves, refunded all of the remaining \$40,595,000 of Series 2008A bonds and a portion of Series 2008B bonds in the amount of \$9,815,000, representing original maturities from July 1, 2010 through July 1, 2027. The remaining Series 2008B bonds were \$11,280,000 representing all original maturities from July 1, 2028 through July 1, 2038.

The principal amount of \$48,300,000, along with a premium of approximately \$1,530,000 and 2008 Series debt service and debt service reserve funds on hand with the Trustee of approximately \$5,310,000, was used to fund a Refunding Escrow (approximately \$50,925,000) and new Debt Service Reserve Fund (approximately \$3,570,000), and the cost of issuance and underwriter's discount of approximately \$645,000.

In FY 2011, the Airport elected to retire \$740,000 of its variable rate debt in advance of the scheduled principal pay down dates to create interest savings.

Variable Interest Rates: The interest rates for the 2009 B and 2008 B and C bonds for each rate period are determined by the Remarketing Agent as the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause such bonds to have a market value as of the date of determination equal to the principal amount thereof, taking into account prevailing market conditions up to an applicable maximum interest rate. The maximum interest rate is defined as the rate per annum equal to the lesser of (1) 12% per annum with respect to the 2009 B and 2008 B and 15% per annum with respect to the 2008C taxable bonds, or (2) the maximum rate permitted by law.

At June 30, 2011, the variable interest rates for the 2009 and 2008 Bonds were 0.04% (2009B), 0.04% (2008B) and 0.67% (2008C), respectively. The variable interest rate is subject to daily or weekly rate period adjustments by the remarketing agent.

Capitalized Interest: Capitalized interest expense on bonds totaled \$86,747 in FY 2011 and \$198,597 in FY 2010.

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

Letter of Credit Agreements: Pursuant to the terms of the Reimbursement Agreement between the Airport and a Bank, the following irrevocable direct pay letters of credit agreements were in effect as of July 25, 2011:

- Series 2008B - \$ 11,301,710
- Series 2008C - \$ 738,408
- Series 2009B - \$ 16,662,927

The new agreement extends the termination date to December 15, 2014 and reduces the LOC fee on both the 2008 and 2009 bond series.

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 4 – BONDS PAYABLE (Continued)

Interest Rate Caps: The Airport has two forward interest rate caps with an effective date of July 26, 2005 through January 2, 2018 with notional amounts of \$31,800,000. The fair value of the interest rate caps was estimated at \$142,554 as of June 30, 2011 and \$200,730 at June 30, 2010.

Debt Covenants: The 2008 and 2009 bonds are subject to financial and nonfinancial covenants. The primary financial covenant is a debt service coverage ratio for which management has reported compliance to the Indenture Trustee. The calculation is based on a net amount available for debt service (cash, general revenues, PFC revenue, less operating expenses) that equals or exceeds 100% of the Aggregate Annual Debt service for the fiscal year as further defined in the Indenture.

Debt service requirements for principal and estimated interest and fee payments using the interest rate in effect at June 30, 2011 for all bonds outstanding are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest & Fees*</u>	<u>Total</u>
2012	65,000	1,835,137	1,900,137
2013	90,000	1,834,832	1,924,832
2014	80,000	1,832,360	1,912,360
2015	1,190,000	1,830,963	3,020,963
2016	1,800,000	1,774,364	3,574,364
2017-2021	11,250,000	7,790,594	19,040,594
2022-2026	13,115,000	4,987,584	18,102,584
2027-2031	14,980,000	1,940,307	16,920,307
2032-2036	14,455,000	631,872	15,086,872
2037-2039	<u>3,140,000</u>	<u>72,374</u>	<u>3,212,374</u>
Total	<u>\$ 60,165,000</u>	<u>\$ 24,530,387</u>	<u>\$ 84,695,387</u>

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

NOTE 5 - PROPERTY LEASED TO OTHERS

The Airport leases a portion of its capital assets under non-cancelable operating lease agreements for parking, concessions and other commercial purposes. Rental revenue for FY 2011 and FY 2010 was \$7,612,000 and \$6,553,000, respectively. Future minimum rental revenues to be received under these operating leases as of June 30, 2011 are as follows:

2012	\$ 3,972,445
2013	3,863,178
2014	3,788,736
2015	3,717,883
2016	1,409,916
Thereafter through 2029	<u>6,379,228</u>
Total future minimum rental revenue	<u>\$ 23,131,386</u>

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 - PROPERTY LEASED TO OTHERS

The Airport also leases property through contingent rentals. Revenues from these contingent rentals arise primarily from a percentage of the lessees' gross revenues in excess of minimum guarantees. Contingent rentals for FY 2011 and FY 2010 were \$4,107,284 and \$ 2,771,725, respectively. This increase is primarily a result of increased enplanements and an increase in parking rates.

NOTE 6 - PASSENGER FACILITY CHARGES

During FY 2011, the Airport continued to impose a \$4.50 PFC on enplaning passengers. During FY 2011 and FY 2010, passenger facility charges were \$2,180,585 and \$1,833,308, respectively. As of October 15, 2009, the FAA authorized the Airport to collect total net PFC revenue of \$37,400,347 under Application #09-07-C-00-LEX with a charge expiration date of February 1, 2038. The cumulative PFC Authority, including the current application, is \$100,206,268. As collected, the PFC revenue will be used to fund debt for the following projects:

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

NOTE 7 – CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2011, the Airport earned approximately 50% of airline operations revenue from one carrier, versus 52% from a single carrier in FY 2010.

NOTE 8 - RETIREMENT PLANS

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

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 8 - RETIREMENT PLANS (Continued)

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

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

Employer contributions to the Plan made by the Airport were \$406,000 for both FY 2011 and FY 2010. Required contributions made by Plan participants for FY 2011 and FY 2010 were \$229,000. Since the Plan assets are held in trust for the benefit of the Plan members, the related assets of the Plan are not included in the accompanying statements of net assets.

The Airport has an additional retirement plan under Internal Revenue Code section 457(b) that allows for annual employee salary deferrals up to \$15,500. The Airport does not contribute to this Plan.

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS

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

The liability for the present value of estimated future cash payments has been recorded at June 30, 2011 and June 30, 2010 using a discount rate of 5%. There is no required employee contribution related to this benefit. The liability is evaluated periodically and is adjusted based on any changes made to the assumptions and is recorded as an increase or decrease in expense in the year of change. The table below outlines the beginning of year (BOY) balance, the annual adjustments and payments, and the end of year (EOY) balance.

	<u>BOY Balance</u>	<u>Expense/(Income)</u>	<u>(Payments)</u>	<u>EOY Balance</u>
FY 2011	\$ 373,603	\$ -	\$ (9,857)	\$ 363,746
FY 2010	\$ 419,000	\$(35,668)	\$ (9,729)	\$ 373,603

(Continued)

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS

Deferred Compensation: A "non-qualified" deferred compensation agreement was established by the Airport to facilitate the retirement of five employees who could have received a higher retirement benefit from the County Employees Retirement System, had the Airport elected to participate in that plan. At June 30, 2011, and June 30, 2010, a liability was recorded for the present value of the estimated future cash payments, less any balance in the employees' defined contribution retirement plan, using a discount rate of 3% and 5%, respectively. In July 2010, the Airport Board approved a resolution to freeze benefit accruals under this agreement at present levels and intends to terminate the plan and payout the accrued liability once negotiations with the remaining participants are settled. However, due to the change in discount rate from 5% to 3%, the Airport did incur additional expense in FY 2011. 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 2011	\$ 1,208,375	\$352,125	\$(58,443)	\$ 1,502,057
FY 2010	\$ 1,079,337	\$182,673	\$(53,635)	\$ 1,208,375

NOTE 10 - CONTINGENCIES

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

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

SUPPLEMENTARY INFORMATION

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 SCHEDULE - OPERATING EXPENSES
 Year ended June 30, 2011

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

See report of independent auditors.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE – OPERATING EXPENSES
Year ended June 30, 2010

	<u>Administration</u>	<u>Grants</u>	<u>General Maintenance</u>	<u>Safety, Rescue & Security</u>	<u>Engineering</u>	<u>Building Maintenance</u>	<u>Operations</u>	<u>Total</u>
Expenses								
Salaries and benefits	\$ 1,328,601	-	1,203,158	1,464,395	335,000	493,559	407,706	5,232,419
Marketing & advertising	802,411	880,176	1,127	-	-	-	-	1,683,714
Insurance	402,374	-	-	-	-	-	-	402,374
Computer maintenance & expense	57,012	-	1,397	7,688	2,096	-	7,598	75,791
Consulting fees	49,463	-	-	-	-	-	-	49,463
Customs expense	162,073	-	-	-	-	-	-	162,073
Maintenance	5,352	-	702,974	1,243	77,621	-	20,623	807,813
Memberships & publications	36,547	-	1,629	2,763	4,725	-	1,035	46,699
Office supplies	14,471	-	2,833	-	-	-	-	17,304
Professional development	23,294	-	6,866	12,202	3,020	-	9,775	55,157
Professional services	439,758	-	-	-	10,489	-	-	450,247
Supplies	7,951	-	306,817	46,958	3,770	-	14,730	380,226
Travel expenses	16,801	-	15,249	16,287	9,265	-	1,347	58,949
Utilities and phone	883,611	-	-	-	-	-	-	883,611
Other expenses	380,029	-	3,842	3,925	7,929	982	19,999	416,706
Bad debt	(6,968)	-	-	-	-	-	-	(6,968)
Total expenses	<u>\$ 4,602,780</u>	<u>880,176</u>	<u>2,245,892</u>	<u>1,555,461</u>	<u>453,915</u>	<u>494,541</u>	<u>482,813</u>	<u>\$ 10,715,578</u>

See report of independent auditors.