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

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2014 and 2013, and the changes in 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 4 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtain during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 24, 2014 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Lexington, Kentucky
September 24, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2014 (FY 2014) and June 30, 2013 (FY 2013). 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 2014, the Airport was served by four airline brands offering non-stop flights to 15 destinations. The Airport received air service to two new destinations this fiscal year. Allegiant began non-stop, seasonal jet service between Lexington and Myrtle Beach, South Carolina. This new service was offered from May 29 through August 10, 2014 and included two flights per week. American Airlines/US Airways added new non-stop service from Lexington to Philadelphia, Pennsylvania. The service began on June 5, 2014 and includes three daily flights. American Airlines/US Airways now offers service to four major hubs from Lexington: Charlotte, Chicago O'Hare, Dallas/Fort Worth and Philadelphia.

Operations Statistical Data

	FY 2014	FY 2013	FY 2012
Enplanements	571,198	541,741	560,288
Increase (decrease)	29,457	(18,547)	4,911
% Increase (decrease)	5.44%	(3.31%)	0.88%
Aircraft operations – commercial	28,994	28,920	29,888
Increase (decrease)	74	(968)	3,147
% Increase (decrease)	0.26%	(3.24%)	11.77%
Aircraft operations – general aviation	35,179	33,850	36,394
Increase (decrease)	1,329	(2,544)	(4,784)
% Increase (decrease)	3.93%	(6.99%)	(11.62%)
Aircraft operations – military	1,500	1,760	1,551
Increase (decrease)	(260)	209	245
% Increase (decrease)	(14.8%)	13.48%	18.76%
Landed weight (1,000 pounds)	641,883	632,616	651,563
Increase (decrease)	9,267	(18,947)	(29,557)
% Increase (decrease)	1.46%	(2.91%)	(4.34%)

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.

(Continued)

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

	FY 2014	FY 2013	FY 2012
Operating revenue	$ 14,395,201	$ 13,873,495	$ 13,636,595
Operating expense	(10,339,137)	(9,577,388)	(9,950,607)
Operating income before depreciation	4,056,064	4,296,107	3,685,988
Depreciation	(9,607,242)	(9,425,228)	(9,444,715)
Loss from operations	(5,551,178)	(5,129,121)	(5,758,727)
Net non-operating revenue (expense)	(428,985)	19,509	1,819,313
Loss before capital grants	(5,980,163)	(5,109,612)	(3,939,414)
Capital grants	2,467,049	4,295,303	4,120,272
Increase (decrease) in net position	$ (3,513,114)	$ (814,309)	$ 180,858

REVENUE

A summary of the revenue for FY 2014, FY 2013, and FY 2012 is as follows:

	2014 Amount	2013 Amount	2012 Amount	% Change 2014/2013
Operating:				
Airline landing fees and related operations	$ 5,167,235	$ 5,129,541	$ 5,031,513	0.73%
Auto parking	4,771,186	4,393,472	4,454,994	8.60%
Ground transportation	2,045,382	2,056,522	2,065,946	(0.54%)
Concessions and rentals	515,838	558,738	527,898	(7.68%)
General aviation	1,176,566	1,082,031	1,031,975	8.74%
Advertising	363,673	362,928	185,889	0.21%
Other	355,321	290,263	338,380	22.41%
Total operating	14,395,201	13,873,495	13,636,595	3.76%

(Continued)

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

	2014 Amount	2013 Amount	2012 Amount	% Change 2014/2013
Non-operating:				
Passenger facility charges	2,257,618	2,116,850	2,522,652	6.65%
Contract facility charges	712,826	635,412	709,072	12.18%
Drug task force grant	-	-	42,281	N/A
Investment income, net of fees	353,487	322,471	414,717	9.62%
Net increase in fair value of investments	190,369	-	122,775	N/A
Gain on disposal of capital assets	-	16,347	-	N/A
Total non-operating	3,514,300	3,091,080	3,811,497	13.69%
Capital grants	2,467,049	4,295,303	4,120,272	(42.56%)
Total revenue	$ 20,376,550	$ 21,259,878	$ 21,568,364	(4.15%)

EXPENSE

A summary of the expense for FY 2014, FY 2013, and FY 2012 is as follows:

	2014 Amount	2013 Amount	2012 Amount	% Change 2014/2013
Operating:				
Administration	$ 3,952,642	$ 4,024,110	$ 4,079,452	(1.78%)
General maintenance	2,771,303	2,375,558	2,389,088	16.66%
Safety, rescue and security	1,798,021	1,502,558	1,801,436	21.24%
Engineering	547,219	531,252	587,853	3.01%
Building maintenance	604,208	532,449	521,889	13.48%
Operations	642,124	604,623	563,484	6.20%
Drug Task Force	23,620	6,838	7,405	245.45%
Total operating	10,339,137	9,577,388	9,950,607	7.95%
Non-operating:				
Net decrease in fair value of investments	-	622,114	-	N/A
Interest expense and fees	2,201,397	2,091,914	1,771,738	5.23%
Debt/Financing costs	86,360	357,543	-	(75.85%)
Loss on disposal of capital assets	1,655,528	-	220,446	N/A
Total non-operating	3,943,285	3,071,571	1,992,184	28.38%
Depreciation	9,607,242	9,425,228	9,444,715	1.93%
Total expense	$ 23,889,664	$ 22,074,187	$ 21,387,506	8.22%

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FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

2014 REVENUE AND EXPENSE ANALYSIS

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

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

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

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

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

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively increased by $218,000, or 8%, due primarily to increased enplanements and an increase in the CFC rate.
- In FY 2014, the Airport experienced a $190,000 increase in the fair value of its investments, compared to a $622,114 net decrease in FY 2013, due to the changing interest rate environment. Since the Airport usually holds its investments to maturity, unrealized gains or losses will accrete to par over time. The Airport's investment strategy has been to keep the average life of maturities to five years or less, so that investment earnings will generally follow current market rates.
- Interest expense and fees increased $109,000 or 6% in FY 2014. FY 2014 reflected a full year and FY 2013 only seven months of interest expense for the bonds issued on November 27, 2012.

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FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- Debt/Financing costs decreased by $271,000 from FY 2013 to FY 2014. In FY 2013, the Airport issued fixed rate bonds which resulted in $358,000 in issuance costs. In FY 2014, the Airport incurred $86,000 in costs to secure a revolving line of credit.
- In FY 2014, the Airport completed a master plan study. The balance of the old master plan study was written off resulting in the loss on disposal of capital assets of $1.7 million.

2013 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from $13.6 million in FY 2012 to $13.9 million in FY 2013, an increase of 2%. The following describes the fluctuations of certain types of operating revenue:

- Airline landing fees and related operations revenue increased by $98,000, or 2%. Although enplanements decreased 3% in FY 2013, an increase in landing fee and rental rates charged to airlines and the expiration of airline incentives resulted in a positive variance.
- Auto parking revenue decreased by $62,000, or 1%, due to a decrease in passenger enplanements.
- Concessions and rentals revenue increased by $31,000, or 6% as a result of changing vendors and a modification to current facilities.
- General aviation revenue increased by $50,000, or 5%, due an increase in rental rates to the Airport's Fixed Base Operator (FBO) and the purchase of five general aviation hangars.
- Advertising revenue increased by $177,000, or 95%. In FY 2013, advertising for the Airport transitioned in-house eliminating the concessionaire and the associated commission.
- Other revenue decreased by $48,000 or 14%, as a result of discontinuation of the Airport's participation in the Transportation Security Administration Law Enforcement Officer reimbursement program.

Operating expense decreased from $10.0 million in FY 2012 to $9.6 million in FY 2013, a decrease of 4%, primarily due to the following:

- Safety, rescue and security expense decreased from $1.8 million to $1.5 million, or 17%. In FY 2013, one of the remaining three participants in the deferred compensation agreement elected to receive a one-time lump sum settlement which was paid out using a higher discount rate than when the liability was originally recorded. This resulted in a $278,000 reduction in expense.
- Engineering expense decreased from $588,000 to $531,000, or 10%. FY 2012 included a wildlife hazard assessment that was not required by the FAA in FY 2013.
- Operations expense increased from $563,000 to $604,000, or 7%, primarily due to an increase in salaries and benefits as a result of being fully staffed in FY 2013.

Net non-operating revenues decreased from $1.8 million in FY 2012 to $20,000 in FY 2013, a decrease of 99%, due to the following:

- Passenger Facility Charges (PFC) and Contract Facility Charges (CFC) collectively decreased by $480,000, or 15%, due in part to a change in revenue recognition for facility charges in FY 2012.

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FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

- In FY 2013, the Airport experienced a $622,000 net decrease in the fair value of its investments, compared to a $123,000 net increase in FY 2012, due to the changing interest rate environment. Since the Airport usually holds its investments to maturity, unrealized gains or losses will accrete to par over time. The Airport's investment strategy has been to keep the average life of maturities to five years or less, so that investment earnings will generally follow current market rates.
- Interest expense and fees increased by $320,000, or 18%, due to the Airport's decision to reduce the amount of variable rate bonds and take advantage of historically low interest rates by issuing $18,000,000 in fixed rate bonds to refinance that amount of variable rate debt. While this strategy has increased the Airport's interest expense in the current period, this strategy has created a much more stable and manageable debt profile. As of June 30, 2013 only 9.8% of the Airport's debt remains in a variable rate structure.
- Debt/Financing costs were $358,000 in FY 2013; there were no debt/financing costs in FY 2012.
- Sales of capital assets resulted in a gain of $16,000 in FY 2013. The loss in FY 2012 was due to write offs of the net book value of assets identified as no longer in service.

Capital grants increased by $175,000 in FY 2013. This was due to an increase in federally funded construction projects but was partially offset by a reallocation of federal grant monies, previously recorded as revenues, to a reduction in the basis of a federally funded construction project.

FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2014, 2013, and 2012. The Airport's assets exceeded liabilities by $104.9 million at June 30, 2014, a $3.5 million decrease from June 30, 2013. The Airport's assets exceeded liabilities by $108.4 million at June 30, 2013, a $0.8 million decrease from June 30, 2012.

	FY 2014	FY 2013	FY 2012
Assets			
Current assets	$ 11,431,286	$ 11,883,724	$ 8,616,996
Restricted assets	19,763,182	18,688,094	21,191,194
Capital assets	136,772,138	140,365,180	143,783,003
Total assets	$ 167,966,606	$ 170,936,998	$ 173,591,193
Liabilities			
Current liabilities	$ 4,321,449	$ 2,441,169	$ 1,954,698
Noncurrent liabilities	58,803,771	60,141,329	62,467,686
Total liabilities	$ 63,125,220	$ 62,582,498	$ 64,422,384
Net Position			
Net investment in capital assets	$ 77,427,123	$ 80,950,700	$ 84,886,100
Restricted	18,504,212	17,484,539	17,826,575
Unrestricted	8,910,051	9,919,261	6,456,134
Total net position	$ 104,841,386	$ 108,354,500	$ 109,168,809

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CAPITAL ASSETS

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

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

Major capital projects in progress and expenditures incurred during FY 2013 included the following:

	FY 2013	Cumulative
• Administration office renovation	$ 1,146,000	$ 1,146,000
• Taxiway F widening	930,000	964,000
• GA ramp rehabilitation	902,000	960,000
• Taxiways A-1 and A-7 rehabilitation	655,000	736,000
• Master plan update	583,000	933,000
• Snow sweeper	513,000	513,000

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

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

BONDS PAYABLE

On November 27, 2012 the Airport continued its policy of reducing the amount of the Airport's variable rate bonds to take advantage of historically low interest rates and issued $18,000,000 in fixed rate bonds to refinance that amount of variable rate debt. Total bonds payable at June 30, 2014 and June 30, 2013 were $55,280,000, which consisted of $49,880,000, or 90.2%, of fixed rate bonds and $5,400,000, or 9.8%, remaining in a variable rate structure.

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

NET POSITION

The largest portion of the Airport's net position each year (74% at June 30, 2014, and 75% at June 30, 2013) 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.

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An additional portion of the Airport's net assets (18% at June 30, 2014, and 16% at June 30, 2013) represents bond reserve funds that are subject to external restrictions on how they can be used under bond resolutions and Passenger Facility Charges that are restricted by Federal regulations. Unrestricted net assets (8% of the Airport's net assets at June 30, 2014, and 9% June 30, 2013) 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 maturity of 90 days or less.

In FY 2014, the Airport transitioned a portion of its investment portfolio into cash and cash equivalents to aid in the funding of several upcoming construction projects. Although the Airport has secured a line of credit (LOC) to assist in the financing for these projects, certain projects will be locally funded and the Airport is trying to minimize the need to draw on the LOC.

	FY 2014	FY 2013
Cash flows provided by operating activities	$ 4,274,137	$ 3,289,361
Cash flows used in capital and related financing activities	(4,124,836)	(2,063,440)
Cash flows provided by (used in) investing activities	4,087,052	(5,418,081)
Net increase (decrease) in cash and cash equivalents	4,236,353	(4,192,160)
Cash and cash equivalents, beginning of year	4,720,934	8,913,094
Cash and cash equivalents, end of year	$ 8,957,287	$ 4,720,934

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Airport experienced strong passenger travel in FY 2014 with approximately 571,000 total passengers. Two new non-stop destinations were added to the Airport's route map, including daily service to/from Philadelphia on US Airways and seasonal service to/from Myrtle Beach on Allegiant. In addition, Allegiant continued to add capacity to its Florida markets of Orlando Sanford, Punta Gorda, St. Petersburg/Clearwater and Fort Lauderdale. This additional capacity combined with the new non-stop destinations assisted in increasing passenger enplanements by 5% compared to FY 2013.

On February 14, 2013, American Airlines and US Airways announced their intent to merge and the merger has since been approved by the United States Justice Department. The Airport has been working closely with the airline to merge its operations on the local level so they can continue with a strong presence in our market.

As part of our commitment to maintain modern and comfortable facilities now and in the future, the Airport finalized a master plan that will guide the Airport's role in serving its customers and supporting the broader air transportation system. This planning effort provided a focused emphasis on updating existing Airport facilities, evaluating forecasts of aviation activity in all sectors and reassessing the next 20 years of the Airport's development.

Several large Airport Improvement Projects were underway in FY 2014 as part of the master plan. The

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Airport began construction on new t-hangars that will be located adjacent to crosswind runway 9-27. Based on the input received from our stakeholders during the master plan process and a continuous waitlist for hangars, the Airport is constructing the first phase of this project and is expected to complete construction by October 2014.

In addition to the hangars, the Airport has focused its efforts on implementation of a taxiway safety enhancement program that will require the relocation of the Airport's existing public safety facility and maintenance/snow removal equipment complex. This multi-year initiative will reduce potential runway incursions, enhance separation of aircraft movements and enhance operational flexibility. In addition, it will provide an opportunity to design and construct support facilities that are more efficient and meet today's requirements.

To assist in the funding of the master plan projects and the related taxiway safety enhancement program, the Airport, in June 2014, secured a $10 million revolving line of credit (LOC). Although most of the projects are eligible for both discretionary and entitlement FAA grant funding, the lack of certainty regarding the timing of the grant receipts necessitates the need for the LOC. The LOC will enable the Airport the flexibility to continue funding the construction projects in the event of grant timing issues and limit the need to use the Airport's unrestricted cash and investments.

Significant investments were made in the Airport's terminal building in FY 2014 to increase revenue generating opportunities. Two new food and beverage options opened in FY 2014 in partnership with concessionaire Creative Food Group. Dunkin' Donuts provides Airport customers with its first-ever national brand coffee shop and Pepper's Mexican Grill & Cantina gives customers another post-security dining option.

REQUEST FOR INFORMATION

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

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FINANCIAL STATEMENTS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	FY 2014	FY 2013
Assets		
Current assets - unrestricted		
Cash and cash equivalents	$ 4,604,916	$ 2,392,227
Certificates of deposit	75,036	607,981
Investments	4,635,922	6,597,048
Accounts receivable, net	1,673,238	1,860,877
Accrued interest receivable	13,352	24,792
Other assets	428,822	400,799
Total current assets	11,431,286	11,883,724
Restricted assets		
Cash and cash equivalents	4,352,371	2,328,707
Certificates of deposit	4,443,908	4,371,005
Investments	10,480,491	11,489,131
Accounts receivable, net	431,456	443,202
Accrued interest receivable	54,956	56,049
Total restricted assets	19,763,182	18,688,094
Noncurrent assets		
Capital assets, net	136,772,138	140,365,180
Total assets	$ 167,966,606	$ 170,936,998

See accompanying notes to financial statements.

STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	FY 2014	FY 2013
Liabilities		
Current liabilities (payable from unrestricted assets)		
Accounts payable	$ 1,349,682	$ 761,462
Accrued payroll and benefits	449,075	488,707
Total current liabilities (payable from unrestricted assets)	1,798,757	1,250,169
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	1,100,000	-
Accounts payable	208,573	-
Accrued interest payable	1,214,119	1,191,000
Total current liabilities (payable from restricted assets)	2,522,692	1,191,000
Total current liabilities	4,321,449	2,441,169
Noncurrent liabilities		
Accrued post-employment benefits	722,478	714,294
Bonds payable	58,081,293	59,427,035
Total noncurrent liabilities	58,803,771	60,141,329
Total liabilities	63,125,220	62,582,498
Net position		
Net investment in capital assets	77,427,123	80,950,700
Restricted for debt service	18,504,212	17,484,539
Unrestricted	8,910,051	9,919,261
Total net position	104,841,386	108,354,500
Total liabilities and net position	$ 167,966,606	$ 170,936,998

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, 2014 and 2013

	FY 2014	FY 2013
Operating revenue:		
Airline landing fees and related operations	$ 5,167,235	$ 5,129,541
Auto parking	4,771,186	4,393,472
Ground transportation	2,045,382	2,056,522
Concessions and rentals	515,838	558,738
General aviation	1,176,566	1,082,031
Advertising	363,673	362,928
Other	355,321	290,263
Total operating revenue	14,395,201	13,873,495
Operating expense:		
Administration	3,952,642	4,024,110
General maintenance	2,771,303	2,375,558
Safety, rescue and security	1,798,021	1,502,558
Engineering	547,219	531,252
Building maintenance	604,208	532,449
Operations	642,124	604,623
Drug task force	23,620	6,838
Total operating expense	10,339,137	9,577,388
Operating income before depreciation expense	4,056,064	4,296,107
Depreciation expense	9,607,242	9,425,228
Loss from operations	(5,551,178)	(5,129,121)
Non-operating revenue (expense):		
Passenger facility charges	2,257,618	2,116,850
Contract facility charges	712,826	635,412
Investment income, net of fees	353,487	322,471
Net increase (decrease) in fair value of investments	190,369	(622,114)
Interest expense and fees	(2,201,397)	(2,091,914)
Debt/Financing costs	(86,360)	(357,543)
Gain (loss) on disposal of capital assets	(1,655,528)	16,347
Net non-operating revenue (expense)	(428,985)	19,509
Capital grants	2,467,049	4,295,303
Decrease in net position	(3,513,114)	(814,309)
Net position, beginning of year	108,354,500	109,168,809
Net position, end of year	$ 104,841,386	$ 108,354,500

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD

STATEMENTS OF CASH FLOWS

Years ended June 30, 2014 and 2013

	FY 2014	FY 2013
Cash flows provided by operating activities		
Receipts from customers	$ 14,363,884	$ 13,219,649
Payments to suppliers	(4,425,769)	(3,612,913)
Payments to employees	(6,019,301)	(6,603,361)
Other receipts	355,323	285,986
Net cash provided by operating activities	4,274,137	3,289,361
Cash flows used in capital and related financing activities		
Proceeds from capital grants	2,413,563	4,817,681
Passenger facility charges	2,282,870	2,093,745
Contract facility charges	699,320	614,360
Proceeds from sale of bonds	-	26,364,118
Principal paid on bonds	-	(27,560,000)
Interest and fees paid on bonds	(2,611,237)	(2,181,244)
Acquisition and construction of capital assets	(6,909,352)	(6,212,100)
Net cash used in capital and related financing activities	(4,124,836)	(2,063,440)
Cash flows used in investing activities		
Interest received on investments	466,876	301,048
Sales (purchases) of certificates of deposit and investments, net	3,620,176	(5,719,129)
Net cash provided by (used in) investing activities	4,087,052	(5,418,081)
Net increase (decrease) in cash and cash equivalents	4,236,353	(4,192,160)
Cash and cash equivalents, beginning of year	4,720,934	8,913,094
Cash and cash equivalents, end of year	$ 8,957,287	$ 4,720,934
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	$ (5,551,178)	$ (5,129,121)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	9,607,242	9,425,228
Bad debt expense (recovery)	(129,264)	62,363
Increase (decrease) due to changes in:		
Accounts receivable	316,904	(367,859)
Other assets	7,001	(34,784)
Accounts payable	54,880	176,607
Accrued payroll and benefits	(31,448)	(843,073)
Net cash provided by operating activities	$ 4,274,137	$ 3,289,361
Supplemental schedule of noncash transactions		
Change in construction in progress included in accounts payable	$ 760,375	$ (221,042)

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

(Continued)

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; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.
- Restricted - This component consists of funds with external constraints placed on net position 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 - This component consists of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

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 position 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 make scheduled debt service payments.

Cash Equivalents: Cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash and that have an original maturity of 90 days or less.

Investments: Investments are recorded at fair value. The unrealized loss on investments was ($182,756) and ($328,000) at June 30, 2014 and June 30, 2013 respectively.

Accounts Receivable: Receivables are reduced by the estimated portion that is expected to be uncollectible. Interest is not normally charged on receivables. An allowance is established for losses based on historic loss experience and current economic conditions. Losses are charged off to the allowance when further collection efforts will not produce additional recoveries. The allowance was $5,000 at June 30, 2014 and $141,000 at June 30, 2013.

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

(Continued)

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

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

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

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

Operating and Non-operating Revenues and Expenses: Revenues from landing fees, terminal space rental, auto parking, concessions and aircraft tie down fees are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. PFC’s and Contract Facilities Charges (CFC’s) are collected and remitted by the airlines and car rental agencies, respectively, and are recognized as revenue as they are earned, and are included in non-operating revenues. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Airport’s major expenses include professional and specialized services for security and fire protection, salaries and employee benefits and other expenses such as maintenance, insurance and utilities. It is the Airport's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

Compensated Absences: Full-time employees may earn from 96 to 300 vacation hours annually and from 96 to 144 sick hours annually, depending on their length of employment and classification. Employees can carry forward up to a maximum of 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: GASB has issued several reporting standards which are effective for years FY 2014 and later. The Airport has determined that these reporting standards will have no effect on its financial statements.

Reclassifications: Certain amounts in the FY 2013 financial statements have been reclassified to conform to the FY 2014 presentation. The reclassifications did not impact the financial position or the results of operations of the Airport.

(Continued)

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:

	FY 2014	FY 2013
Cash	$ 4,217,080	$ 3,308,572
Certificates of deposit	4,518,944	4,978,986
Petty cash	635	635
Total cash and certificates of deposit	$ 8,736,659	$ 8,288,193

Cash and certificates of deposit shown above include $5,361,637 and $5,394,729 of restricted amounts as of June 30, 2014 and June 30, 2013, respectively.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Airport will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Airport monitors the certificate of deposit purchases to ensure that holdings at each institution do not exceed FDIC coverage limits. The Airport's cash bank balances of $4,284,573 and $3,274,188 at June 30, 2014 and 2013, respectively, were not insured by the FDIC, are collateralized by securities held by the pledging financial institution but not in the Airport's name and are subject to custodial credit risk.

(Continued)

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

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

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

(Continued)

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

Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2013 were as follows:

		Percentage of Total	Duration	Standard & Poors Rating	Moody's
Unrestricted cash equivalents					
Goldman Sachs Govt Money Market	$ 106,744	0.6%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	3,181,681	16.3%	2/1/28-5/1/32	N/A	N/A
Municipal Bonds	1,191,846	6.1%	6/1/14-10/22/20	A+/AAA/AA+/SP-1	Aa3/Aaa
US Agency Bonds	2,223,521	11.4%	8/28/19-12/15/41	AA+	Aaa
Total unrestricted investments	6,597,048	33.8%			
Restricted cash equivalents					
Dryfus Govt Cash Mgt Funds	1,165,944	6.0%	N/A	N/A	N/A
Goldman Sachs Govt Money Market	139,039	0.7%	N/A	N/A	N/A
Total restricted cash equivalents	1,304,983	6.7%			
Restricted investments:					
Mortgage Backed Securities	4,313,131	22.1%	4/1/25-10/15/41	N/A	N/A
Municipal Bonds	5,056,067	25.9%	2/25/16-7/25/40	AA+/N/A	Aaa/N/A
US Agency Bonds	2,119,933	10.9%	2/25/16-7/25/40	AA+	Aaa
Total restricted investments	11,489,131	58.9%			
Total cash equivalents and investments	$ 19,497,906	100.0%			

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Airport does not have a formal policy on interest rate risk but maintains an average weighted life on its investment portfolio of 5 years or less to comply with trust indentures and to limit the exposure to interest rate market risks. The investment portfolio as of June 30, 2014 had an average duration of 4.12 years.

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

(Continued)

NOTE 3 - CAPITAL ASSETS

Capital asset activity for FY 2014 and FY 2013 is as follows:

	FY 2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land improvements	$ 59,203,626	$ 4,852	$ -	$ 152,176	$ 59,360,654
Structures and other improvements	171,233,849	738,161	(4,691,244)	923,716	168,204,482
Equipment	6,013,683	366,825	(218,759)	1,312,083	7,473,832
Land	4,528,145	-	-	-	4,528,145
Construction in progress	1,560,434	6,559,890	-	(2,387,975)	5,732,349
Total capital assets	242,539,737	7,669,728	(4,910,003)	-	245,299,462
Less accumulated depreciation:					
Land improvements	18,909,169	2,362,040	-	-	21,271,209
Structures and other Improvements	80,017,819	6,765,076	(3,038,695)	-	83,744,200
Equipment	3,247,569	480,126	(215,780)	-	3,511,915
Total accumulated depreciation	102,174,557	9,607,242	(3,254,475)	-	108,527,324
Net capital assets	$140,365,180	$ (1,937,514)	$ (1,655,528)	$ -	$136,772,138

	FY 2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land improvements	$ 57,142,316	$ 10,113	$ (533,600)	$ 2,584,797	$ 59,203,626
Structures and other improvements	168,189,458	1,041,996	-	2,002,395	171,233,849
Equipment	4,748,895	69,453	(510,150)	1,705,485	6,013,683
Land	4,528,145	-	-	-	4,528,145
Construction in progress	2,481,723	5,371,388	-	(6,292,677)	1,560,434
Total capital assets	237,090,537	6,492,950	(1,043,750)	-	242,539,737
Less accumulated depreciation:					
Land improvements	16,742,534	2,231,551	(64,916)	-	18,909,169
Structures and other improvements	73,237,021	6,780,798	-	-	80,017,819
Equipment	3,327,979	412,879	(493,289)	-	3,247,569
Total accumulated depreciation	93,307,534	9,425,228	(558,205)	-	102,174,557
Net capital assets	$143,783,003	$ (2,932,278)	$ (485,545)	$ -	$140,365,180

As of June 30, 2014, 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 $2,291,000 at June 30, 2014 and $1,064,000 at June 30, 2013.

(Continued)

NOTE 4 – LINE OF CREDIT

The Airport secured a $10,000,000 revolving line of credit (LOC) on June 25, 2014. There were no borrowings against the line at June 30, 2014. The LOC bears interest at a variable rate and the rate is adjusted monthly on the first day of each month. The interest rate is calculated as follows: (30-Day LIBOR x 68%) + (115 basis points x 65%). The interest rate is 0.8505% at June 30, 2014. The LOC expires June 1, 2019. The LOC is secured by the general revenues of the Airport and is further secured by a lease agreement between the Airport, as lessor, and the Lexington-Fayette Urban County Government, as lessee. The Airport is in compliance with certain financial covenants as imposed by the LOC agreement.

NOTE 5 – BONDS PAYABLE

The following is a summary of the changes in bonds payable during FY 2014 and FY 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
FY 2014	$ 55,280,000	-	-	$ 55,280,000	$ 1,100,000
FY 2013	$ 59,440,000	23,400,000	(27,560,000)	$ 55,280,000	$ -

Bonds payable at June 2014 and 2013 are as follows:

	FY 2014	FY 2013
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 Reissued Series B, Variable Rate General Airport, Revenue Refunding Bonds (AMT) through July 2038	5,400,000	5,400,000
2012A Series A, Fixed Rate General Airport, Revenue Refunding Bonds (AMT) due through July 2031 with a coupon rate of 5%	6,770,000	6,770,000
2012B Series B, Fixed Rate General Airport, Revenue Refunding Bonds (non – AMT) due through July 2038 with a coupon rate of 5%	11,230,000	11,230,000
Total principal payable	55,280,000	55,280,000
Unamortized bond premiums	3,901,293	4,147,035
Total bonds payable	59,181,293	59,427,035
Less current portion	1,100,000	-
Noncurrent portion of bonds payable	$ 58,081,293	$ 59,427,035

(Continued)

NOTE 5 – BONDS PAYABLE (Continued)

On November 27, 2012 the Airport issued $18,000,000 of General Airport Revenue Refunding Bonds, Series 2012A and 2012B (collectively the “Series 2012 Bonds”) with maturities through July 1, 2038. These bonds, along with available funds held under the Indenture by the Trustee, refunded (i) all of the remaining $11,140,000 of Series 2008B bonds representing original maturities from July 1, 2028 through July 1, 2038 and (ii) a part of the Series 2009B bonds in the amount of $11,020,000 representing a portion of the original maturities from July 1, 2028 through July 1, 2038.

The (i) principal amount of the Series 2012 Bonds of $18,000,000, together with (ii) an original issue premium of $2,964,118, (iii) a contribution of $74,704 (representing interest due on the bonds to be redeemed through the redemption date) by the Airport, (iv) unspent Series 2008B Bond proceeds held in the Project Fund of $941,756 and (v) the funds accounted for in the debt service and debt service reserve funds of the Series 2008B and 2009B Bonds held by the Trustee of $2,387,811 were used to fund (i) an Escrow of $22,356,170 to retire the Series 2008B Bonds and Series 2009B Bonds on the optional redemption date of November 28, 2012, (ii) a Debt Service Reserve Fund to secure the Series 2012 Bonds in the amount of $1,706,095, and (iii) costs of issuance and underwriter’s discount of the Series 2012 Bonds of $306,124.

On March 26, 2013 the Airport issued $5,400,000 of General Revenue Airport Revenue Refunding Bonds, “Reissued Series 2009B”. The Reissued Series 2009B Bonds, representing the reissuance from a tax perspective of the previously outstanding Series 2009B Bonds, due to the addition of an index interest rate to the terms of the 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, 2014, the variable interest rate for the Reissued Series 2009B Bonds was .8517%. The Reissued Series 2009B Bonds are subject to mandatory tender on March 1, 2018 unless the Holder has delivered notice to the Trustee and the Board at least 60 days prior to the Mandatory Tender Date that it will not tender the Reissued Series 2009B Bonds for purchase on such mandatory tender date. In which event, the "Mandatory Tender Date" shall be a March 1 which follows March 1, 2018, as identified by the Holder in a notice from the Holder to the Trustee and the Board.

The Airport completed the above refunding in order to reduce the amount of its variable rate bond obligations and to take advantage of the current, historically low long term interest rates by issuing fixed rate bonds over the same term. The bond refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of $7,100,000 based upon the assumption that future variable rates would remain unchanged at the current low rates and an increase of $6,700,000 in future debt service payments over a 26 year period due to the higher fixed interest rate incurred in the refunded fixed rate bonds. The economic loss and the future debt service payment calculations assume coupon rates on the fixed rate bonds of 5% as compared with the current rates on the variable bonds of .25%. However, since current variable rates are at a historical low, the Airport believes that if future interest rates should increase, it could result in reducing the above economic loss and future debt service payment calculations or possibly producing an economic gain and a reduction in future debt service payments.

(Continued)

NOTE 5 – BONDS PAYABLE (Continued)

Security for the Series 2012 Bonds, 2009A Bonds and Reissued Series 2009B Bonds: The security consists of (1) the General Revenues of the Airport as such term is defined in the Indenture, (2) the funds established under the Indenture, and (3) a Lease Agreement between the Airport, as lessor, and the Lexington-Fayette Urban County Government ("LFUCG"), as lessee. The obligations of the LFUCG under the lease are a general obligation of the LFUCG and the full faith, credit and taxing power of the LFUCG is irrevocably pledged to the payment of annual lease rental payments which are equal to the annual principal of and interest due on the Series 2012 Bonds, 2009A Bonds and reissued Series 2009B Bonds. The basic security for the general obligation debt of the LFUCG is its ability to levy, and its pledge to levy, an annual tax sufficient to pay the principal of and interest on general obligation debt due on an annual basis.

Interest Rate Caps: At June 30, 2014 the Airport had one interest rate cap with an effective date through January 2, 2018 with a notional amount of $8,100,000 and a fair value of $276. At June 30, 2013 the Airport had two interest rate caps with effective dates of July 26, 2005 through January 2, 2018 with notional amounts of $31,800,000 and a combined fair value of $18,738. Due to the conversion of $18,000,000 of variable rate debt to a fixed rate structure in FY 2013, the Airport elected to terminate one of its interest rate caps on August 29, 2013. The Airport retained the remaining cap with a notional value of $8,100,000 and currently carries $5,400,000 in variable rate debt.

Debt Covenants: The Series 2012, 2009A bonds and Reissued Series 2009B bonds are subject to financial and nonfinancial covenants. The primary financial covenant is a debt service coverage ratio for which management has reported compliance to the Indenture Trustee. The calculation is based on a net amount available for debt service (general revenue as defined in the bond indenture with available cash balances, PFC revenue, CFC revenue, less operating expense) that equals or exceeds 100% of the Aggregate Annual Debt service for the fiscal year as further defined in the Indenture.

Debt service requirements for principal and estimated interest and fee payments using the interest rate in effect at June 30, 2014 for all bonds outstanding are outlined below.

Year ending June 30:	Principal	Interest*	Total
2015	$ 1,100,000	$ 2,373,008	$ 3,473,008
2016	1,700,000	2,322,134	4,022,134
2017	2,000,000	2,257,008	4,257,008
2018	2,100,000	2,173,008	4,273,008
2019	2,200,000	2,085,008	4,285,008
2020-2024	12,115,000	8,642,042	20,757,042
2025-2029	13,390,000	5,350,666	18,740,666
2030-2034	16,055,000	1,994,961	18,049,961
2035-2039	4,620,000	334,048	4,954,048
Total	$ 55,280,000	$ 27,531,883	$ 82,811,883

* 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.

(Continued)

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 2014 and FY 2013 was $7,888,485 and $7,586,882, 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 2014 and FY 2013 were $3,883,899 and $3,802,945, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2014 are as follows:

2015	$ 4,420,494
2016	1,960,052
2017	1,047,191
2018	1,037,115
2019	1,026,298
Thereafter through 2029	6,932,286
Total future minimum rental revenue	$ 16,423,436

NOTE 7 - PASSENGER FACILITY CHARGES

During FY 2014, the Airport continued to impose a $4.50 PFC on enplaning passengers. During FY 2014 and FY 2013, passenger facility charges were $2,257,618 and $2,116,850 respectively. The cumulative PFC Authority is $100,206,268 of which $12,401,526 has been closed. The remaining $87,804,742 of PFC revenue will be used to fund debt and other approved expenditures for the following projects:

Air carrier ramp expansion	$ 1,084,544
Air carrier ramp rehabilitation	490,744
Concourse B & C stairwells	1,104,174
R/W 8-26 rehabilitation	809,727
Security upgrades	242,436
TW A rehabilitation	687,041
RW safety area improvements	15,515,021
Concourse gate addition	24,046,447
Terminal interior modifications	6,134,298
Terminal interior renovation Phase II	8,700,914
Terminal curb-front improvements	5,426,937
Replace runway 8/26	19,377,935
Taxiway D relocation	2,908,820
Sanitary sewer improvements	885,741
PFC application development	75,000
PFC program administration	214,963
PFC application development	100,000
Total	$ 87,804,742

The Airport has disbursed $13,243,285 on these projects through June 30, 2014.

(Continued)

NOTE 8 - CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2014, the Airport earned approximately 46% of airline operations revenue from one carrier, versus 47% from one carrier in FY 2013.

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 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 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%.

In FY 2013, the Plan was administered by American Funds Retirement Resources. Effective July 1, 2013 the Plan was transitioned to John Hancock Plan Services. 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 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 $426,000 and $405,000 for FY 2014 and FY 2013, respectively. Required contributions made by Plan participants for FY 2014 and FY 2013 were $231,000 and $229,000. Since the Plan assets are held in trust for the benefit of the Plan members, the related assets of the Plan are not included in the accompanying statements of net position.

The Airport has an additional retirement plan under Internal Revenue Code section 457(b) that allows for annual employee salary deferrals up to $17,500. The Airport does not contribute to this Plan.

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS

<u>Medical Insurance:</u> 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.

(Continued)

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS (Continued)

The liability for the present value of estimated future cash payments has been recorded at June 30, 2014 and June 30, 2013 using a discount rate of 5%. There is no required employee contribution related to this benefit. The liability was evaluated by an independent actuary as of June 30, 2014. The liability was adjusted based on any changes made to the assumptions and is recorded as an increase or decrease in expense. The table below outlines the beginning of year (BOY) balance, the annual expense and payments, and the end of year (EOY) balance.

	BOY Balance	*Expense*	*(Payments)*	*EOY Balance*
FY 2014	$ 426,142	$ 73,248	$ (6,600)	$ 492,790
FY 2013	$ 432,742	$ -	$ (6,600)	$ 426,142

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, 2014, and June 30, 2013, a liability was recorded for the value of the estimated future cash payments, less any balance in the employees' defined contribution retirement plan. In FY 2013, one of the remaining three participants elected to receive a one-time lump sum settlement. The terms of this settlement resulted in a reduction in FY 2013 of $278,397 in the previously recorded liability for this participant. Due to the current low interest rate environment and the short time horizon for the remaining payouts, the Airport did not discount the remaining liability in FY 2014 or FY 2013.

The table below outlines the beginning of year (BOY) balance, the settlement adjustment and payments, and the end of year (EOY) balance.

	BOY Balance	*(Settlement adjustment)*	*(Payments)*	*EOY Balance*
FY 2014	$ 288,152	$ -	$ (58,464)	$ 229,688
FY 2013	$ 1,230,240	$ (278,397)	$ (663,691)	$ 288,152

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 contaminates 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.

(Continued)

SUPPLEMENTARY INFORMATION

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

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

See report of independent auditor

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2013

	Administration	General Maintenance	Safety, Rescue and Security	Engineering	Building Maintenance	Operations	Drug Task Force	Total
Operating Expenses								
Salaries and benefits	$1,602,560	$ 1,253,387	$ 1,527,714	$ 400,625	$ 508,756	$ 530,714	$ -	$ 5,823,756
Marketing & advertising	338,774	-	231	1,500	-	-	-	340,505
Insurance	349,862	-	-	-	-	-	-	349,862
Consulting fees	36,698	-	-	-	-	-	-	36,698
Computer maintenance	138,860	1,991	2,507	1,500	-	11,785	-	156,643
Customs expense	-	-	142,282	-	-	-	-	142,282
Equipment rental	14,809	-	-	-	-	-	-	14,809
Maintenance	6,074	766,753	11,075	91,370	-	27,583	-	902,855
Memberships & publications	60,310	2,792	9,145	3,312	-	2,342	-	77,901
Office supplies	20,730	5,147	283	3,297	-	2,502	-	31,959
Professional development	28,575	6,573	7,044	5,416	-	5,775	-	53,383
Professional services	286,752	-	3,060	10,844	-	-	-	300,656
Supplies	6,805	324,464	54,107	2,506	8,033	8,978	6,838	411,731
Travel expenses	25,776	11,996	15,185	8,851	-	6,348	-	68,156
Utilities & phone	944,265	-	4,042	-	-	-	-	948,307
Pension settlement adjustment	-	-	(278,397)	-	-	-	-	(278,397)
Other expenses	100,897	2,455	4,280	2,031	15,660	8,596	-	133,919
Bad debt	62,363	-	-	-	-	-	-	62,363
Total operating expenses	$4,024,110	$ 2,375,558	$ 1,502,558	$ 531,252	$ 532,449	$ 604,623	$ 6,838	$ 9,577,388

See report of independent auditor