

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

**FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019**

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

FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

CONTENTS

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



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Lexington-Fayette Urban County Airport Board ("Airport"), a component unit of Lexington-Fayette Urban County Government, as of and for the years ended June 30, 2020 and 2019, 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

The Airport's 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.

Auditor's Responsibility

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

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

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

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Independent Auditor's Report (Continued)

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, 2020 and 2019, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020 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 the effectiveness of 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.

MCM CPAs & Advisors LLP

Lexington, Kentucky
September 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended June 30, 2020 and 2019

The Lexington-Fayette Urban County Airport (Airport) owns and operates the Blue Grass Airport. The following Management's Discussion and Analysis (MD&A) of the Airport's activities and financial performance provides an introduction and overview to the financial statements of the Airport for the fiscal years ended June 30, 2020 (FY 2020) and June 30, 2019 (FY 2019). 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 2020, the Airport continued to be served by four airline brands providing service to a total of 544,016 enplaned passengers. Prior to COVID-19 impacting the Bluegrass region in mid-March 2020, Blue Grass Airport was experiencing record enplanements and an increased number of seats in the market. Both business and leisure travel was very robust. As COVID-19 cases began to emerge within the Commonwealth of Kentucky, airline travel experienced a halt as local businesses and corporations were shut down. As in the rest of the country, business travel was largely reduced by many area companies and leisure travel during March, April and May were limited. In April 2020, Blue Grass Airport's enplanements experienced a 96.4% decrease from the year prior. In May 2020, the Airport's enplanements showed an 88.5% decrease from the year prior. As the economy opened back up, the Airport began to see leisure travelers emerge for summer vacations and trips to see out-of-state family members. The Airport's enplanements showed a decrease from prior period for June and July of 74% and 67%, respectively. COVID-19, however, continues to impact air service in the region as the airlines adjust to lower demands for air travel and increased measures for cleanliness and safety. The Airport anticipates that future travel trends will coincide with the number of COVID-19 cases both in our region and destinations nationwide and that it will be impacted by state quarantine guidelines and the closing of many international borders. The Airport has reduced its operating expenses and will continue to look for ways to reduce costs as the COVID-19 situation continues.

With federal funding still available for Airport Improvement Projects, the Airport continues to build new facilities that support operations for the traveling public. This is particularly helpful as it allows the Airport to continue with projects during a time when fewer passengers are being impacted. Work continues on the Airport's multi-year Taxiway Safety Enhancement Program to enhance operational safety on the airfield and improve the efficiency of aircraft movement. While the primary emphasis of this program focuses on the realignment of the Airport's main taxiway and additional connectivity for general aviation aircraft, the project also incorporates the relocation of the Airport's aircraft rescue and firefighting facility to make the necessary taxiway improvements possible. This new 23,196 square-foot-facility was completed in mid-summer 2020 and accommodates 18 full-time officers and four bays for aircraft rescue and firefighting vehicles.

In January 2020, the Lexington-Fayette Urban County Airport Board entered into an agreement to purchase 33 acres of land in front of the Airport's parking areas and along Man O' War Boulevard. The Airport's 2013 Master Plan, which forecasted future aviation activity for the next 20 years, featured an inventory of the Airport's current assets and land it owns, as well as future acquisitions the Board should consider when accommodating projected growth. These parcels of land were highlighted in Master Plans going back as far as 1995 as land the Board should consider for acquisition. Specifically, the Master Plan contemplates the use of a portion of the land to provide additional vehicle parking capacity. In January, the Board acquired this land, knowing that these parcels are crucial for the future development of Blue Grass Airport.

In addition to the land acquisition and Taxiway Safety Enhancement Program, the Airport completed construction of a \$6.5 million parking expansion that included more than 300 long-term parking spaces, a covered walkway for long-term parking customers, an expanded employee parking area and a 40-space cell phone waiting area. The Airport also installed a new jet bridge so that the Airport is prepared for future airline growth and completed work on a \$6.9 million baggage system.

These projects will help lead the Airport into the future so that Blue Grass Airport continues to play a supportive role in the region and is well-positioned to serve its stakeholders.

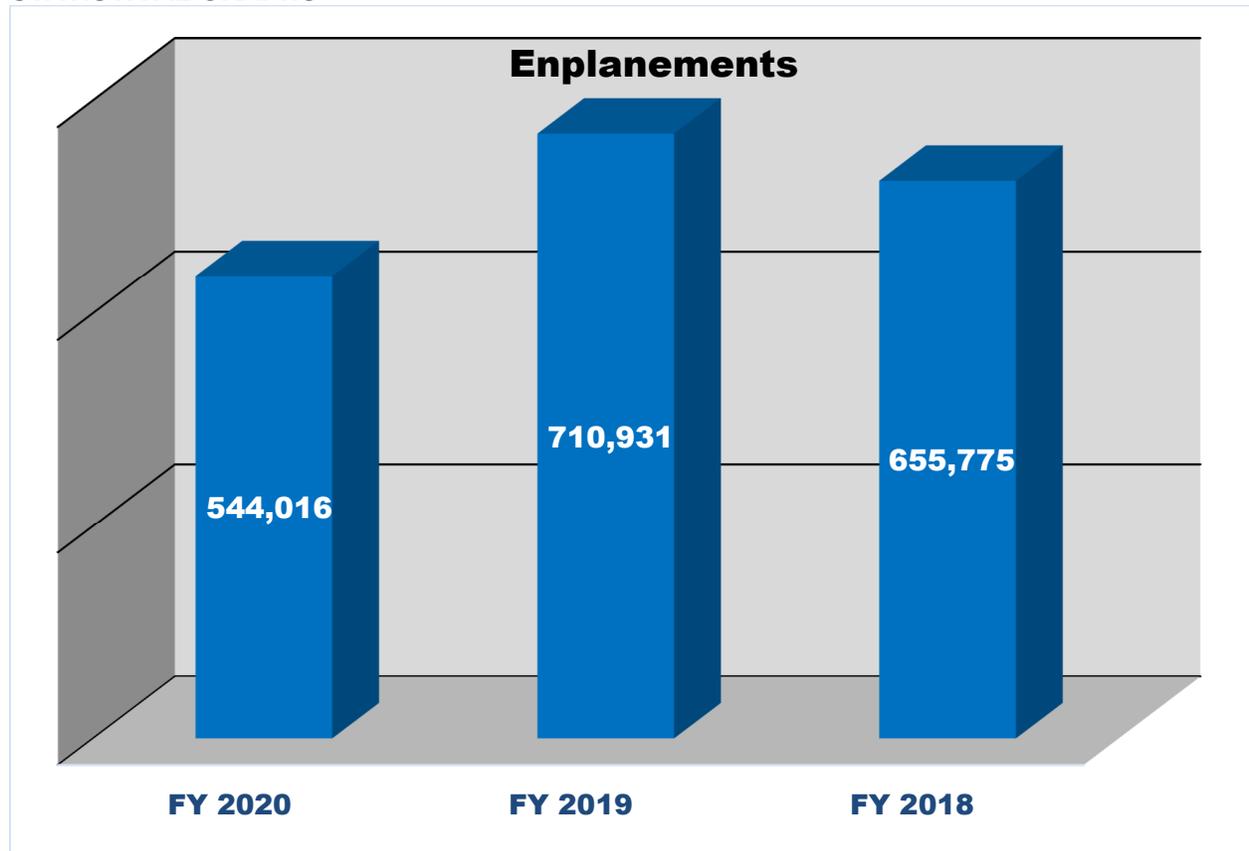
LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

Operations Statistical Data

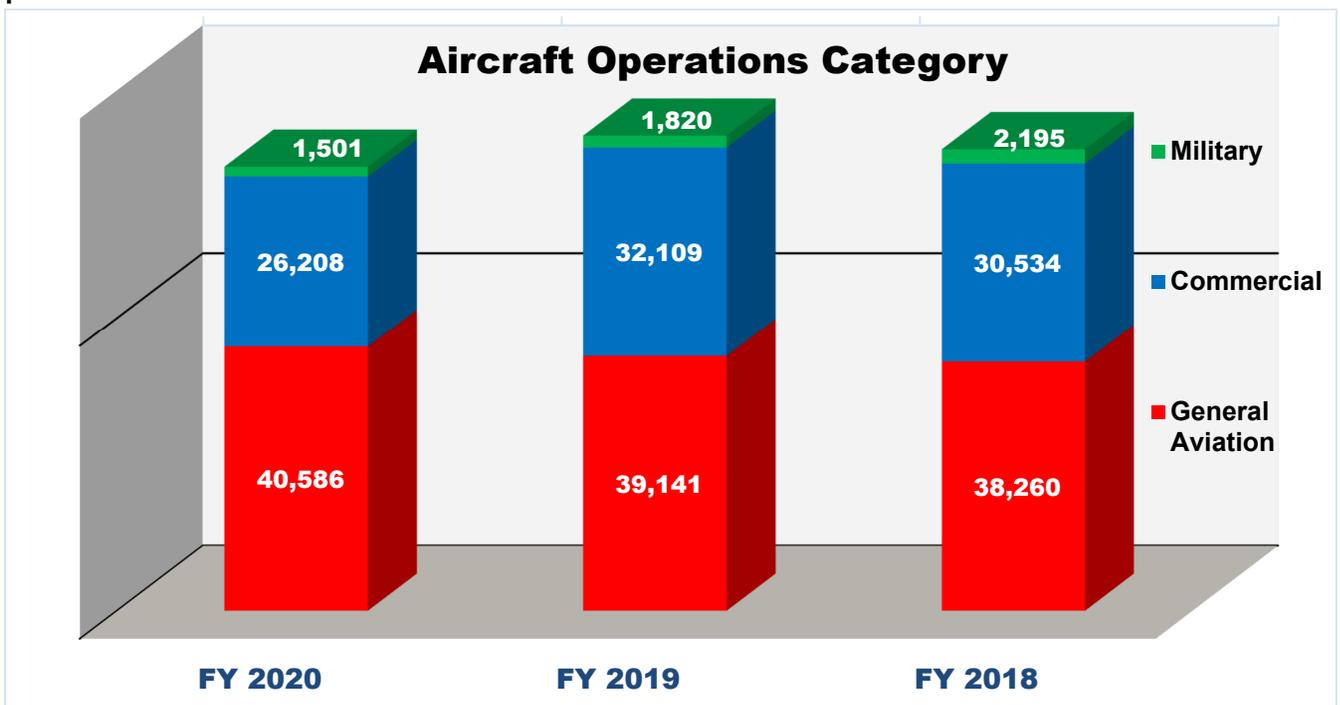
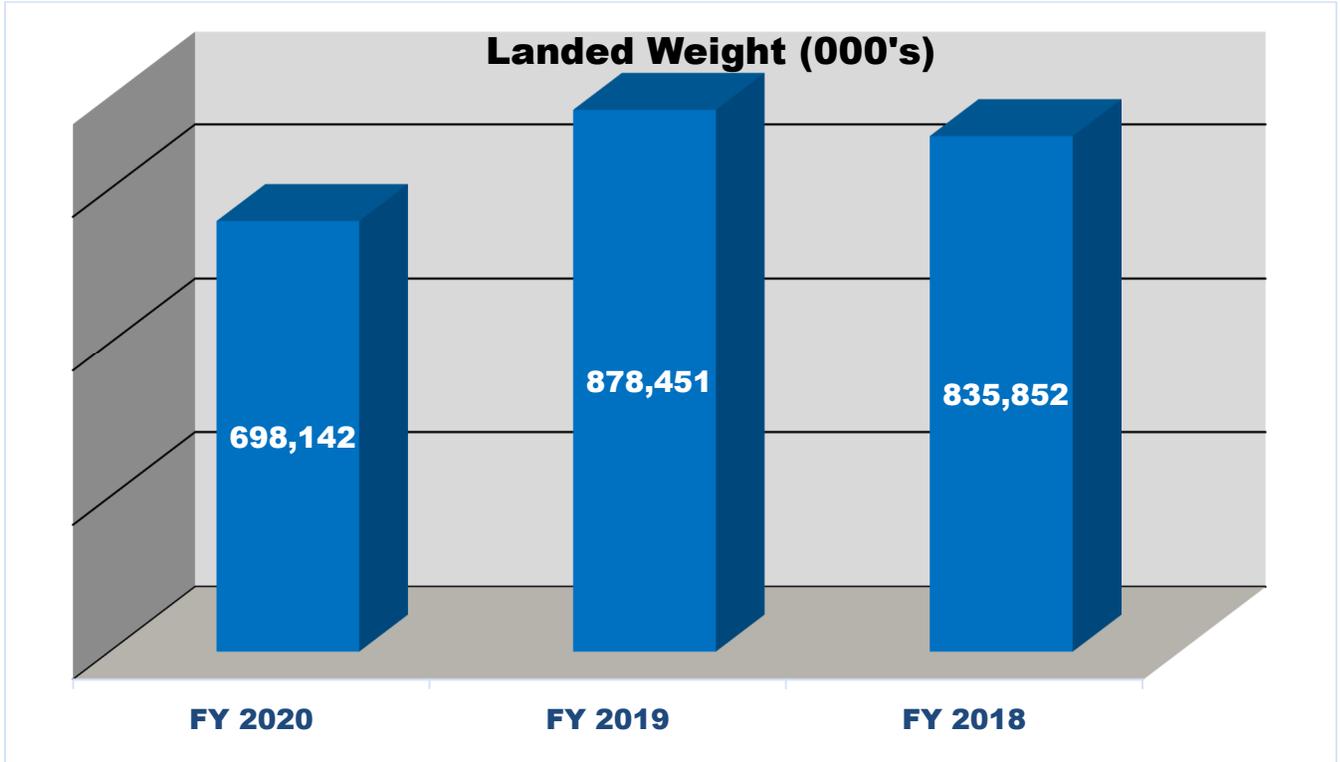
	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>
Enplanements	544,016	710,931	655,775
Increase (decrease)	(166,915)	55,156	(21,030)
% Increase (decrease)	(23.48%)	8.41%	(3.11%)
Landed weight (1,000 pounds)	698,142	878,451	835,852
Increase (decrease)	(180,309)	42,599	12,070
% Increase (decrease)	(20.53%)	5.10%	1.47%
Aircraft operations - commercial	26,208	32,109	30,534
Increase (decrease)	(5,901)	1,575	(1,080)
% Increase (decrease)	(18.38%)	5.16%	(3.42%)
Aircraft operations - general aviation	40,586	39,141	38,260
Increase	1,445	881	1,215
% Increase	3.69%	2.30%	3.28%
Aircraft operations - military	1,501	1,820	2,195
Increase (decrease)	(319)	(375)	483
% Increase (decrease)	(17.53%)	(17.08%)	28.21%

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

STATISTICAL GRAPHS



STATISTICAL GRAPHS (Continued)



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

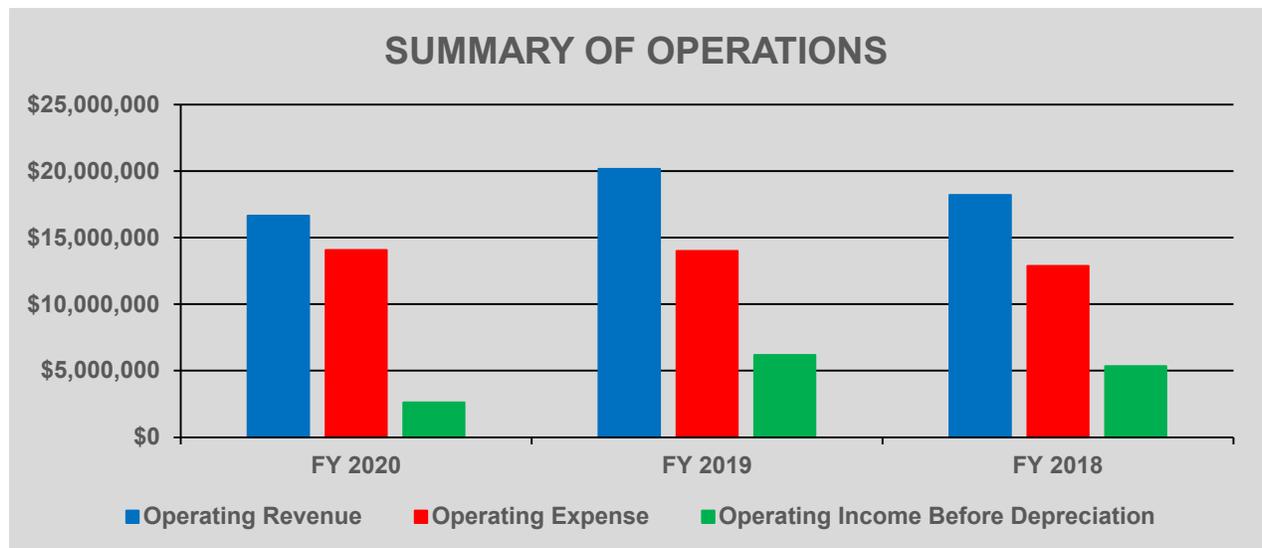
FINANCIAL STATEMENTS

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

FINANCIAL OPERATIONS AND HIGHLIGHTS

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>
Operating revenue	\$ 16,652,312	\$ 20,142,048	\$ 18,196,511
Operating expense	<u>(14,053,410)</u>	<u>(13,995,981)</u>	<u>(12,863,833)</u>
Operating income before depreciation expense	2,598,902	6,146,067	5,332,678
Depreciation expense	<u>(10,132,046)</u>	<u>(10,785,675)</u>	<u>(10,311,573)</u>
Loss from operations	(7,533,144)	(4,639,608)	(4,978,895)
Net non-operating revenue	<u>5,436,295</u>	<u>3,304,196</u>	<u>1,301,781</u>
Loss before capital grants	(2,096,849)	(1,335,412)	(3,677,114)
Capital grants	<u>11,696,405</u>	<u>7,618,089</u>	<u>6,608,874</u>
Increase in net position	<u>\$ 9,599,556</u>	<u>\$ 6,282,677</u>	<u>\$ 2,931,760</u>



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

REVENUE

A summary of the revenue for FY 2020, FY 2019, and FY 2018 is as follows:

	<u>2020</u> <u>Amount</u>	<u>2019</u> <u>Amount</u>	<u>2018</u> <u>Amount</u>	<u>% Change</u> <u>2020/2019</u>
Operating:				
Airline operations	\$ 6,179,080	\$ 7,241,024	\$ 6,956,081	(14.67%)
Parking	5,181,006	7,056,255	5,881,620	(26.58%)
Ground transportation	2,442,181	2,826,456	2,526,243	(13.60%)
Concessions and rentals	565,232	690,791	613,279	(18.18%)
General aviation	1,501,283	1,568,088	1,420,191	(4.26%)
Advertising	508,766	459,514	476,497	10.72%
Other	<u>274,764</u>	<u>299,920</u>	<u>322,600</u>	<u>(8.39%)</u>
Total operating	<u>16,652,312</u>	<u>20,142,048</u>	<u>18,196,511</u>	<u>(17.33%)</u>
Non-operating:				
Passenger facility charges	2,172,310	2,789,405	2,694,643	(22.12%)
Contract facility charges	1,062,616	1,757,144	1,418,699	(39.53%)
FAA CARES operating expenses reimbursement	3,228,827	-	-	NA
Investment income, net of fees	1,033,898	1,022,937	842,004	1.07%
Net increase (decrease) in fair value of investments	463,895	646,174	(529,954)	(28.21%)
Gain on disposal of capital assets	<u>11,177</u>	<u>16,704</u>	<u>-</u>	<u>(33.09%)</u>
Total non-operating	7,972,723	6,232,364	4,425,392	27.92%
Capital grants	<u>11,696,405</u>	<u>7,618,089</u>	<u>6,608,874</u>	<u>53.53%</u>
Total revenue	<u>\$ 36,321,440</u>	<u>\$ 33,992,501</u>	<u>\$ 29,230,777</u>	<u>6.80%</u>

EXPENSE

A summary of the expense for FY 2020, FY 2019, and FY 2018 is as follows:

	<u>2020</u> <u>Amount</u>	<u>2019</u> <u>Amount</u>	<u>2018</u> <u>Amount</u>	<u>% Change</u> <u>2020/2019</u>
Operating:				
Administration	\$ 5,460,949	\$ 5,617,827	\$ 5,147,159	(2.79%)
General maintenance	3,403,223	3,461,731	3,160,465	(1.69%)
Safety, rescue and security	2,401,500	2,283,784	2,178,907	5.16%
Engineering	951,910	757,528	805,543	25.66%
Building maintenance	856,225	859,209	758,766	(0.35%)
Airport operations	<u>979,603</u>	<u>1,015,902</u>	<u>812,993</u>	<u>(3.57%)</u>
Total operating	<u>14,053,410</u>	<u>13,995,981</u>	<u>12,863,833</u>	<u>0.41%</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

	<u>2020</u> <u>Amount</u>	<u>2019</u> <u>Amount</u>	<u>2018</u> <u>Amount</u>	<u>% Change</u> <u>2020/2019</u>
Non-operating:				
Interest expense and fees	\$ 2,103,064	\$ 2,928,168	\$ 3,001,047	(28.18%)
Debt issuance/financing costs	433,364	-	-	NA
Loss on disposal of capital assets	-	-	122,564	NA
	<u> </u>	<u> </u>	<u> </u>	
Total non-operating	2,536,428	2,928,168	3,123,611	(13.38%)
Depreciation	<u>10,132,046</u>	<u>10,785,675</u>	<u>10,311,573</u>	<u>(6.06%)</u>
Total expense	<u>\$ 26,721,884</u>	<u>\$ 27,709,824</u>	<u>\$ 26,299,017</u>	<u>(3.57%)</u>

FY 2020 REVENUE AND EXPENSE ANALYSIS

Operating revenue decreased from \$20.1 million in FY 2019 to \$16.7 million in FY 2020, a decrease of 17%. The decrease in revenue can be attributed to the coronavirus pandemic that began having a major effect on the Airport's activity beginning in March 2020. From March 2020 through June 2020 the Airport's activity dropped significantly as compared to prior year: Enplanements dropped by 78%, landed weight decreased by 64% and operations dropped by 55%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue decreased by \$1,062,000 or 15%. The decrease in revenue can be attributed to effects of the coronavirus pandemic on the airline activity mentioned above.
- Parking revenue decreased by \$1,875,000, or 27%. This decrease was driven by the 23% decrease in enplanements compared to prior year.
- Ground transportation revenue decreased by \$384,000, or 14%. The reason for the decrease was due to the COVID pandemic as outlined above and the associated drop in enplanements.
- Concessions and rentals revenue decreased by \$126,000, or 18%. This decrease was also caused by the drop in enplanements FY20.

Operating expense increased from \$14.0 million in FY 2019 to \$14.1 million in FY 2020, an increase of 0.41%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses decreased by \$157,000, or 3%. The majority of this was due to cost savings in FY20 in marketing, advertising, and airline incentives.
- Safety, rescue and security increased by \$118,000, or 5%. This was due to an increase in salaries and benefits and the purchase of equipment.
- Engineering expenses increased by \$194,000, or 26%. This was due to an increase in salaries and benefits, environmental services for a water study, and professional services for design for potential capital projects.

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

Net non-operating revenue increased from \$3.3 million in FY 2019 to \$5.4 million in FY 2020, an increase of 28%. The following describes the fluctuations of certain types of non-operating revenue:

- Customer facility charges decreased by \$695,000, or 40% in FY 2020. The primary reason was the COVID pandemic as outlined above and the associated drop in enplanements. The Customer facility charge also decreased from \$4.00 a day to \$3.75 a day.
- Passenger facility charges decreased by \$617,000 or 22% in FY 2020. This decrease was also due to the COVID pandemic and the subsequent drop in enplanements.
- FAA CARES grant from the Coronavirus Aid, Relief, and Economic Security Act (CARES) was awarded to Airport in FY 2020. The CARES grant may be used to reimburse the Airport for any approved Airport capital expenditure, debt payment or operating expense.

Capital grant revenue increased from \$7.6 million in FY 2019 to \$11.7 million in FY 2020, an increase of 54%. This increase was due to the timing of the grants awarded from the Federal Aviation Administration (FAA) and additional discretionary grants obtained in FY 2020

FY 2019 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$18.2 million in FY 2018 to \$20.1 million in FY 2019, an increase of 11%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$285,000 or 4%. The majority of this revenue growth can be attributed to the 8% increase in enplanements and the 9% increase in landed weight.
- Parking revenue increased by \$1,175,000, or 20%. This increase was driven by the 8% increase in enplanements as well as a \$1.00 parking rate increase that went into effect on July 1, 2018.
- Ground transportation revenue increased by \$300,000, or 12%. \$220,000 of the increase was from higher rental car commissions due to the increase in enplanements. The remaining \$80,000 can be attributed to additional revenue from ride sharing companies.
- General aviation revenue increased by \$148,000, or 10%. The Airport developed and opened a general aviation complex (WestLEX) located on the westside of the Airport. The majority of this revenue growth can be attributed to additional hangar rental income from the WestLEX General Aviation Services.

Operating expense increased from \$12.9 million in FY 2018 to \$14.0 million in FY 2019, an increase of 9%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by \$471,000, or 9%. The majority of this was due to an increase in salaries and benefits, marketing, advertising and utilities.
- General maintenance expenses increased by \$301,000, or 9%. This was due to general repairs including work performed on HVAC, car rental return rooftop, and parking garage elevators. Salaries and benefits also contributed to the increase.
- Safety, rescue and security increased by \$105,000, or 5%. An increase in salaries and benefits was the primary reason for the increase.
- Building maintenance expenses increased by \$100,000, or 13%. Salary and benefits and HVAC maintenance expenses were the primary cause of this increase.
- Airport operations expenses increased by \$203,000, or 25%. This was due to an increase in salaries and benefits and a full year of expenses for the new general aviation complex located on the westside of the Airport.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

Net non-operating revenue increased from \$1.3 million in FY 2018 to \$3.3 million in FY 2019, an increase of 152%. The following describes the fluctuations of certain types of non-operating revenue:

- Customer facility charges increased by \$338,000, or 24% in FY 2019. An increase in enplanements and the recognition of certain deferred revenue at June 30, 2018 created this increase in revenue.
- Investment income increased by \$180,000 over prior year. This increase was primarily due to the investment of unspent bond project funds.
- In FY 2019, the Airport experienced a \$646,000 increase in the fair value of its investments, compared to a \$530,000 decrease in FY 2018. This was due to interest rate fluctuations.

Capital grant revenue increased from \$6.6 million in FY 2018 to \$7.6 million in FY 2019, a increase of 15%. This increase was primarily due to the timing of the grants awarded from the Federal Aviation Administration (FAA) and additional discretionary grants obtained in FY 2019.

FINANCIAL POSITION SUMMARY

The following represents the Airport's financial position at June 30, 2020, 2019, and 2018. The Airport's assets exceeded liabilities by \$144.6 million at June 30, 2020, a \$9.6 million increase from June 30, 2019. The Airport's assets exceeded liabilities by \$135.0 million at June 30, 2019, a \$6.3 million increase from June 30, 2018.

	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>
Assets			
Current assets-unrestricted	\$ 16,358,763	\$ 17,698,519	\$ 16,756,149
Restricted assets	29,467,309	37,617,633	46,057,099
Capital assets	188,470,604	170,793,111	160,897,837
Deferred outflows of resources	<u>1,183,176</u>	<u>1,352,203</u>	<u>1,521,226</u>
Total assets and deferred outflows	<u>\$ 235,479,852</u>	<u>\$ 227,461,466</u>	<u>\$ 225,232,311</u>
Liabilities			
Current liabilities-payable from unrestricted assets	\$ 2,203,669	\$ 1,913,009	\$ 1,711,469
Current liabilities-payable from restricted assets	8,639,183	9,812,098	9,681,357
Noncurrent liabilities	79,874,025	80,758,830	85,144,633
Deferred inflows of resources	<u>185,890</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows	<u>\$ 90,902,767</u>	<u>\$ 92,483,937</u>	<u>\$ 96,537,459</u>
Net Position			
Net investment in capital assets	\$ 104,363,396	\$ 92,860,379	\$ 89,796,131
Restricted	26,399,622	26,675,967	24,201,668
Unrestricted	<u>13,814,067</u>	<u>15,441,183</u>	<u>14,697,053</u>
Total net position	<u>\$ 144,577,085</u>	<u>\$ 134,977,529</u>	<u>\$ 128,694,852</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

CAPITAL ASSETS

Major capital projects in progress and expenditures incurred during FY 2020 included the following:

	<u>FY 2020</u>	<u>Cumulative</u>
Taxiway Safety Enhancement Program - Phase IV	\$ 9,223,000	\$ 16,501,000
Taxiway Safety Enhancement Program - Phase V	5,394,000	6,132,000
Baggage Belt System Replacement	1,440,000	6,936,000
Parking Expansion	4,150,000	6,531,000
Airport Road Land Purchase	4,000,000	4,000,000
Runway Rehabilitation	1,390,000	2,132,000

Major capital projects in progress and expenditures incurred during FY 2019 included the following:

	<u>FY 2019</u>	<u>Cumulative</u>
Rental Car Maintenance Facility	\$ 2,765,000	\$ 14,602,000
Snow Removal Equipment	1,330,000	1,330,000
Taxiway Safety Enhancement Program - Phase IV	7,275,000	7,278,000
Baggage Belt System Replacement	4,995,000	5,496,000
Parking Expansion	1,316,000	2,381,000

The Taxiway Safety Enhancement Program (TSEP) is an estimated \$63 million multi-year initiative funded approximately 90% by grants from the Federal Aviation Administration with a 10% matching contribution from the Airport. Phase I of this project concluded in October 2015 with the opening of a new 63,000 square foot maintenance complex. Phase II, consisting of demolition of the previous maintenance complex and embankment construction was completed in FY 2017. Phase III was completed in June 2018 and consisted of removal of existing Taxiways A6 and C, construction of relocated Taxiway A and A6 and installation of FAA fiber optic communication cables. Phase IV, which is the construction of a new Public Safety building and the accompanying site work was completed at the beginning of FY 2021. Phase V, which consists of the demolition of the Public Safety building and Taxiway Construction, began in FY 2019.

In order to finance other capital projects including: rental car maintenance facility; terminal improvements including the replacement of the baggage belt system; parking improvements; and general aviation improvements including hangar development, the Airport issued \$35,710,000 of General Airport Revenue Bonds in FY 2017. In FY 2020 the Airport issued \$3,800,000 of General Airport Revenue Bonds to finance the purchase of land on Airport Road.

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

Additional information on the Airport's capital assets can be found in Note 3 to the financial statements.

BONDS PAYABLE

In order to take advantage of historically low interest rates, the Airport issued \$32,000,000 of General Airport Revenue and Revenue Refunding Bonds 2019 Series A (the "2019 Series A Bonds") with coupon rates ranging from 1.97% to 3.25%. The 2019 Series A Bonds were issued to (i) advance refund, on a taxable basis, the 2012 Series A and B Bonds and the 2016 Series A and B Bonds (collectively the "Refunded Bonds"), and (ii) provide approximately \$3,800,000 for potential capital expenditures related to terminal improvements, hangars and land acquisition. The Airport received net proceeds of \$31,812,967, which funds, together with other available monies, were deposited to an escrow account to defease the Refunded Bonds (\$28,402,631), the Project Fund (\$3,808,141) and used to satisfy costs of issuance of the 2019 Series A Bonds. Through the refunding, the Airport reduced its total debt service payments over the next twenty years by approximately \$3,872,000 thereby realizing an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2,870,000.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

BONDS PAYABLE (Continued)

Total bonds payable at June 30, 2020 and June 30, 2019 were \$82,860,000 and \$80,770,000, respectively. Fixed rate bonds make up approximately 93% of the Airport's debt structure with \$77,460,000 in fixed rate bonds at June 30, 2020 and \$75,370,000 in fixed rate bonds at June 30, 2019. For both years, variable rate debt remained unchanged at \$5,400,000. The index interest rate for the variable rate bonds is based on 74% of (30-day LIBOR plus a 1% margin). The variable rate at June 30, 2020 and June 30, 2019 was 0.875% and 2.539%, respectively.

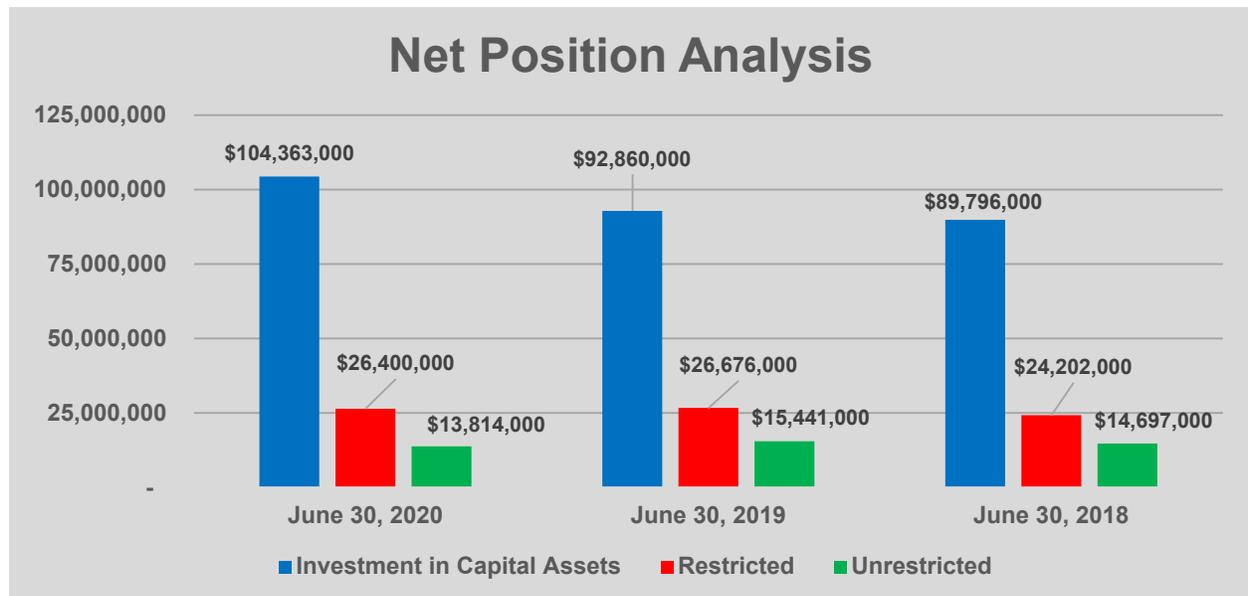
Additional information regarding bonds payable is provided in Note 5 to the financial statements.

NET POSITION

The largest portion of the Airport's net position each year (72.2% at June 30, 2020 and 68.8% at June 30, 2019) represents its investment in capital assets, net of accumulated depreciation (e.g., land, buildings, improvements, and equipment). The investment in capital assets is offset by the related debt used to acquire those assets, net of any unspent bond proceeds. The Airport uses these capital assets to provide services to its passengers and visitors; 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 operating and Passenger Facility Charge revenues, since it is unlikely the capital assets themselves will be sold to pay liabilities.

An additional portion of the Airport's net position (18.3% at June 30, 2020, and 19.8% at June 30, 2019) are restricted and represent bond reserve and project funds that are subject to external restrictions on how they can be used under bond resolutions. Also included are Passenger Facility Charges received from the airlines and Contract Facility Charges received from the rental car companies that are restricted for the funding of eligible capital projects and the related debt service. Also included are accounts receivable for federal grants that restrict the use of monies for eligible capital projects.

Unrestricted net assets (9.5% of the Airport's net position at June 30, 2020, and 11.4% at June 30, 2019) consist of resources that do not meet the definition of "restricted" or "net investment in capital assets".



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Years ended June 30, 2020 and 2019

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash and cash equivalents include cash-on-hand, bank deposits, and highly liquid investments with an original maturity of 90 days or less.

	<u>FY 2020</u>	<u>FY 2019</u>
Net cash provided by operating activities	\$ 2,437,501	\$ 6,171,598
Net cash provided by noncapital financing activities	3,228,827	-
Net cash used by capital and related financing activities	(16,672,134)	(16,464,652)
Net cash provided by investing activities	<u>2,943,346</u>	<u>13,003,018</u>
Net increase (decrease) in cash and cash equivalents	(8,062,460)	2,709,964
Cash and cash equivalents, beginning of year	<u>22,045,733</u>	<u>19,335,769</u>
Cash and cash equivalents, end of year	<u>\$ 13,983,273</u>	<u>\$ 22,045,733</u>

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF NET POSITION
 June 30, 2020 and 2019

	<u>FY 2020</u>	<u>FY 2019</u>
Assets		
Current assets - unrestricted		
Cash and cash equivalents	\$ 3,446,215	\$ 5,912,121
Investments	10,512,092	9,285,762
Accounts receivable	1,820,649	2,017,612
Accrued interest receivable	40,382	26,744
Other assets	<u>539,425</u>	<u>456,280</u>
Total current assets	<u>16,358,763</u>	<u>17,698,519</u>
Restricted assets		
Cash and cash equivalents	10,537,058	16,133,612
Investments	16,140,463	18,973,220
Accounts receivable	139,948	647,141
Accrued interest receivable	48,079	75,678
Grants receivable	<u>2,601,761</u>	<u>1,787,982</u>
Total restricted assets	<u>29,467,309</u>	<u>37,617,633</u>
Capital assets		
Capital assets not being depreciated	51,877,033	35,152,234
Capital assets being depreciated	300,113,343	289,185,973
Accumulated depreciation	<u>(163,519,772)</u>	<u>(153,545,096)</u>
Total net capital assets	<u>188,470,604</u>	<u>170,793,111</u>
Deferred outflows of resources		
Deferred amount on refunding	<u>1,183,176</u>	<u>1,352,203</u>
Total assets and deferred outflows	<u>\$ 235,479,852</u>	<u>\$ 227,461,466</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENTS OF NET POSITION (Continued)
June 30, 2020 and 2019

	<u>FY 2020</u>	<u>FY 2019</u>
Liabilities		
Current liabilities (payable from unrestricted assets)		
Accounts payable	\$ 834,317	\$ 966,951
Accounts payable-construction	863,490	300,911
Accrued payroll and benefits	286,639	409,235
Unearned revenue	<u>219,223</u>	<u>235,912</u>
Total current liabilities (payable from unrestricted assets)	<u>2,203,669</u>	<u>1,913,009</u>
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	4,100,000	3,990,000
Accounts payable	18,201	9,721
Accounts payable-construction	3,201,199	4,314,196
Accrued interest payable	<u>1,319,783</u>	<u>1,498,181</u>
Total current liabilities (payable from restricted assets)	<u>8,639,183</u>	<u>9,812,098</u>
Total current liabilities	<u>10,842,852</u>	<u>11,725,107</u>
Noncurrent liabilities		
Accrued post-employment benefits	341,027	344,327
Bonds payable	<u>79,532,998</u>	<u>80,414,503</u>
Total noncurrent liabilities	<u>79,874,025</u>	<u>80,758,830</u>
Deferred inflows of resources		
Deferred amount on refunding	<u>185,890</u>	<u>-</u>
Total liabilities and deferred inflows	<u>90,902,767</u>	<u>92,483,937</u>
Net position		
Net investment in capital assets	104,363,396	92,860,379
Restricted for debt service	23,797,861	24,887,985
Restricted for capital projects	2,601,761	1,787,982
Unrestricted	<u>13,814,067</u>	<u>15,441,183</u>
Total net position	<u>144,577,085</u>	<u>134,977,529</u>
Total liabilities, deferred inflows and net position	<u>\$ 235,479,852</u>	<u>\$ 227,461,466</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years ended June 30, 2020 and 2019

	<u>FY 2020</u>	<u>FY 2019</u>
Operating revenue:		
Airline operations	\$ 6,179,080	\$ 7,241,024
Parking	5,181,006	7,056,255
Ground transportation	2,442,181	2,826,456
Concessions and rentals	565,232	690,791
General aviation	1,501,283	1,568,088
Advertising	508,766	459,514
Other	<u>274,764</u>	<u>299,920</u>
Total operating revenue	<u>16,652,312</u>	<u>20,142,048</u>
Operating expense:		
Administration	5,460,949	5,617,827
General maintenance	3,403,223	3,461,731
Safety, rescue and security	2,401,500	2,283,784
Engineering	951,910	757,528
Building maintenance	856,225	859,209
Airport operations	<u>979,603</u>	<u>1,015,902</u>
Total operating expense	<u>14,053,410</u>	<u>13,995,981</u>
Operating income before depreciation expense	2,598,902	6,146,067
Depreciation expense	<u>10,132,046</u>	<u>10,785,675</u>
Loss from operations	<u>(7,533,144)</u>	<u>(4,639,608)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,172,310	2,789,405
Contract facility charges	1,062,616	1,757,144
Investment income, net of fees	1,033,898	1,022,937
Net increase in fair value of investments	463,895	646,174
FAA CARES operating expense reimbursement	3,228,827	-
Interest expense and fees	(2,103,064)	(2,928,168)
Debt costs	(433,364)	-
Gain on disposal of capital assets	<u>11,177</u>	<u>16,704</u>
Net non-operating revenue	<u>5,436,295</u>	<u>3,304,196</u>
Capital grants	<u>11,696,405</u>	<u>7,618,089</u>
Increase in net position	9,599,556	6,282,677
Net position, beginning of year	<u>134,977,529</u>	<u>128,694,852</u>
Net position, end of year	<u>\$ 144,577,085</u>	<u>\$ 134,977,529</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENTS OF CASH FLOW
Years ended June 30, 2020 and 2019

	<u>FY 2019</u>	<u>FY 2020</u>
Cash flows from operating activities		
Receipts from customers	\$ 16,555,523	\$ 19,500,619
Payments to suppliers	(6,364,642)	(5,762,602)
Payments to employees	(8,030,443)	(7,868,398)
Other receipts	<u>277,063</u>	<u>301,979</u>
Net cash provided by operating activities	<u>2,437,501</u>	<u>6,171,598</u>
Cash flows from noncapital financing activities		
FAA CARES grant operating expense reimbursement	<u>3,228,827</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>3,228,827</u>	<u>-</u>
Cash flows from capital and related financing activities		
Proceeds from capital grants	10,882,626	6,644,473
Passenger facility charges	2,580,684	2,829,571
Contract facility charges	1,161,436	1,523,327
Proceeds from bonds sales/refund	3,597,369	-
Principal paid on bonds	(3,990,000)	(3,660,000)
Interest and fees paid on bonds	(2,555,469)	(3,022,964)
Proceeds from sale of equipment	11,177	20,922
Acquisition and construction of capital assets	<u>(28,359,957)</u>	<u>(20,799,981)</u>
Net cash used by capital and related financing activities	<u>(16,672,134)</u>	<u>(16,464,652)</u>
Cash flows from investing activities		
Interest received on investments	873,023	997,420
Purchase of investments	(16,533,235)	(33,684,106)
Proceeds from sales and maturities of investments	<u>18,603,558</u>	<u>45,689,704</u>
Net cash provided by investing activities	<u>2,943,346</u>	<u>13,003,018</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,062,460)</u>	<u>2,709,964</u>
Cash and cash equivalents, beginning of year	<u>22,045,733</u>	<u>19,335,769</u>
Cash and cash equivalents, end of year	<u>\$ 13,983,273</u>	<u>\$ 22,045,733</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (7,533,144)	\$ (4,639,608)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	10,132,046	10,785,675
Bad debt expense	2,815	255
Increase (decrease) due to changes in:		
Accounts receivable	194,148	(347,664)
Other assets	(83,145)	103,187
Accounts payable	(132,634)	213,344
Unearned revenue	(16,689)	7,959
Accrued payroll and benefits	<u>(125,896)</u>	<u>48,450</u>
Net cash provided by operating activities	<u>\$ 2,437,501</u>	<u>\$ 6,171,598</u>
Supplemental schedule of noncash transactions		
Construction in progress included in accounts payable	<u>\$ 4,064,689</u>	<u>\$ 4,615,107</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Lexington-Fayette Urban County Airport Board (the Board) 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 is composed of ten members appointed by the Mayor, including a designated officer of the LFUCG and two members who live within a three-mile radius of the Airport, in accordance with terms set forth in the Kentucky Revised Statute 183.132 (8).

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

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

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

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

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

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

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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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

Net Position: Net position is classified into three components - net investment in capital assets; restricted for debt service/restricted for capital projects; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component represents its investment in capital assets, net of accumulated depreciation. The investment in capital assets is offset by the related debt used to acquire those capital assets, net of any unspent bond proceeds.
- Restricted for debt service/capital projects - This component includes bond reserve and project funds that are subject to external restrictions on how they can be used under bond resolutions. Also included are Passenger Facility Charges received from airlines and Contract Facility Charges received from car rental companies that are restricted for the funding of eligible capital projects and the related debt service. Also included are accounts receivable for federal grants that restrict the use of monies for eligible capital projects.
- Unrestricted - This component consists of resources that do not meet the definition of "restricted" or "net investment in capital assets."

Restricted Assets: Restricted assets include monies held in debt service reserve accounts and unspent bond proceeds, resources set aside for the payment of the related bonds and passenger facility charges and contract facility charges that are restricted for the funding of eligible capital projects and the related debt service, and accounts receivable from federal grants that are restricted for capital projects.

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

Investments: Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The unrealized gain on investments was \$469,489 at June 30, 2020 and the unrealized gain at June 30, 2019 was \$5,594.

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.

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

Deferred Outflows of Resources: The deferred amount of refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and is being charged to interest expense over the life of the refunding debt using the straight-line method.

Deferred Inflows of Resources: The deferred amount of refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and is being credited to interest income over the life of the refunding debt using the straight-line method.

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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
 NOTES TO FINANCIAL STATEMENTS
 Years ended June 30, 2020 and 2019

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

Operating and Non-operating Revenues and Expenses: Revenues from landing fees, terminal space rental, auto parking, car rental, and concession fees are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic Airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. PFC's and Contract Facilities Charges (CFC's) are collected and remitted by the airlines and car rental agencies, respectively, and are recognized as revenue as they are earned, and are included in non-operating revenues. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Airport's major expenses include salaries and employee benefits, maintenance and other expenses such as utilities, professional services and insurance. 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 120 to 384 paid time off hours annually, depending on their length of employment and classification. Employees can carry forward up to a maximum of 96 hours of paid time off for use in subsequent years depending on their length of employment and classification. Liabilities for such benefits are accrued at current rates of compensation.

Full-time employees also may earn from 96 to 136 Family Medical Leave Time annually. Family Medical Leave Time may only be used for approved Family Medical Leave Act events or Discretionary Leave events approved by the Executive Director. Employees can carry forward up to a maximum of 560 hours of Family Medical Leave Time for use in subsequent years depending on their length of employment and classification. Family Medical Leave Time will not be paid out to an employee upon separation for any reason therefore there is no liability recorded.

New Financial Reporting Standards: GASB Statement No. 87, *Leases*, effective for years beginning after June 15, 2021, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The Airport has not determined the effect that the adoption of this statement may have on its financial statements.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposit and Investment Policy

The Airport's deposit and investment policy provides that the specific investment objectives shall be 1) the investment of the Airport's assets in securities which shall provide a reasonable rate of total return with a primary emphasis placed upon the preservation of principal, and 2) to establish an investment portfolio that remains sufficiently liquid to enable the Airport to meet operating requirements that might be reasonably anticipated. The Airport's investments policy is guided by the provisions of KRS 66.480.

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

Cash

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

	<u>FY 2020</u>	<u>FY 2019</u>
Unrestricted	\$ 3,287,103	\$ 5,823,378
Restricted	<u>2,252,960</u>	<u>1,036,310</u>
Total cash	<u>\$ 5,540,063</u>	<u>\$ 6,859,688</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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

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. As of June 30, 2020 and 2019, respectively, \$0 and \$259,698 of the Airport's bank balances were exposed to custodial credit risk because the balances were not insured by the FDIC or collateralized by securities. As of June 30, 2020 and 2019, respectively, bank balances of \$1,015,061 and \$1,395,589 that were insured by the FDIC and bank balances of \$4,671,645 and \$5,040,187 that were collateralized by securities held in the Airport's name, were not exposed to custodial credit risk.

Cash Equivalents and Investments

Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2020 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Fidelity Government Cash Reserves	\$ 159,112	0.4%	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	8,064,379	23.8%	8/25/20-12/15/41	AAA/AA+/NR A/AA-	Aaa/NR Aa1/A1/A
Corporate Bonds	1,138,574	3.2%	5/6/21-4/29/49	/AA+/A/BBB/ BBB-	a3/A2/Ba a2
Municipal Bonds	25,093	0.1%	12/1/20	AA	NR
Certificate of Deposit	515,510	1.5%	2/26/21-4/4/22	NR	NR
US Treasury Notes	289,446	0.8%	11/15/27	AA+	Aaa
Exchange Traded Funds	479,090	1.4%	6/4/20-3/7/23	NR	NR
Total unrestricted investments	<u>10,512,092</u>	<u>30.0%</u>			
Restricted cash equivalents					
First American Government Obligations	<u>8,284,098</u>	<u>23.6%</u>	N/A	N/A	N/A
Restricted investments					
Mortgage Backed Securities	11,698,860	33.3%	10/25/20-10/15/41	AAA/AA+/NR	Aaa/NR
Corporate Bonds	240,354	0.7%	8/21/21-9/29/21	AA+	AAA
Municipal Bonds	152,899	0.4%	12/1/20-4/1/24	AA	NR
Certificate of Deposit	273,981	0.8%	12/31/21-4/4/22	NR	NR
US Treasury Notes	2,490,511	7.1%	10/15/20-11/15/27	AA+	Aaa/NR
US Agency Bonds	<u>1,283,858</u>	<u>3.7%</u>	5/6/21-9/1/32	AA+/NR	Aaa/NR
Total restricted investments	<u>16,140,463</u>	<u>46.0%</u>			
Total cash equivalents and investments	<u>\$ 35,095,765</u>	<u>100.0%</u>			

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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

Cash Equivalents and Investments (Continued)

Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2019 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard & Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Fidelity Government Cash Reserves	\$ <u>88,743</u>	<u>0.2%</u>	N/A	N/A	N/A
Unrestricted investments					
Mortgage Backed Securities	6,759,666	15.6%	2/25/20-12/15/41	AAA/NR	Aaa/NR
Municipal Bonds	24,997	0.1%	12/1/20	AA	NR
Certificate of Deposit	606,550	1.4%	7/30/19-4/4/22	NR	NR
US Treasury Notes	1,333,370	3.1%	8/15/19-4/30/24	AA+	AAA/Aaa
US Agency Bonds	<u>561,179</u>	<u>1.3%</u>	6/4/20-3/7/23	AA+	AAA/Aaa
Total unrestricted investments	<u>9,285,762</u>	<u>21.5%</u>			
Restricted cash equivalents					
First American Government Obligations	<u>15,097,302</u>	<u>34.8%</u>	N/A	N/A	N/A
Restricted investments					
Mortgage Backed Securities	10,482,276	24.1%	3/25/20-10/15/41	AAA/AA+/NR	Aaa/NR
Corporate Bonds	310,947	0.7%	8/21/21	NR	NR
Municipal Bonds	150,434	0.3%	12/1/20-4/1/24	AA	NR
Certificate of Deposit	629,013	1.4%	9/27/19-4/4/22	NR	NR
US Treasury Notes	4,728,614	10.8%	7/15/19-9/30/23	Aaa/AA+	Aaa/AA+
US Agency Bonds	<u>2,671,936</u>	<u>6.2%</u>	7/30/19-10/7/21	AA+	AAA/Aaa
Total restricted investments	<u>18,973,220</u>	<u>43.5%</u>			
Total cash equivalents and investments	<u>\$ 43,445,027</u>	<u>100.0%</u>			

Custodial credit risk for cash equivalents and investments is the risk that, in the event of the failure of the counterparty to a transaction, the Airport will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Airport's certificates of deposits are insured by the Federal Depository Insurance Company (FDIC) and the Airport monitors the certificate of deposit purchases to ensure that holdings at each institution do not exceed FDIC coverage limits. The Airport's other cash equivalents and investments are uninsured and unregistered, but are held in the Airport's name; therefore, none of the cash equivalents and investments are subject to custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Airport does not have a formal policy on interest rate risk but maintains an average weighted life on its investment portfolio of 5 years or less to comply with trust indentures and to limit the exposure to interest rate market risks. The investment portfolio as of June 30, 2020 and 2019, had an average duration of 2.4 years and 1.8 years, respectively.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The Airport places no limit on the amount that the Airport may invest in any one issuer.

Fair Value Measurement

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

- *Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- *Level 2:* Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; matrix pricing technique, such as used by the Airport, or other inputs that are observable or can be corroborated by observable market data.
- *Level 3:* Significant unobservable inputs that reflect the reporting entity's own assumptions about the fair value of an asset or liability.

The Airport has the following recurring fair value measurements as of June 30, 2020 and 2019:

Fair Value Measurements as of June 30, 2020				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities				
US Treasury Notes	\$ 2,779,957	\$ 2,779,957	\$ -	\$ -
US Agency Bonds	1,283,858	-	1,283,858	-
Corporate Bonds	1,378,928	-	1,378,928	-
Municipal Bonds	177,992	-	177,992	-
Certificate of Deposit	789,491	-	789,491	-
Exchange Traded Funds	479,090	-	479,090	-
Mortgage Backed Securities	<u>19,763,239</u>	<u>-</u>	<u>19,763,239</u>	<u>-</u>
Total investments by fair value level	<u>\$ 26,652,555</u>	<u>\$ 2,779,957</u>	<u>\$ 23,872,598</u>	<u>\$ -</u>

Fair Value Measurements as of June 30, 2019				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities				
US Treasury Notes	\$ 6,061,984	\$ 6,061,984	\$ -	\$ -
US Agency Bonds	3,233,115	-	3,233,115	-
Corporate Bonds	310,947	-	310,947	-
Municipal Bonds	175,431	-	175,431	-
Certificate of Deposit	1,235,563	-	1,235,563	-
Mortgage Backed Securities	<u>17,241,942</u>	<u>-</u>	<u>17,241,942</u>	<u>-</u>
Total investments by fair value level	<u>\$ 28,258,982</u>	<u>\$ 6,061,984</u>	<u>\$ 22,196,998</u>	<u>\$ -</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 3 - CAPITAL ASSETS

Capital asset activity for FY 2020 and FY 2019 is as follows:

	FY 2020				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets being depreciated:					
Land improvements	\$ 72,436,212	\$ -	\$ -	\$ 2,270,297	\$ 74,706,509
Structures and other improvements	199,036,027	-	-	2,889,420	201,925,447
Equipment	<u>17,713,734</u>	<u>232,969</u>	<u>157,370</u>	<u>5,692,054</u>	<u>23,481,387</u>
Total capital assets being depreciated	<u>289,185,973</u>	<u>232,969</u>	<u>157,370</u>	<u>10,851,771</u>	<u>300,113,343</u>
Capital assets not being depreciated:					
Land	16,003,806	4,210,000	-	-	20,213,806
Construction in progress	<u>19,148,428</u>	<u>23,366,570</u>	<u>-</u>	<u>(10,851,771)</u>	<u>31,663,227</u>
Total capital assets not being depreciated	<u>35,152,234</u>	<u>27,576,570</u>	<u>-</u>	<u>(10,851,771)</u>	<u>51,877,033</u>
Less accumulated depreciation:					
Land improvements	32,567,206	2,806,802	-	-	35,374,008
Structures and other improvements	114,841,865	5,978,341	-	-	120,820,206
Equipment	<u>6,136,025</u>	<u>1,346,903</u>	<u>157,370</u>	<u>-</u>	<u>7,325,558</u>
Total accumulated depreciation	<u>153,545,096</u>	<u>10,132,046</u>	<u>157,370</u>	<u>-</u>	<u>163,519,772</u>
Net capital assets	<u>\$ 170,793,111</u>	<u>\$ 17,677,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,470,604</u>
	FY 2019				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets being depreciated:					
Land improvements	\$ 68,897,519	\$ -	\$ 14,641	\$ 3,553,334	\$ 72,436,212
Structures and other improvements	188,640,341	31,138	77,006	10,441,554	199,036,027
Equipment	<u>14,792,834</u>	<u>432,497</u>	<u>236,436</u>	<u>2,724,839</u>	<u>17,713,734</u>
Total capital assets being depreciated	<u>272,330,694</u>	<u>463,635</u>	<u>328,083</u>	<u>16,719,727</u>	<u>289,185,973</u>
Capital assets not being depreciated:					
Land	12,177,911	-	-	3,825,895	16,003,806
Construction in progress	<u>19,472,519</u>	<u>20,221,531</u>	<u>-</u>	<u>(20,545,622)</u>	<u>19,148,428</u>
Total capital assets not being depreciated	<u>31,650,430</u>	<u>20,221,531</u>	<u>-</u>	<u>(16,719,727)</u>	<u>35,152,234</u>
Less accumulated depreciation:					
Land improvements	29,744,404	2,836,842	14,040	-	32,567,206
Structures and other improvements	108,261,295	6,657,576	77,006	-	114,841,865
Equipment	<u>5,077,588</u>	<u>1,291,257</u>	<u>232,820</u>	<u>-</u>	<u>6,136,025</u>
Total accumulated depreciation	<u>143,083,287</u>	<u>10,785,675</u>	<u>323,866</u>	<u>-</u>	<u>153,545,096</u>
Net capital assets	<u>\$ 160,897,837</u>	<u>\$ 9,899,491</u>	<u>\$ 4,217</u>	<u>\$ -</u>	<u>\$ 170,793,111</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 3 - CAPITAL ASSETS (Continued)

As of June 30, 2020, several uncompleted construction projects funded in-part by Federal grants and bond proceeds remain open. Upon completion and final approval by the Inspector General, these projects will be closed out and a final account will be rendered. Outstanding construction contract commitments are \$6,257,669 at June 30, 2020 and \$25,186,497 at June 30, 2019.

NOTE 4 - LINE OF CREDIT

The Airport has a \$15,000,000 revolving line of credit (LOC) that expires on September 26, 2023. There have been no borrowings against the line through June 30, 2020. Borrowings under the LOC bear interest at a variable rate and the rate is adjusted monthly on the first day of each month. The tax-exempt variable rate is calculated as follows: (30-Day LIBOR x 79%) + (115 basis points x 79%) + 35 basis points. The interest rate for the tax-exempt portion is 1.403% at June 30, 2020. The taxable variable interest rate is calculated as follows: 30-Day LIBOR + 115 basis points. The interest rate for the taxable portion is 1.33% at June 30, 2020. The LOC is secured by the general revenues of the Airport and is further secured by a lease agreement between the Airport, as lessor, and the Lexington-Fayette Urban County Government, as lessee. The Airport is in compliance with certain financial covenants as imposed by the LOC agreement.

NOTE 5 - BONDS PAYABLE

The following is a summary of the changes in the principal amount of bonds payable during FY 2020 and FY 2019:

	FY 2020				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General bonds	\$ 75,370,000	\$ 32,000,000	\$ 29,910,000	\$ 77,460,000	\$ 4,100,000
Bonds from direct placements	<u>5,400,000</u>	-	-	<u>5,400,000</u>	-
Total borrowings	<u>\$ 80,770,000</u>	<u>\$ 32,000,000</u>	<u>\$ 29,910,000</u>	<u>\$ 82,860,000</u>	<u>\$ 4,100,000</u>

	FY 2019				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General bonds	\$ 79,030,000	\$ -	\$ 3,660,000	\$ 75,370,000	\$ 3,990,000
Bonds from direct placements	<u>5,400,000</u>	-	-	<u>5,400,000</u>	-
Total borrowings	<u>\$ 84,430,000</u>	<u>\$ -</u>	<u>\$ 3,660,000</u>	<u>\$ 80,770,000</u>	<u>\$ 3,990,000</u>

The Airport's outstanding bonds from direct placements of \$5,400,000 contain a provision that in an event of default, bonds shall bear interest at Default Rate (base rate + 4%) and outstanding amounts become immediately due.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 5 - BONDS PAYABLE (Continued)

Bonds payable at June 30, 2020 and June 30, 2019 are as follows:

	<u>FY 2020</u>	<u>FY 2019</u>
2009 Series A, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2019 with coupon rates ranging from 3%-5%.	\$ -	\$ 2,300,000
2009 Reissued Series B, Variable Rate General Airport, Direct Placement Revenue Refunding Bonds (AMT)	5,400,000	5,400,000
2012A Series A, Fixed Rate General Airport, Revenue Refunding Bonds (AMT) amount defeased through the 2019 Series Bond Issuance	-	6,770,000
2012B Series B, Fixed Rate General Airport, Revenue Refunding Bonds (non - AMT) amount defeased through the 2019 Series Bond Issuance	-	11,230,000
2016A Series A, Fixed Rate General Airport, Revenue Bonds (non-AMT) due through July 2036 with coupon rates ranging from 2%-5%	350,000	515,000
2016A Series A, Fixed Rate General Airport, Revenue Bonds (non-AMT) amount defeased through the 2019 Series Bond Issuance	-	3,935,000
2016B Series B, Fixed Rate General Airport, Revenue Bonds (AMT) due through July 2036 with coupon rates ranging from 3%-5%	350,000	515,000
2016B Series B, Fixed Rate General Airport, Revenue Bonds (AMT) amount defeased through the 2019 Series Bond Issuance	-	3,985,000
2016C Series C, Fixed Rate General Airport, Revenue & Revenue Refunding Bonds (Federally Taxable) due through July 2036 with coupon rates ranging from 1.05%-3.85%	35,375,000	36,525,000
2016D Series D, Fixed Rate General Airport, Revenue Bonds (non - AMT) due through July 2036 with coupon rates ranging from 3%-5%	5,135,000	5,345,000
2016E Series E, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3%-4%	4,250,000	4,250,000
2019A Series A, Fixed Rate General Airport, Revenue & Revenue Refunding Bonds (Federally Taxable) due through July 2038 with coupon rates ranging from 1.97%-3.25%	<u>32,000,000</u>	<u>-</u>
Total principal payable	82,860,000	80,770,000
Unamortized bond premiums	<u>772,998</u>	<u>3,634,503</u>
Total bonds payable	83,632,998	84,404,503
Less current portion	<u>4,100,000</u>	<u>3,990,000</u>
Noncurrent portion of bonds payable	<u>\$ 79,532,998</u>	<u>\$ 80,414,503</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 5 - BONDS PAYABLE (Continued)

Reissued Series 2009 B Bonds:

The Reissued Series 2009B Bonds are multi-modal direct placement 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, 2020, and 2019, the variable interest rates are 0.875% and 2.539% respectively. The bonds are subject to mandatory tender on March 1, 2023 unless the Holder has delivered notice to the Trustee and the Board at least 60 days prior to the Mandatory Tender Date that it will not tender the bonds for purchase on such mandatory tender date. In which event, the Mandatory Tender Date shall be a March 1 which follows March 1, 2023, as identified by the Holder in a notice from the Holder to the Trustee and the Board.

2019 General Airport Revenue & Revenue Refunding Bonds

On November 6, 2019, the Airport issued \$32,000,000 of 2019 General Airport Revenue and Revenue Refunding Bonds 2019 Series A (the "2019 Series A Bonds") with an all-in true interest cost of 3.02%. The 2019 Series A Bonds were issued to: 1) refund, on a taxable basis, \$25,920,000 in principal amount 2012 Series A and B Bonds and 2016 Series A and B Bonds (collectively the "Refunded Bonds"); and 2) provide funds for future capital expenditures related to land acquisition; terminal improvements and hangar construction.

The Airport received net proceeds of \$31,812,967, which funds, together with other available monies less costs of issuance, were deposited to an escrow account to defease the Refunded Bonds (\$28,402,631), and to a Project Fund for future capital expenditures (\$3,808,141). The deposit to the escrow account was used to purchase U.S. government securities which were deposited in an irrevocable trust to provide the debt service payments on the Refunded Bonds. As a result, the Refunded Bonds are considered defeased and the liability for such bonds was removed from the accompanying financial statements. The 2012 Series Bonds have a redemption date of July 1, 2022 and the 2016 Series Bonds have a redemption date of July 1, 2021.

The refunding and defeasance resulted in a difference between the reacquisition price of the 2019 Bonds and the net carrying amount of the refunded portion of the 2012 Series A and B Bonds and the 2016 Series A and B Bonds of \$197,155. The difference, reported in the accompanying financial statements as a deferred inflow of resources, is being credited to interest expense through June 30, 2031, the final maturity of the 2012A Bonds, using the straight-line method. Through the refunding, the Airport reduced its total debt service payments over the next twenty years by approximately \$3,872,000 thereby realizing an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2,870,000.

Debt Defeasance Outstanding

At June 30, 2020, the total outstanding principal balance of the refunded bonds to be paid from escrow was \$25,920,000.

Security for Bonds: The security consists of (1) the General Revenues of the Airport as such term is defined in the Indenture, (2) the funds established under the Indenture, and (3) a Lease Agreement between the Airport, as lessor, and the LFUCG, as lessee. The obligations of the LFUCG under the lease are a general obligation of the LFUCG and the full faith, credit and taxing power of the LFUCG is irrevocably pledged to the payment of the annual principal of and interest due on the bonds. The basic security for the general obligation debt of the LFUCG is its ability to levy, and its pledge to levy, an annual tax sufficient to pay the principal of and interest on general obligation debt due on an annual basis.

Debt Covenants: The bonds are subject to financial and nonfinancial covenants. The primary financial covenant is a debt service coverage ratio for which management has reported compliance to the Indenture Trustee. The calculation is based on a net amount available for debt service (general revenue as defined

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 5 - BONDS PAYABLE (Continued)

in the bond indenture with available cash balances, PFC and CFC revenues, less operating expense) that equals or exceeds 100% of the Aggregate Annual Debt service for the fiscal year as further defined in the indenture.

Debt service requirements for principal and estimated interest using the interest rate in effect at June 30, 2020 for all bonds outstanding are outlined below.

Year Ending June 30,	General bonds		Direct Placement		Total
	Principal	Interest	Principal	Interest*	
2021	\$ 4,100,000	\$ 2,357,295	-	\$ 167,076	\$ 6,624,371
2022	4,615,000	2,121,991	-	167,076	6,904,067
2023	4,690,000	2,007,019	-	167,076	6,864,095
2024	4,740,000	1,885,947	-	167,076	6,793,023
2025	4,880,000	1,757,843	-	167,076	6,804,919
2026-2030	24,540,000	6,613,874	-	835,380	31,989,254
2031-2035	21,735,000	2,961,261	4,685,000	576,953	29,958,214
2036-2039	8,160,000	388,196	715,000	29,625	9,292,821
Total	<u>\$ 77,460,000</u>	<u>\$ 20,093,426</u>	<u>\$ 5,400,000</u>	<u>2,277,338</u>	<u>\$ 105,230,764</u>

* Variable rate debt of \$5.4 million makes up approximately 7% of the total principal balance. The interest payments on the variable rate debt have been estimated and are subject to uncertainty. Therefore, actual payments may differ from the amounts estimated above.

NOTE 6 - PROPERTY LEASED TO OTHERS

The Airport leases a portion of its capital assets under non-cancelable operating lease agreements for parking, concessions and other commercial purposes. Rental revenue for FY 2020 and FY 2019 was \$8,391,093 and \$10,961,985, 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 2020 and FY 2019 were \$1,496,699 and \$4,024,818, respectively.

Future minimum rental revenues to be received under these operating leases as of June 30, 2020 are as follows:

Year ending June 30:	
2021	\$ 8,113,653
2022	7,781,690
2023	7,687,284
2024	7,563,994
2025	7,444,346
Thereafter through 2031	<u>12,046,453</u>
Total future minimum rental revenue	<u>\$ 50,637,420</u>

NOTE 7 - PASSENGER FACILITY CHARGES

The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) of \$4.50 on passengers to be used to fund FAA-approved capital projects and debt service attributable to those projects. During FY 2020 and FY 2019 the Airport received PFCs totaling \$2,172,310 and \$2,789,405, respectively. In future years, the Airport is authorized to collect and use PFCs for approved costs of \$72 million under the authority granted by the FAA.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 8 - CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2020 and FY 2019, the Airport earned approximately 44% and 45%, respectively, of airline operations revenue from one carrier.

NOTE 9 - RETIREMENT PLANS

The Airport contributes to a defined contribution retirement plan (the Plan), the Blue Grass Airport Employees Retirement Plan, covering all full-time employees of the Airport. The Plan is administered by John Hancock Plan Services. The Plan was established by the Board and may be amended at the discretion of the Board. The Plan states that each employee makes a required contribution of 5% of gross earnings to participate in the Plan. For public safety employees the required percentage is 7%. The Airport makes a contribution of 9% of total participants' compensation, less forfeitures of terminated participants' non vested accounts, on a bi-weekly basis. For public safety employees, the Airport's contribution rate is 12.15%. For all employees, vesting in the plan occurs over a 5 year period as follows: 1 year-0%; 2 years-25%; 3 years-50%; 4 years-75%; 5 years-100%. A year of service is defined as completion of at least 1,000 hours of service during the applicable computation period.

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

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

Employer contributions to the Plan made by the Airport were \$549,000 and \$544,000 for FY 2020 and FY 2019, respectively. For FY 2020 and FY 2019, the required employer contributions were reduced by forfeitures of \$26,304 and \$20,586, respectively. Required contributions made by Plan participants for FY 2020 and FY 2019 were \$309,000 and \$306,000, respectively. Since the Plan assets are held in trust for the benefit of the Plan members, the related assets of the Plan are not included in the accompanying statement of net position.

The Airport has an additional retirement plan under Internal Revenue Code section 457(b) that allows for annual employee salary deferrals up to \$19,500. The Airport does not contribute to this Plan.

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS

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

The post-employment benefits liability was evaluated by an independent actuary as of June 30, 2018 using a discount rate of 3.75%. There is no required employee contribution related to this benefit. The table below outlines the beginning of year (BOY) balance, the actuarial adjustments and payments, and the end of year (EOY) balance.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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

	<u><i>BOY Liability</i></u>	<u><i>Adjustment</i></u>	<u><i>(Payments)</i></u>	<u><i>EOY Liability</i></u>
FY 2020	\$ 344,327	\$ -	\$ (3,300)	\$ 341,027
FY 2019	\$ 347,627	\$ -	\$ (3,300)	\$ 344,327

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

	<u><i>1% Decrease (2.75%)</i></u>	<u><i>Current Discount Rate (3.75%)</i></u>	<u><i>1% Increase (4.75%)</i></u>
Post-Employment Benefits Liability	\$ 367,456	\$ 341,027	\$ 317,563

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.

NOTE 12 - Implications of COVID-19 on the Airport

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. Further, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States. As of the date the financial statements were available to be issued, the Airport's operations have been adversely impacted by the COVID-19 outbreak. The currently known impacts of COVID-19 are:

- A decline in revenues for the last four months of FY 2020 compared with the same period in FY 2019 of \$4,200,000, or 59%.
- The Airport has given financial relief to concessionaires who are subject to pay a Minimum Annual Guarantee (MAG). Due to the drop-in activity, concessionaires are required to pay just the percent of commission on revenue earned. Concessionaires are contractually required to pay a monthly minimum amount, but the Airport has waived this requirement until activity increases.

The Airport's operations are expected to continue to experience this adverse impact as a result of COVID-19. The Airport has taken the following actions:

- The Airport has reduced budgeted operating expenses from the original FY 2021 budget by approximately \$2,000,000.
- The Airport does not plan to do any significant capital projects not funded by the FAA.

The Airport received a grant from the Coronavirus Aid, Relief, and Economic Security Act (CARES) for approximately \$9,567,000 in May 2020 to assist with approved Airport capital expenditures, debt payments and operating expenses for FY 2020 and future years (expires FY 2024). During FY 2020, the Airport recognized revenue of \$3,461,021 in the accompanying Statement of Revenues, Expenses and Changes in Net Position, and has \$6,106,000 to use in future years. \$3,228,827 was used for operating expenses and the related revenue is recorded in nonoperating revenue, and \$232,194 was utilized for capital expenditures and the related revenue is included in capital grants. With the CARES grant and the Airport's financial strength and liquidity, management believes it will sustain operations. However, the ultimate impact is not known at this point as the scale and severity of the outbreak, and resulting economic impact, is still largely unknown.