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

FINANCIAL STATEMENTS
Year Ended June 30, 2022

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

FINANCIAL STATEMENTS
Year Ended June 30, 2022

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Independent Auditor's Report

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

Report on the Financial Statements

Opinion

We have audited the financial statements of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Airport as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Airport and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Airport's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Airport's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Airport's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Emphasis of Matter

During the fiscal year ended June 30, 2022, the Airport implemented Government Accounting Standards ("GASB") Statement No. 87 - *Leases*. The Airport recorded a lease receivable and a deferred inflow of resources of equal amount upon implementation of the standard utilizing the facts and circumstances that existed at that date. Therefore, the Airport's financial position as of June 30, 2021 was not impacted by the implementation of the standard.

Independent Auditor's Report (Continued)

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 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 28, 2022 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 solely 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 28, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lexington-Fayette Urban County Airport Board (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 year ended June 30, 2022 (FY 2022). 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 2022, the Airport continued to be served by four airline brands providing service to a total of 575,548 enplaned passengers. With the peak of COVID-19 over, enplanements rebounded by almost 70% from the total enplanements of 341,362 in FY 2021. Although travel is still down from pre-pandemic levels, the Airport did announce new service in July 2022 with Avelo Airlines. Avelo will begin serving Orlando, FL starting in October and Tampa, FL in November. During FY 2022, air travel continued to recover, and the Airport began to see the four airlines increase their schedules, enlarge their aircraft and rehire staff. While many flights have returned, the Airport continues to await the return of several flights to business destinations such as New York (LaGuardia), Houston and Minneapolis. The Airport anticipates that air service will continue to gradually increase but will be dependent on the business traveler and the airlines' ability to become adequately staffed and get planes back in service.

As a result of the pandemic, the Airport was the recipient of federal grant dollars that provided economic relief to commercial service airports as they responded to COVID-19. Grant dollars were determined by the Federal Aviation Administration based on various formulas. A combined total of approximately $7,554,000 was awarded to the Airport, which was then applied toward assisting the Airport with mostly payroll expenses and debt payments.

Also in FY 2022, the Airport celebrated a milestone of 75 years of providing our community commercial air service. On October 13, 1946, Kentuckians saw the first commercial aircraft serve the region via a Delta flight on a 21-passenger Douglas DC-3. Since that day, Blue Grass Airport has been offering service to and from Lexington, providing access to destinations worldwide.

With federal funding still available for Airport Improvement Projects, the Airport continued to build new facilities that support operations for the traveling public. This was particularly helpful as it allowed the Airport to complete the Airport's five-phase Taxiway Safety Enhancement Program to enhance operational safety on the airfield and improve the efficiency of aircraft movement. Just like roadways, taxiway systems become congested, and enhancements were needed to accommodate for future growth. The Taxiway Safety Enhancement Program incorporated a new taxiway that provides a second access route into the airlines' parking apron. To accommodate this new taxiway, the existing Snow Removal Equipment/Maintenance Complex and the Aircraft Rescue and Firefighting Facility had to be relocated. The completion of this project was essential so that the Airport could continue serving its region with access to the global business network and providing a Kentucky gateway for visitors from around the world.

Also during FY 2022, the Airport resurfaced its main runway (Runway 4-22). Pavement revitalization is a vital process and is performed appropriately every 12-15 years in partnership with the Federal Aviation Administration. This project cost approximately $16 million to complete and took hundreds of workers over a three-day period.

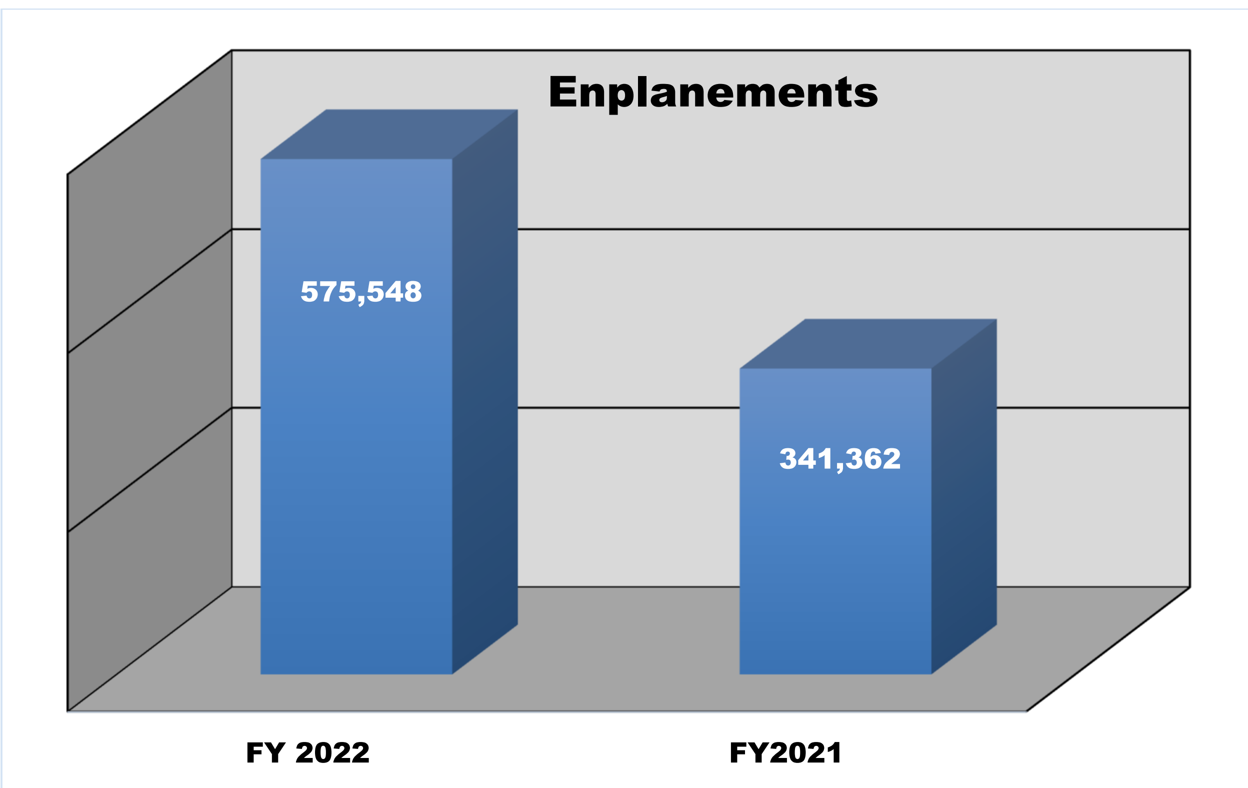
Despite another challenging year due to the pandemic and staffing shortages, the Airport continued to serve the region with quality air service, and it remains well-positioned to serve its stakeholders now and in the future.

Operations Statistical Data

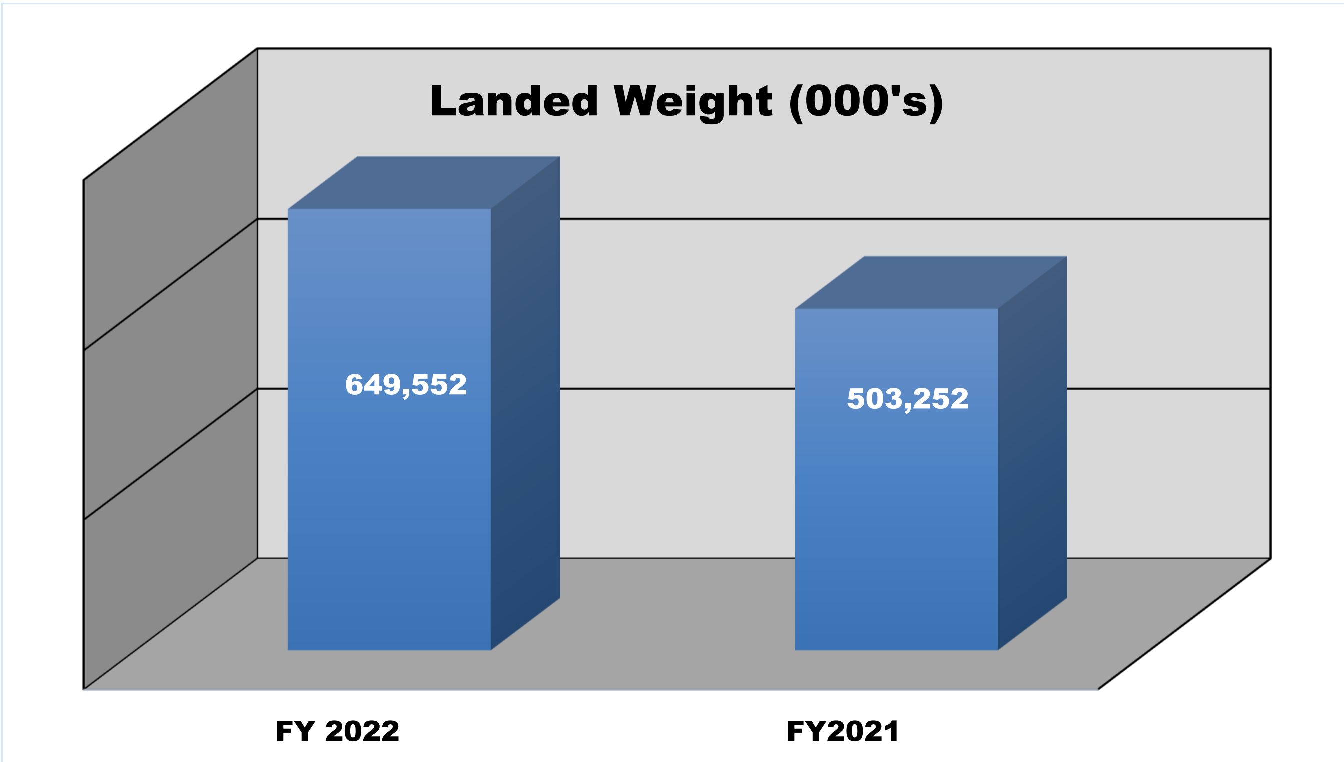
	FY 2022	FY 2021
Enplanements	575,548	341,362
Increase (decrease)	234,186	(202,654)
% Increase (decrease)	68.60%	(37.25%)
Landed weight (1,000 pounds)	649,552	503,252
Increase (decrease)	146,300	(194,890)
% Increase (decrease)	29.07%	(27.92%)
Aircraft operations - commercial	18,221	15,587
Increase (decrease)	2,634	(10,621)
% Increase (decrease)	16.90%	(40.53%)
Aircraft operations - general aviation	55,432	45,526
Increase	9,906	4,940
% Increase	21.76%	12.17%
Aircraft operations - military	1,784	1,898
(Decrease) increase	(114)	397
% (Decrease) increase	(6.01%)	26.45%

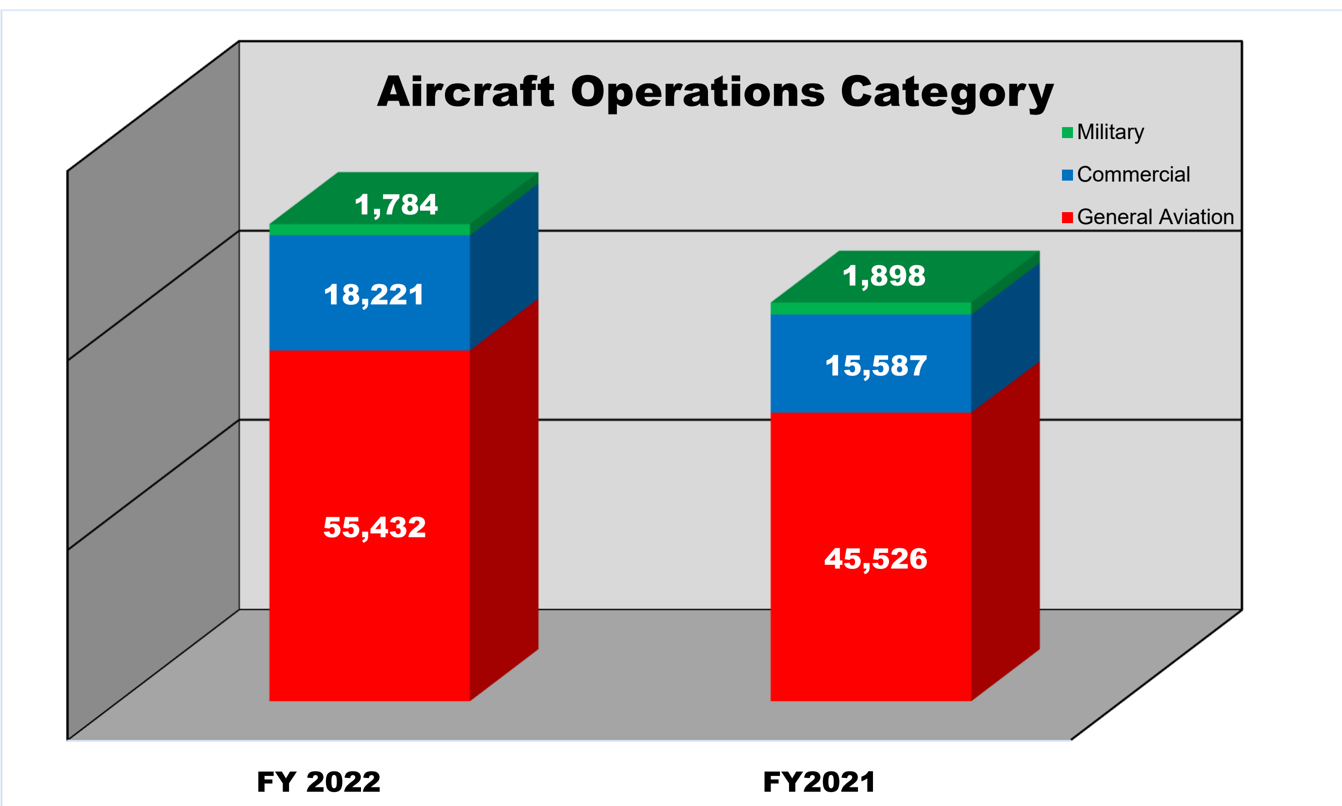
Enplanements represent the total number of passengers that boarded aircraft. Landed weight is the cumulative maximum gross weight, as defined by the aircraft manufacturer, of aircraft that have landed at the Airport. Aircraft operations are the cumulative number of takeoffs and landings.

STATISTICAL GRAPHS



STATISTICAL GRAPHS (Continued)





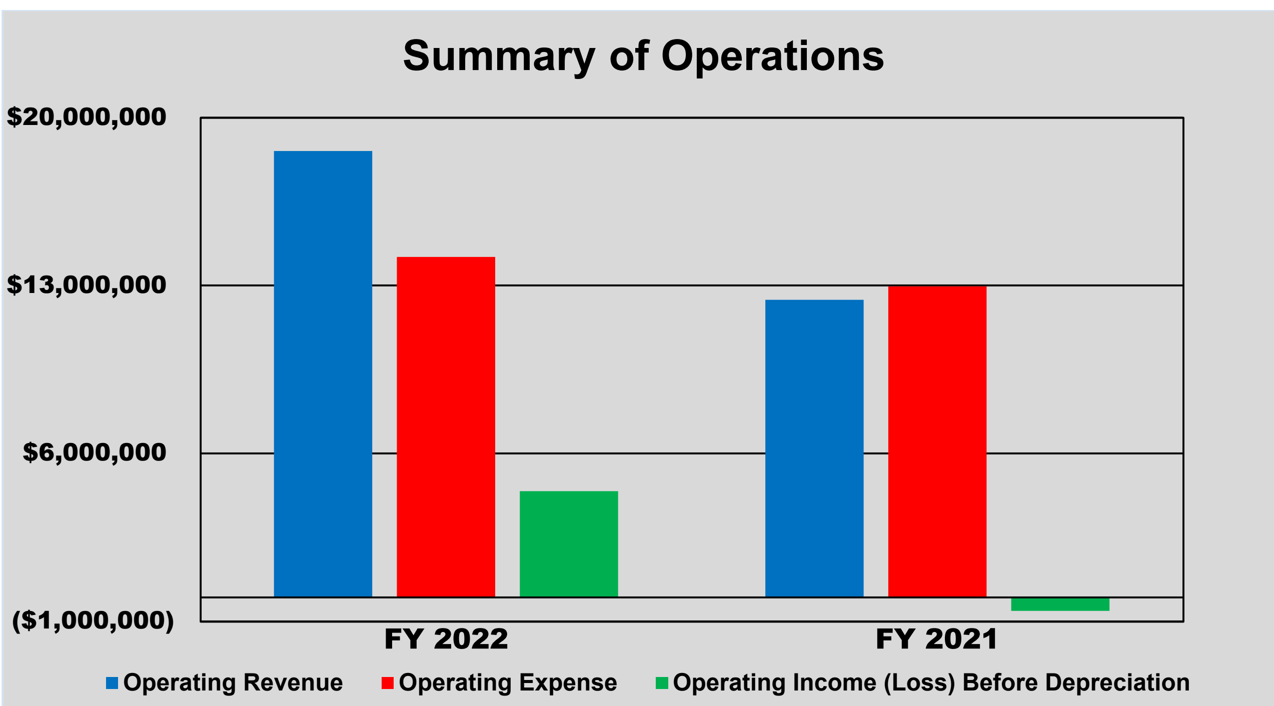
FINANCIAL STATEMENTS

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 2022	FY 2021
Operating revenue	$ 18,573,376	$ 12,399,864
Operating expenses	(14,186,919)	(12,971,081)
Operating income/(loss) before depreciation expense	4,386,457	(571,217)
Depreciation expense	(12,251,905)	(10,739,739)
Loss from operations	(7,865,448)	(11,310,956)
Net non-operating revenue	7,831,705	10,197,993
Loss before capital grants	(33,743)	(1,112,963)
Capital grants	18,365,276	11,497,728
Increase in net position	$ 18,331,533	$ 10,384,765



FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

REVENUE

A summary of the revenue for FY 2022 and FY 2021 is as follows:

	2022 Amount	2021 Amount	% Change 2022/2021
Operating:			
Airline operations	$ 6,747,592	$ 4,636,749	45.52%
Parking	5,716,089	3,067,659	86.33%
Ground Transportation	3,102,339	2,017,233	53.79%
Concessions	447,166	387,876	15.29%
General aviation	1,632,261	1,529,737	6.70%
Advertising	450,644	434,013	3.83%
Other	477,285	326,597	46.14%
Total operating	18,573,376	12,399,864	49.79%
Non-operating			
Passenger facility charges	2,333,950	1,491,103	56.53%
Contract facility charges	1,096,650	648,203	69.18%
COVID FAA relief grant	7,553,813	9,995,526	(24.43%)
Concessionaire capital investment	-	258,220	NA
Interest from leases	986,577	-	NA
Investment income, net of fees	545,408	648,792	(15.93%)
Net decrease in fair value of investments	(2,412,164)	(213,245)	(1,031.17%)
Total non-operating	10,104,234	12,828,599	(21.73%)
Capital grants	18,365,276	11,497,728	59.73%
Total revenue	$ 47,042,886	$ 36,726,191	28.09%

EXPENSE

A summary of the expense for FY 2022 and FY 2021 is as follows:

	2022 Amount	2021 Amount	% Change 2022/2021
Operating:			
Administration	$ 5,471,230	$ 4,964,478	10.21%
General maintenance	3,308,291	3,187,514	3.79%
Safety, rescue and security	2,493,648	2,246,849	10.98%
Engineering	894,333	748,860	19.43%
Building maintenance	894,659	766,363	16.74%
Airport operations	1,124,758	1,057,017	6.41%
Total operating	14,186,919	12,971,081	9.37%

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

	2022 Amount	2021 Amount	% Change 2022/2021
Non-operating			
Interest expense and fees	2,272,529	2,325,363	(2.28%)
Loss on disposal of capital assets	-	305,243	(100.00%)
Total non-operating	2,272,529	2,630,606	(13.61%)
Depreciation	12,251,905	10,739,739	14.08%
Total expense	$ 28,711,353	$ 26,341,426	9.0%

FY 2022 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from $12.4 million in FY 2021 to $18.6 million in FY 2022, an increase of 50%. The increase in revenue is mostly due to the increase in passenger enplanements, which drives most of the operations revenue. This increase can be attributed to the recovery of the air transportation industry from COVID. Compared to prior year, enplanements increased by 69%, landed weight increased by 29% and commercial operations increased by 17%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by $2,111,000 or 46%. The increase in revenue can be primarily attributed to a recovery of the air transportation industry as discussed above.
- The 69% increase in enplanements resulted in an increase in revenue in the following: Parking revenue increased by $2,648,000, or 86%. Ground transportation revenue increased by $1,085,000, or 54%; and concessions revenue increased by $59,000, or 15%.

Operating expense increased from $13.0 million in FY 2021 to $14.2 million in FY 2022, an increase of 9%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by $507,000, or 10%. The majority of this increase was due to increased expense in FY22 in marketing, advertising, salaries and benefits, utilities, and consulting expenses.
- General maintenance expenses increased by $120,000, or 4%. This was due to increased expenses for maintenance of the terminal building.
- Safety, rescue and security expenses increased by $247,000, or 11%. This was due to an increase in supplies, equipment, US Customs, and salaries and benefits.
- Engineering expenses increased by $145,000, or 19%. This was due to an increase in professional services.
- Building maintenance expenses increased by $128,000, or 17%. This was due to an increase in cleaning supplies and salaries and benefits.
- Airport operations expenses increased by $67,000, or 6%. This was due to an increase in salaries and benefits.

FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)

Net non-operating revenue decreased from $10.2 million in FY 2021 to $7.8 million in FY 2022, a decrease of 24%. The following describes the fluctuations of certain types of non-operating revenue:

- Due to the increase in enplanements, customer facility charges provided by car rentals increased $448,000, or 69%; and airline passenger charges increased by 843,000 or 57%.
- COVID FAA relief grants decreased by $2,441,000 or 24% in FY 2022.
- The Airport adopted GASB Statement No. 87 Leases during FY 2022. This resulted in the Airport recording interest from operating leases in the amount of $987,000 during FY 2022. The Airport did not restate the FY 2021 financial statements. Additional information for leases can be found in Notes 1 and 3 to the financial statements.

FINANCIAL POSITION HIGHLIGHTS

The following represents the Airport's financial position at June 30, 2022 and 2021. The Airport's assets exceeded liabilities by $173.3 million at June 30, 2022, a $18.3 million increase from June 30, 2021.

	FY 2022	FY 2021
Assets		
Current assets-unrestricted	$ 30,428,046	$ 24,409,478
Restricted assets	28,940,150	27,892,931
Long term assets-unrestricted	23,191,878	-
Capital assets	201,053,360	190,561,889
Deferred outflows of resources	845,127	1,014,150
Total assets and deferred outflows	$ 284,458,561	$ 243,878,448
Liabilities		
Current liabilities-payable from unrestricted assets	$2,544,293	$ 4,494,760
Current liabilities-payable from restricted assets	9,037,396	9,124,625
Noncurrent liabilities	70,337,790	75,128,223
Deferred inflows of resources	29,245,699	168,990
Total liabilities and deferred inflows	$ 111,165,178	$ 88,916,598
Net Position		
Net investment in capital assets	$ 124,272,771	$ 109,552,102
Restricted	27,352,809	25,834,408
Unrestricted	21,667,803	19,575,340
Total net position	$ 173,293,383	$ 154,961,850

LEASE RECEIVABLE

During FY 2022, the Airport, as lessor, implemented GASB Statement No. 87, Leases. The Airport recorded lease receivables totaling $29,540,000 and deferred inflow on leases totaling $29,093,000. Balances shown for FY 2021 in the MD&A have not been restated. Additional information on the Airport's leases can be found in Notes 1 and 3 to the financial statements.

CAPITAL ASSETS

Major capital projects in progress and expenditures incurred during FY 2022 included the following:

	FY 2022	Cumulative
Taxiway Safety Enhancement Program - Phase V	$ 249,000	$ 11,701,000
Runway Rehabilitation and Engineered Material Arresting System	18,368,000	25,585,000
Hangar 45 Roof and Doors Replacement	1,420,000	1,420,000

The Taxiway Safety Enhancement Program (TSEP) was a $63 million multi-year initiative funded approximately 90% by grants from the FAA 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. Phase III 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, the construction of a new Public Safety building was completed at the beginning of FY 2021. Phase V, which consisted of the demolition of the Public Safety building and Taxiway Construction, began in FY 2019 and was completed in FY 2022.

The Runway Rehabilitation and Engineered Material Arresting System (EMAS) project was for pavement rehabilitation and installation of the EMAS safety blocks for the Airport's main runway (Runway 4-22). The pavement rehabilitation of Runway 4-22 was completed in three days in August 2021, in which the runway was closed to all aircraft operations. Pavement rehabilitation is a vital process and is completed approximately every 12 to 15 years in partnership with the Federal Aviation Administration. In June 2022, the Airport completed the final part of the project installing the EMAS safety blocks at the south end of Runway 4-22. The EMAS safety blocks are a safety device used at the end of the runway to reduce the risk of any overrun off the end of the runway. This project was approximately $26 million and mostly funded by Federal Aviation Administration (FAA) grants. The Airport's matching contribution ranged from 0% to 10% for this project.

Hangar 45 Roof and Doors were replaced due to the significant annual maintenance costs. This replacement will extend the useful life of this hangar, which is one of the largest general aviation hangars on the Airport.

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 4 to the financial statements.

BONDS PAYABLE

Total bonds payable at June 30, 2022 were $74,145,000. Fixed rate bonds make up approximately 93% of the Airport's debt structure with $68,745,000 in fixed rate bonds at June 30, 2022. Variable rate debt was $5,400,000 at June 30, 2022. 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, 2022 was 1.569%.

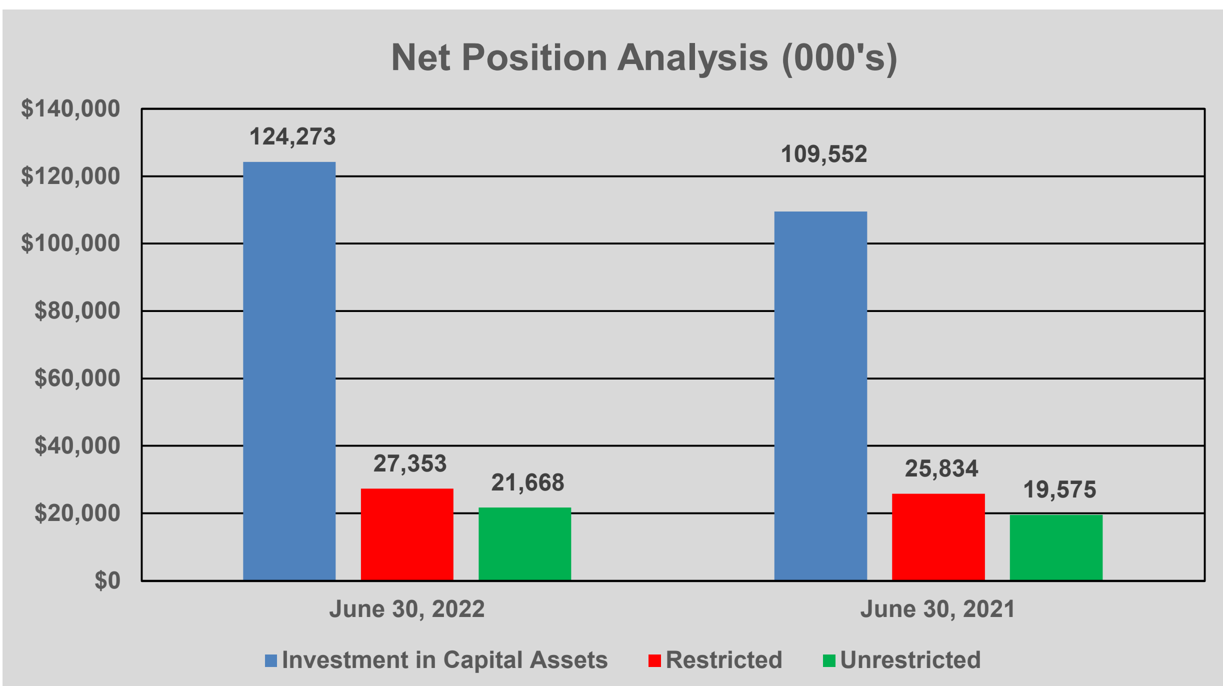
Additional information regarding bonds payable is provided in Note 6 to the financial statements.

NET POSITION

The largest portion of the Airport's net position each year (71.7% at June 30, 2022 and 70.7% at June 30, 2021) 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 (15.8% at June 30, 2022, and 16.7% at June 30, 2021) 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 (12.5% of the Airport's net position at June 30, 2022, and 12.6% at June 30, 2021) consist of resources that do not meet the definition of "restricted" or "net investment in capital assets".



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.

	FY 2022	FY 2021
Net cash provided (used) by operating activities	$ 4,259,190	$ (1,183,312)
Net cash provided by noncapital financing activities	7,553,813	9,995,526
Net cash used by capital and related financing activities	(12,864,833)	(4,910,116)
Net cash (used) provided by investing activities	(5,247,128)	2,816,626
Net (decrease) increase in cash and cash equivalents	(6,298,958)	6,718,724
Cash and cash equivalents, beginning of year	20,701,997	13,983,273
Cash and cash equivalents, end of year	$ 14,403,039	$ 20,701,997

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 Vice President 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

STATEMENT OF NET POSITION

June 30, 2022

Assets	
Current assets – unrestricted	
Cash and cash equivalents	$ 6,383,229
Investments	14,626,474
Accounts receivable	2,221,835
Lease receivable	6,348,501
Accrued interest receivable	106,109
Other assets	741,898
Total current assets	30,428,046
Restricted assets	
Cash and cash equivalents	8,019,810
Investments	13,464,908
Accounts receivable	556,505
Accrued interest receivable	75,872
Grants receivable	6,823,055
Total restricted assets	28,940,150
Noncurrent assets – unrestricted	
Lease receivable	23,191,878
Capital Assets	
Capital assets not being depreciated	22,702,223
Capital assets being depreciated	360,716,661
Accumulated depreciation	(182,365,524)
Total net capital assets	201,053,360
Deferred outflows of resources	
Deferred amount on refunding	845,127
Total assets and deferred outflows	$ 284,458,561

See accompanying notes to financial statements.

Liabilities	
Current liabilities (payable from unrestricted assets)	
Accounts payable	$ 644,226
Accounts payable - construction	985,091
Accrued payroll and benefits	382,581
Unearned revenue	532,395
Total current liabilities (payable from unrestricted assets)	2,544,293
Current liabilities (payable from restricted assets)	
Current portion of bonds payable	4,690,000
Accounts payable	16,233
Accounts payable – construction	3,262,523
Accrued interest payable	1,068,640
Total current liabilities (payable from restricted assets)	9,037,396
Total current liabilities	11,581,689
Noncurrent liabilities	
Accrued post-employment benefits	314,219
Bonds payable	70,023,571
Total noncurrent liabilities	70,337,790
Deferred inflows of resources	
Deferred amount on refunding	152,089
Deferred inflow on leases	29,093,610
Total deferred inflows of resources	29,245,699
Total liabilities and deferred inflows	111,165,178
Net position	
Net investment in capital assets	124,272,771
Restricted for debt service	20,529,754
Restricted for capital service	6,823,055
Unrestricted	21,667,803
Total **net position**	173,293,383
Total liabilities, deferred inflows and net position	$ 284,458,561

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended June 30, 2022

Operating revenue:	
Airline operations	$ 6,747,592
Parking	5,716,089
Ground transportation	3,102,339
Concession	447,166
General aviation	1,632,261
Advertising	450,644
Other	477,285
Total operating revenue	18,573,376
Operating expense:	
Administration	5,471,230
General maintenance	3,308,291
Safety, rescue and security	2,493,648
Engineering	894,333
Building maintenance	894,659
Airport operations	1,124,758
Total operating expense	14,186,919
Operating income before depreciation expense	4,386,457
Depreciation expense	12,251,905
Loss from operations	(7,865,448)
Non-operating revenue (expense)	
Passenger facility charges	2,333,950
Contract facility charges	1,096,650
Interest on leases	986,577
Investment income, net of fees	545,408
Net loss in fair value of investments	(2,412,164)
COVID FAA relief grants	7,553,813
Interest expense and fees	(2,272,529)
Net non-operating revenue	7,831,705
Capital grants	18,365,276
Increase in net position	18,331,533
Net position, beginning of year	154,961,850
Net position, end of year	$ 173,293,383

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS
Year ended June 30, 2022

Cash flows from operating activities	
Receipts from customers	$ 17,813,099
Payments to suppliers	(6,192,634)
Payments to employees	(7,846,555)
Other receipts	485,280
Net cash provided by operating activities	4,259,190
Cash flows from noncapital financing activities	
COVID FAA relief grants	7,553,813
Cash flows from capital and related financing activities	
Proceeds from capital grants	16,039,598
Passenger facility charges	2,314,188
Contract facility charges	1,077,641
Line of credit payment	(3,000,000)
Principal paid on bonds	(4,615,000)
Interest and fees paid on bonds and line of credit	(2,242,053)
Acquisition and construction of capital assets	(22,439,207)
Net cash used by capital and related financing activities	(12,864,833)
Cash flows from investing activities	
Interest received on investments	1,227,653
Purchase of investments	(18,469,740)
Proceeds from sales and maturities of investments	11,994,959
Net cash used by investing activities	(5,247,128)
Net decrease in cash and cash equivalents	(6,298,958)
Cash and cash equivalents, beginning of year	20,701,997
Cash and cash equivalents, end of year	$ 14,403,039
Reconciliation of loss from operations to net cash provided by operating activities	
Loss from operations	$ (7,865,448)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	12,251,905
Bad debt expense	(3,299)
Increase (decrease) due to changes in:	
Accounts receivable	(300,152)
Other assets	(90,499)
Accounts payable	200,573
Unearned revenue	28,454
Accrued payroll and benefits	37,656
Net cash provided by operating activities	$ 4,259,190
Supplemental schedule of noncash transactions	
Change in construction in progress included in accounts payable	$ (304,486)

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) 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 President & CEO 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.

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 loss on investments was $2,155,920 on June 30, 2022.

Lease Receivable and Deferred Inflow of Leases: During FY2022, the Airport, as a lessor, changed its method of accounting for leases to comply with GASB Statement No. 87, Leases. Previously the Airport treated all leases as operating leases. The Airport now recognizes a lease receivable and a deferred inflow on leases at commencement of the lease term, with certain exceptions for regulated leases and short-term leases. The lease receivable is measured at the present value of the lease payments expected to be received during the lease period. The deferred inflow on leases is measured as the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. Revenue from the included leases is recognized by amortizing the deferred inflow on a straight-line basis. The Airport recorded a lease receivable and deferred inflow on leases of equal amount upon implementation of the standard utilizing the facts and circumstances that existed at that date. Therefore, the Airport's financial position as of June 30, 2021 was not impacted by the implementation of the standard. See Note 3 to the financial statements for additional information.

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

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

Deferred Outflows of Resources on Refunding: 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 on Refunding: 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.

Line of Credit: Line of credit is a revolving credit line that is recorded at the principal amount outstanding. Interest costs are expensed as incurred.

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

Operating and Non-operating Revenues and Expenses: Revenues from landing fees, terminal space rental, auto parking, car rental, and concession fees are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic Airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. PFC's and Contract Facilities Charges (CFC's) are collected and remitted by the airlines and car rental agencies, respectively, and are recognized as revenue as they are earned, and are included in non-operating revenues. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Airport's major expenses include 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. Liabilities for such benefits are accrued at current rates of compensation.

Full-time employees 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 President & CEO.   Employees can carry forward up to a maximum of 560 hours of Family Medical Leave Time for use in subsequent years. 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. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*, effective for years beginning after June 15, 2022, establishes standards of accounting and financial reporting for PPPs and APAs for governments. The Airport has not determined the effect that the adoption of this statement may have on its financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* effective for years after June 15, 2022, establishes standards of accounting and financial reporting for SBITAs for governments. The Airport has not determined the effect that the adoption of this statement my 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 on deposit with financial institutions:

	FY 2022
Unrestricted	$ 6,418,452
Restricted	1,190,057
Total cash	$ 7,608,509

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, 2022 $0 of the Airport's cash balances were exposed to custodial credit risk because cash balances of $878,777 were insured by the FDIC and cash balances of $6,729,732 were collateralized by securities held in the Airport's name.

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, 2022 were as follows:

		Percentage of Total	Duration	Standard & Poors Rating	Moody's
Unrestricted cash equivalents					
Government Cash Reserves	$ 258,495	0.7%	N/A	N/A	N/A
Unrestricted investments					
Mortgage-Backed Securities	6,305,449	18.0%	9/25/22-12/16/63	NR/AA+	NR/Aaa
Corporate Bonds	3,734,889	10.6%	11/15/23-12/20/70	A/A-/A+/AA/AA-BB+/BBB/BBB-BBB+	A1/A2/A3Aa2/Aa3Ba1/Baa2/NR
US Treasury Notes	2,653,963	7.5%	12/31/23-5/15/28	AA+	Aaa
US Agency Bonds	173,296	0.5%	6/1/27	AA+	Aaa
Exchange Traded Funds	1,758,877	5.0%	NA	NR	NR
Total unrestricted investments	14,626,474	41.6%			
Restricted cash equivalents					
Government Cash Reserves	6,829,753	19.4%	N/A	N/A	N/A
Restricted investments					
Mortgage-Backed Securities	8,504,883	24.3%	7/25/22-12/16/63	AAA/AA+/NR	Aaa/NR
Corporate Bonds	1,839,063	5.2%	8/21/21-9/29/21	A/A-A+/AA/AA-BB+/BBB-BBB+	NR/A1/A2/A3/Aa2/A Baa1/Baa2/Baa3
US Treasury Notes	2,268,030	6.4%	1/31/24-5/15/28	AA+	Aaa
US Agency Bonds	49,513	0.1%	6/1/27	AA+	Aaa
Exchange Traded Funds	803,419	2.3%	NA	NR	NR
Total restricted investments	13,464,908	38.3%			
Total cash equivalents and investments	$ 35,179,630	100.0%			

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

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, 2022, had an average duration of 2.99 years.

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 Generally Accepted Accounting Principles (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, 2022:

	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities				
US Treasury Notes	$ 4,921,993	$ 4,921,993	$ -	$ -
US Agency Bonds	222,809	-	222,809	-
Corporate Bonds	5,573,952	-	5,573,952	-
Exchange Traded Funds	2,562,296	-	2,562,296	-
Mortgage-Backed Securities	14,810,332	-	14,810,332	-
Total investments by fair value level	$ 28,091,382	$ 4,921,993	$ 23,169,389	$ -

NOTE 3 – LESSOR AIRPORT TENANT AGREEMENTS

For the purposes of GASB Statement No. 87 implementation, Airport leases have been categorized as follows:

1. GASB Statement No. 87 Leases – Included
2. GASB Statement No. 87 Leases – Excluded Leases – Regulated
3. GASB Statement No. 87 Leases – Excluded - Others

GASB Statement No. 87 Leases – Included: The Airport recognizes a lease receivable and a deferred inflow of leases the Airport categorizes as GASB Statement No. 87 Leases – Included. The lease receivable activity for FY 2022 is as follows:

	Beginning Balance	Receivable Reduction	Ending Balance	Implied Interest	Annual Lease Payments*
Total of GASB No. 87 Leases - Included	$35,688,598	$6,148,220	$29,540,378	$986,577	$7,134,797

*Annual Lease Payment = Receivable Reduction + Implied Interest
The lease receivable was discounted to the net present value by using a 3% implied interest rate.

The deferred inflow on lease activity for FY 2022 is as follows:

	Beginning Balance	Deferred Revenue Recognized	Ending Balance
Deferred Inflows on Leases	$35,688,598	$6,594,988	$29,093,610

There are five (5) areas of revenue operations that are included in the GASB Statement No. 87 Leases – Included receivable calculation as follows:

Automobile Rental Business: The Airport is currently in a five (5) year concession, lease, and operating agreement with three different rental car companies: Avis Budget Car Rental, LLC (dba Avis and Budget), EAN Holdings (dba Enterprise Rent-A-Car, National Car Rental, and Alamo Rent a Car), and The Hertz Corporation (dba Hertz and Dollar Rent a Car). The leases all commenced on July 1, 2020 and will end on June 30, 2025.

The terms of these agreements include four (4) revenue components:

1. Rent for use of the Airport's Rental Car Service Counter.
2. Rent for use of the Airport's Ready/Return Parking Lot.
3. Ground lease rent of the Airport's Rental Car Maintenance Facility.
4. Concessionaire fee based on concession sales. The fee is either a percent of concession sales or the contracted Minimum Annual Guarantee payment, whichever is greater. The lease receivable calculation is based on the Minimum Annual Guarantee.

The agreements may be extended for one (1) five (5) year period but must be mutually agreed upon and therefore, the extension is not included in the calculation of the lease receivable.

Ground Lease Parking: The Airport is currently in a twenty (20) year ground lease agreement with EAN Holdings, LLC for use of Airport property located on Air Freight Dr. The lease commenced on July 1, 2019 and ends on June 30, 2039 with no extension options.

NOTE 3 – LESSOR AIRPORT TENANT AGREEMENTS (Continued)

Parking Concessionaire: The Airport is currently in a concessionaire agreement with Republic Parking for concessions of public parking and luggage cart rental. The lease commenced on February 1, 2016 and ends on June 30, 2027 with an option for a five (5) year extension upon mutual agreement by both parties. The five (5) year option is not included in the lease receivable calculation. The terms of this agreement include a minimum annual guarantee payment of $4,000,000 or a percent of concessions sales, whichever is greater.

Food and Beverage Concessionaire: The Airport is currently in a food and beverage concessionaire agreement with DN LEX, LLC (a subsidiary of Delaware North). The amended lease commenced on July 1, 2020 and ends on June 30, 2032 and there are no options for future years. The terms of this agreement includes a minimum annual guarantee payment of $300,000 or a percent of concessions sales, whichever is greater.

Terminal Space: The Airport currently has a property lease agreement with General Services Administration/Transportation Security Administration for the use of 3,478 square feet located in the Airport's terminal. The original lease expired January 15, 2019 but an option was executed which began on January 16, 2019 and will end on January 15, 2024, with no extension options.

Future minimum lease payments of all GASB Statement No. 87 Leases – Included are as follows:

Years	Net Present Value	Discount (3%)	Total
FY 2023	$ 6,348,501	$ 799,391	$ 7,147,892
FY 2024	6,488,109	606,501	7,094,610
FY 2025	6,607,654	410,749	7,018,403
FY 2026	4,088,513	246,971	4,335,484
FY 2027	4,212,870	122,614	4,335,484
FY 2028 – FY 2032	1,528,596	159,599	1,688,195
FY 2033 – FY 2037	179,278	27,250	206,528
FY 2038 – FY 2039	86,857	2,740	89,597
Total	$ 29,540,378	$ 2,375,815	$ 31,916,193

GASB Statement No. 87 Leases – Excluded Leases – Regulated: In accordance with GASB Statement No. 87, the Airport does not recognize a lease receivable and a deferred inflow of resources for regulated leases. Regulated leases are certain leases that are subject to the laws, regulations, or legal rulings. Regulated aviation leases between Airports and aeronautical users are regulated by the U.S. Department of Transportation and the Federal Aviation Administration. Regulated leases include the following:

Airline Use and Lease Agreement Signatory Airlines: The Airport has month-to-month Operating Permits with four (4) airlines that details the rights, services, and privileges each airline has with use of the airport and its facilities.

General Aviation and Property Agreements: The Airport has leases, all with various dates for hangars, ground rental and building rentals located on Airport property. Most of the hangar agreements with tenants are on a month-to-month basis. The other leasing agreements are multi-year agreements with scheduled rent increases included

Future minimum lease payments are as follows:

FY 2023	$ 100,031
FY 2024	28,803
FY 2025	23,212
FY 2026	18,944
Total future minimum rental revenue	$ 170,990

NOTE 3 – LESSOR AIRPORT TENANT AGREEMENTS (Continued)

Fixed-Base Operator: The Airport is currently in a Fixed Base Operator (FBO) Lease and Development Agreement with Signature Flight Support. The original lease with TAC Air commenced on July 1, 2009 and ends on July 1, 2029. This lease was assigned to Signature Flight Support on June 1, 2022. There are no additional options with this agreement. The terms of this agreement include annual lease payments for ground rent and hangars of $576,987 for FY 2022. The rent is adjusted by Consumer Price Index (CPI) every three (3) years. The Airport also receives commission payments from this agreement for the sales of food and beverage, fuel sales, and other miscellaneous sales at the FBO.

Future minimum lease payments are as follows:

FY 2023	$ 576,987
FY 2024	576,987
FY 2025	576,987
FY 2026	576,987
FY 2027	576,987
FY 2028 - FY 2029	1,153,974
Total future minimum rental revenue	$ 4,038,909

GASB Statement No. 87 Leases – Excluded Leases –No Fixed Payments: In accordance with GASB No. 87, the Airport does not recognize a lease receivable and a deferred inflow of resources for leases that do not have fixed rent payments but collect variable payments based on current year activities. The Airport has two leases that are based on yearly activities and have no fixed rent payment associated with the leases.

Bourbon Store – Terminal Space: The Airport currently has a property lease agreement with Wines Vines & Corks LLC for terminal space to operate a Bourbon Store. The original lease for five (5) years expired November 30, 2021, but an additional five (5) year option was executed, which began on December 1, 2021. The terms of the agreement include a concessionaire fee based on the number of enplanements that come through the airport on an annual basis. Since there is no minimum annual guarantee with this lease, the lease is not included in the lease receivable calculation.

Gift Shop – Terminal Space: The Airport currently has a property lease agreement with the Paradies Shops, LLC for terminal space to operate a two (2) gift shops. The original lease expired June 30, 2021 but was extended for an additional three (3) years and ends on June 30, 2024. The terms of the agreement include a concessionaire fee based solely on concession sales and does not include a minimum annual guarantee. Since there is no minimum annual guarantee with this lease, the lease is not included in the lease receivable calculation.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for FY 2022 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets being depreciated:					
Land improvements	$ 90,226,229	$ -	$ 191,910	$ 25,785,703	$ 115,820,022
Structures and other improvements	211,356,269	27,027	27,729	1,650,452	213,006,019
Equipment	31,210,130	669,888	262,696	273,298	31,890,620
Total capital assets being depreciated	332,792,628	696,915	482,335	27,709,453	360,716,661
Capital assets not being depreciated:					
Land	20,213,806	-	-	-	20,213,806
Construction in progress	8,151,411	22,046,459	-	(27,709,453)	2,488,417
Total capital assets not being depreciated	28,365,217	22,046,459	-	(27,709,453)	22,702,223
Less accumulated depreciation:					
Land improvements	38,281,328	4,503,343	191,910	-	42,592,761
Structures and other improvements	123,517,106	5,821,898	27,729	-	129,311,275
Equipment	8,797,522	1,926,662	262,696	-	10,461,488
Total accumulated depreciation	170,595,956	12,251,903	482,335	-	182,365,524
Net capital assets	$ 190,561,889	$ 10,491,471	$ -	$ -	$ 201,053,360

As of June 30, 2022, 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 $4,603,871 on June 30, 2022.

NOTE 5 - LINE OF CREDIT

The Airport has a $15,000,000 revolving line of credit (LOC) that expires on September 26, 2023. There has been one taxable borrowing for $3,000,000 against the LOC through June 30, 2022. This borrowing, which was drawn down in May 2021 and paid in full in May 2022, was used to finance capital projects. The balance owed as of June 30, 2022, is $0. Borrowings under the LOC bear interest at a variable rate and the rate is adjusted monthly on the first day of each month. The taxable variable interest rate is calculated as follows: 30-Day LIBOR + 115 basis points. As of June 30, 2022, the interest rate for the taxable portion is 2.270%. The tax-exempt variable rate is calculated as follows: (30-Day LIBOR x 79%)+(115 basis points x 79%)+35 basis points. As of June 30, 2022, the interest rate for the tax-exempt portion is 2.143%.

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 6 - BONDS PAYABLE

The following is a summary of the changes in the principal amount of bonds payable during FY 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General bonds	$ 73,360,000	$ -	$ 4,615,000	$ 68,745,000	$ 4,690,000
Bonds from direct placements	5,400,000	-	-	5,400,000	-
Total borrowings	$ 78,760,000	$ -	$ 4,615,000	$ 74,145,000	$ 4,690,000

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.

Bonds payable at June 30, 2022 are as follows:

2009 Reissued Series B, Variable Rate General Airport, Direct Place Placement Revenue Refunding Bonds (AMT)	$ 5,400,000
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%	29,310,000
2016D Series D, Fixed Rate General Airport, Revenue Bonds (non AMT) due through July 2036 with coupon rates ranging from 3%-5%	4,690,000
2016E Series E, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from ranging from 3%-4%	3,230,000
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%	31,515,000
Total principal payable	74,145,000
Unamortized bond premiums	568,571
Total bonds payable	74,713,571
Less current portion	4,690,000
Noncurrent portion of bonds payable	$ 70,023,571

NOTE 6 - 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, 2022, the variable interest rate is 1.569%. 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.

Debt Defeasance Outstanding

At June 30, 2022, the total outstanding principal balance of the refunded bonds to be paid from escrow was $18,000,000.

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 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, 2022 for all bonds outstanding are outlined below.

Year Ending	General Bonds		Direct Placement		Total Principal
June 30,	Principal	Interest	Principal	Interest*	& Interest
2023	$ 4,690,000	$ 2,007,019	-	$ 156,600	$ 6,853,619
2024	4,740,000	1,885,947	-	156,600	6,782,547
2025	4,880,000	1,757,843	-	156,600	6,794,443
2026	5,105,000	1,615,820	-	156,600	6,877,420
2027	5,020,000	1,464,803	-	156,600	6,641,403
2028-2032	25,220,000	5,132,123	-	783,000	31,135,123
2033-2037	17,425,000	1,698,372	$ 5,205,000	249,764	24,578,136
2038-2039	1,665,000	52,212	195,000	5,584	1,917,796
Total	$ 68,745,000	$ 15,614,139	$ 5,400,000	$ 1,821,348	$ 91,580,487

* 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 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 2022 the Airport received PFCs totaling $2,333,950. In future years, the Airport is authorized to collect and use PFCs for approved costs of $64 million under the authority granted by the FAA.

NOTE 8 – CONCENTRATIONS OF CUSTOMER REVENUE

During FY 2022 the Airport earned approximately 42% 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 $561,000 for FY 2022. For the year the required employer contributions were reduced by forfeitures of $26,000. Required contributions made by Plan participants for FY 2022 were $315,000. 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 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 $20,500. 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, 2022 using a discount rate of 3.00%. 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.

	BOY Liability	Adjustment	(Payments)	EOY Liability
FY 2022	$ 339,377	$ (21,033)	$ (4,125)	$ 314,219

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 (2.00% percent) or 1 percentage-point higher (3.00% percent) than the current rate:

	1% Decrease (2.00%)	*Current Discount Rate* (3.00%)	*1% Increase* (4.00%)
Post-Employment Benefits Liability	$ 337,851	$ 314,219	$ 292,944

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.