

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

**FINANCIAL STATEMENTS  
Year Ended June 30, 2023**

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

FINANCIAL STATEMENTS  
Year Ended June 30, 2023

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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 (Airport), a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2023, 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, 2023, 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* (GAS), 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***

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 and GAS 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 and GAS, 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.

### ***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 is the responsibility of management and, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Independent Auditor's Report (Continued)

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2023 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 27, 2023

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended June 30, 2023

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The Lexington-Fayette Urban County Airport Board (Airport) owns and operates 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, 2023 (FY 2023). 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 2023, the Airport continued to be served by four airline brands providing service to a total of 633,754 enplaned passengers. With the Airport now in the recovery stages from the peak of the COVID-19 pandemic, enplanements are rebounding. The Airport has not exceeded 2019 pre-pandemic levels yet but has been consistently progressing closer to those levels as the airlines have been adding flights back to the Airport.

During fall 2022, Avelo Airlines entered the Lexington market for several months offering non-stop service to Orlando and Tampa, Florida. These flights were cancelled in winter 2023 when the airline decided to terminate service due to a slower start-up than anticipated. However, additional air service announcements were made during FY 2023 regarding new non-stop flights between Lexington and Las Vegas on Allegiant. Those flights began in June 2023, and two airline announcements were made regarding new non-stop destinations being added in FY 2024. United Airlines announced non-stop daily flights between Lexington and Denver beginning September 29, 2023 and American Airlines announced non-stop weekly, seasonal flights between Lexington and Miami from November 2023 through March 2024.

The Airport is in the process of creating a new Master Plan, a tool to manage the Airport's development and operational sustainability. It is designed to meet future aviation demand and creates a strategic vision to accommodate the needs of the region. The plan covers five, 10 and 20-year horizons and is updated every ten years, all while following Federal Aviation Administration standards and incorporating feedback from the local aviation community and the general public. During this 18-month process, the Airport and its team will gather and analyze data about the existing facility, including physical and operational aspects as well as environmental and financial considerations.

Construction at the Airport continued and included the implementation of an Engineered Material Arresting System (EMAS) at the south end of Runway 4-22, the airport's primary runway. EMAS uses crushable material placed at the end of a runway to help safely stop an aircraft that overruns the runway. Installation of an EMAS bed at the northeast end of the runway is expected to be completed in FY 2024. The Airport was also recently awarded grant funding from the Bipartisan Infrastructure Law (BIL) to be used toward the purchase of additional passenger jet bridges.

In May 2023, in celebration of Mothers' Day, Blue Grass Airport opened a Mothers' Nursing Suite as a new amenity in the Airport terminal. Dedicated exclusively to nursing mothers, this suite provides a comfortable space for breastfeeding mothers while traveling with their families. This new facility eases challenges that mothers often experience when traveling and provides them with a private location.

The Airport continued to serve the region with quality air service in FY 2023, and it remains well-positioned to serve its stakeholders now and in the future.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
 Year ended June 30, 2023

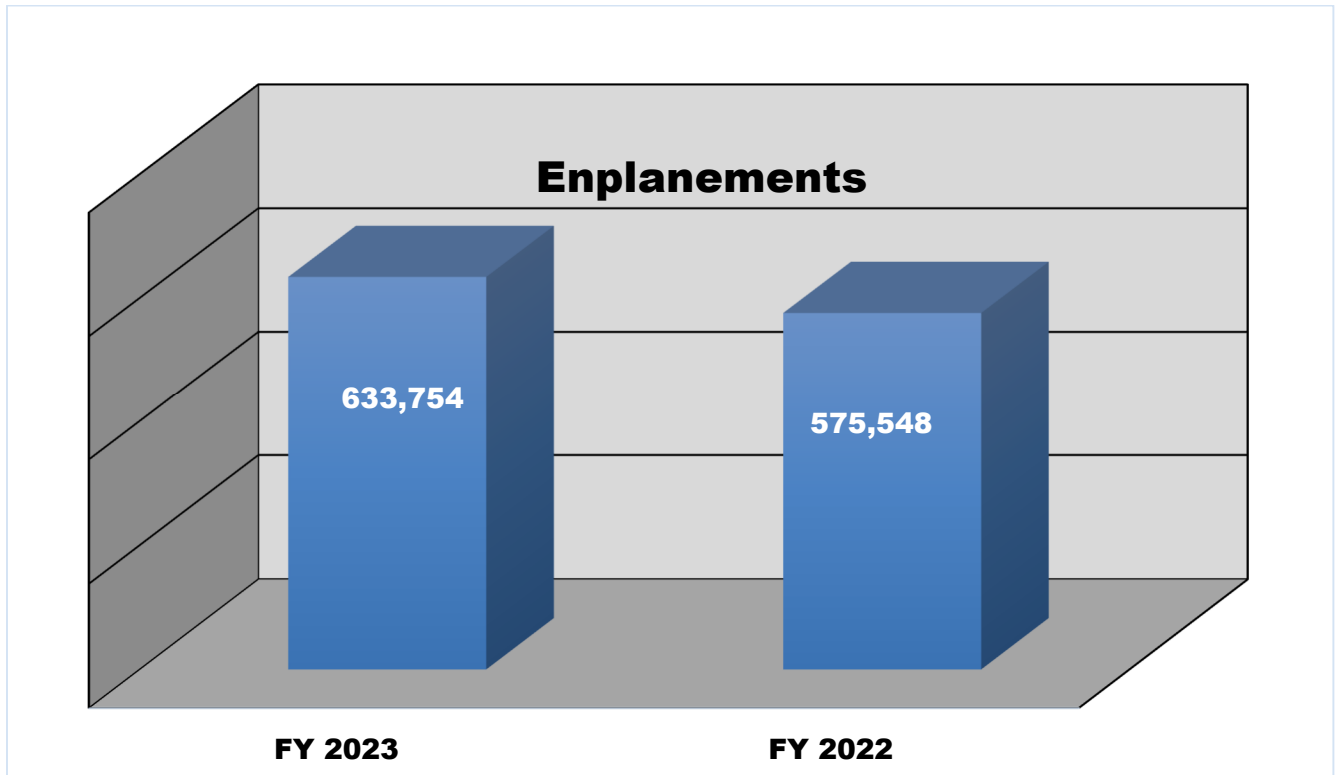
**AIRPORT ACTIVITIES AND HIGHLIGHTS (Continued)**

Operations Statistical Data

	<u>FY 2023</u>	<u>FY 2022</u>
Enplanements	633,754	575,548
Increase	58,206	234,186
% Increase	10.11%	68.60%
Landed weight (1,000 pounds)	727,902	649,552
Increase	78,350	146,300
% Increase	12.06%	29.07%
Aircraft operations - commercial	17,620	18,221
(Decrease) increase	(601)	2,634
% (Decrease) increase	(3.30%)	16.90%
Aircraft operations - general aviation	61,690	55,432
Increase	6,258	9,906
% Increase	11.29%	21.76%
Aircraft operations - military	2,177	1,784
Increase (decrease)	393	(114)
% Increase (decrease)	22.03%	(6.01%)

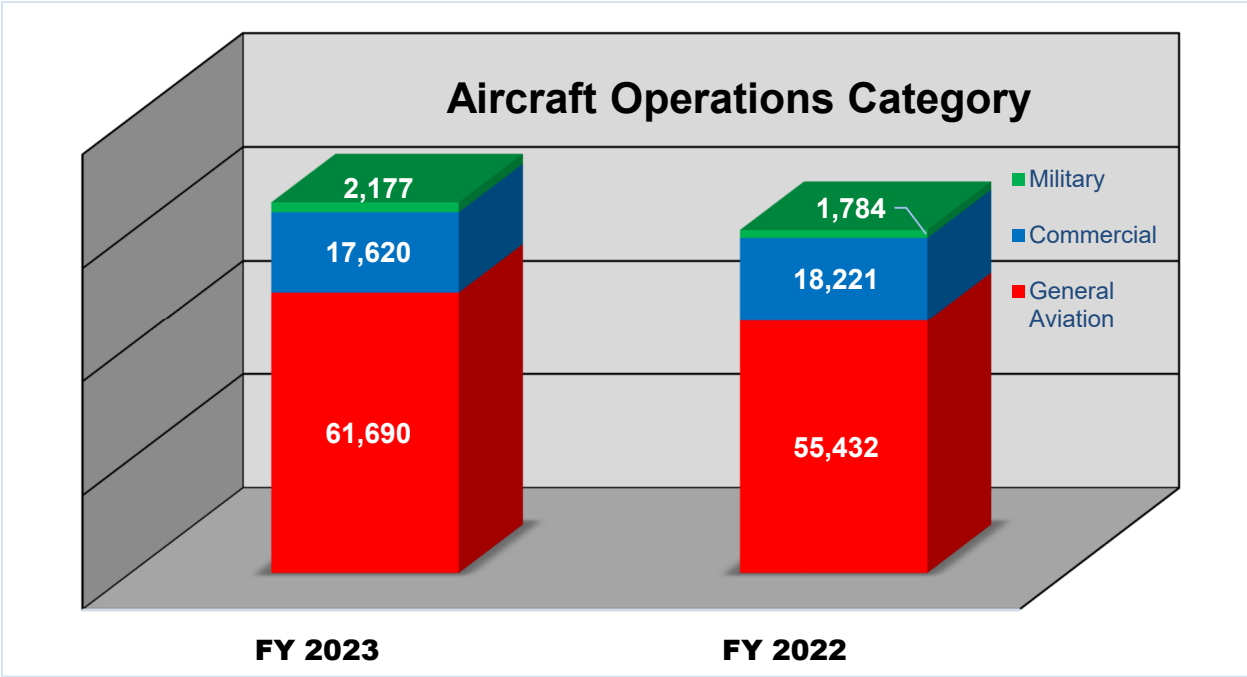
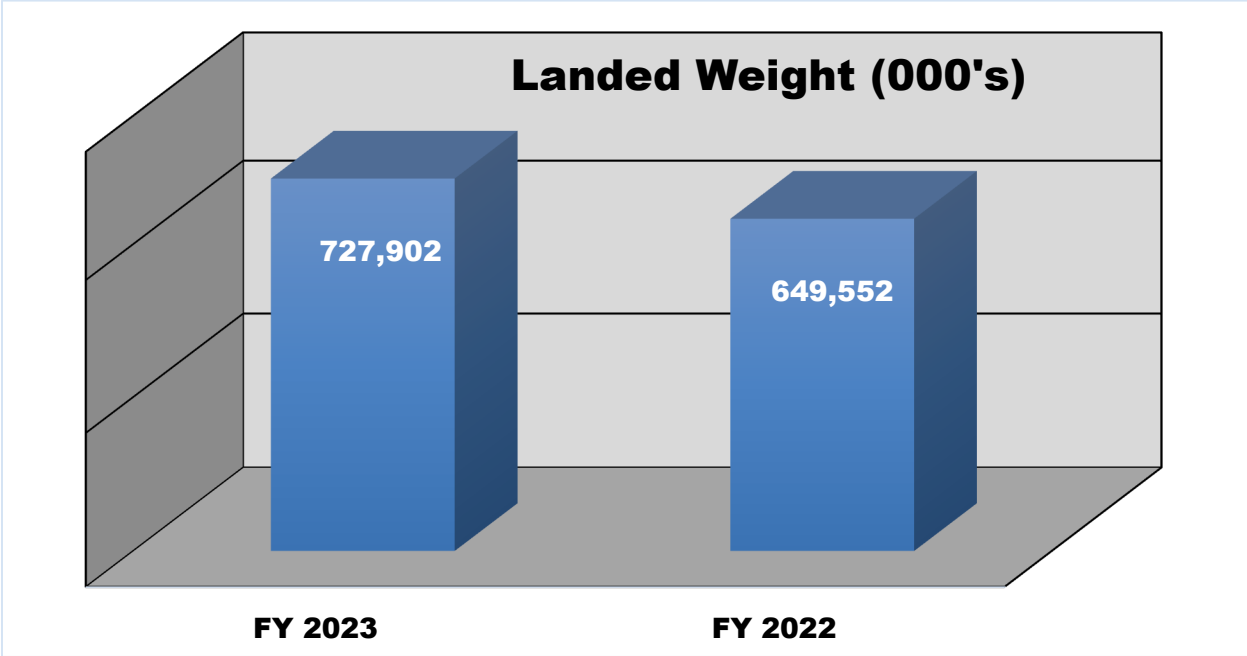
Enplanements represent the total number of passengers that boarded aircraft. Landed weight is the cumulative maximum gross weight, as defined by the aircraft manufacturer, of aircraft that have landed at the Airport. Aircraft operations are the cumulative number of takeoffs and landings.

**STATISTICAL GRAPHS**





STATISTICAL GRAPHS (Continued)



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
 Year ended June 30, 2023

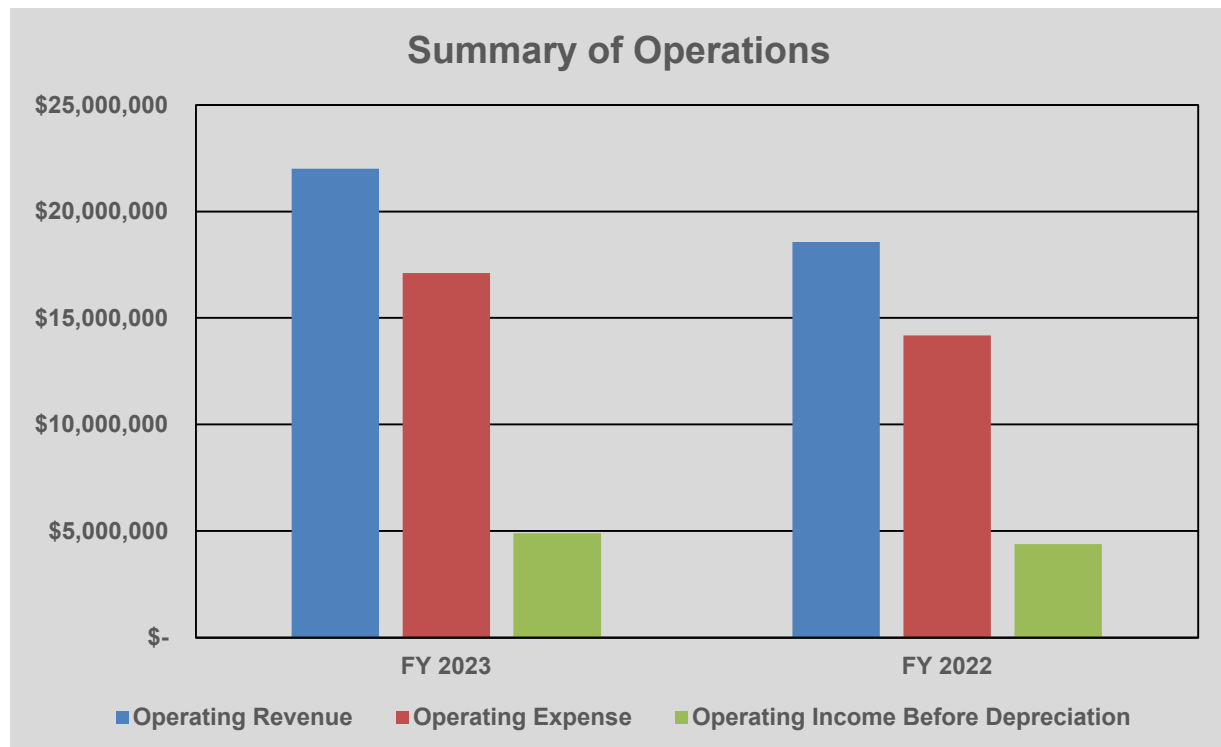
**FINANCIAL STATEMENTS**

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 2023</u>	<u>FY 2022</u>
Operating revenue	\$ 21,999,484	\$ 18,573,376
Operating expenses	<u>(17,107,821)</u>	<u>(14,186,919)</u>
Operating income before depreciation expense	4,891,663	4,386,457
Depreciation expense	<u>(12,880,053)</u>	<u>(12,251,905)</u>
Loss from operations	(7,988,390)	(7,865,448)
Net non-operating revenue	<u>3,856,540</u>	<u>7,831,705</u>
Loss before capital grants	(4,131,850)	(33,743)
Capital grants	<u>6,289,820</u>	<u>18,365,276</u>
Increase in net position	<u>\$ 2,157,970</u>	<u>\$ 18,331,533</u>



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Year ended June 30, 2023

**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

REVENUE

A summary of the revenue for FY 2023 and FY 2022 is as follows:

	<u>2023</u> <u>Amount</u>	<u>2022</u> <u>Amount</u>	<u>% Change</u> <u>2023/2022</u>
<b>Operating</b>			
Airline operations	\$ 7,335,332	\$ 6,747,592	8.71%
Parking	7,096,753	5,716,089	24.15%
Ground transportation	3,795,345	3,102,339	22.34%
Concessions	867,940	447,166	94.10%
General aviation	1,975,351	1,632,261	21.02%
Advertising	507,726	450,644	12.67%
Other	421,037	477,285	(11.78%)
	<u>21,999,484</u>	<u>18,573,376</u>	<u>18.45%</u>
<b>Non-operating</b>			
Passenger facility charges	2,496,522	2,333,950	6.97%
Contract facility charges	1,373,048	1,096,650	25.20%
COVID FAA relief grant	-	7,553,813	NA
Interest from leases	799,386	986,577	(18.97%)
Investment income, net of fees	979,608	545,408	79.61%
Net decrease in fair value of investments	(131,311)	(2,412,164)	94.56%
Insurance net proceeds	650,429	-	NA
	<u>6,167,682</u>	<u>10,104,234</u>	<u>(38.96%)</u>
<b>Capital grants</b>	<u>6,289,820</u>	<u>18,365,276</u>	<u>(65.75%)</u>
<b>Total revenue</b>	<u>\$ 34,456,986</u>	<u>\$ 47,042,886</u>	<u>(26.75%)</u>

EXPENSE

A summary of the expense for FY 2023 and FY 2022 is as follows:

	<u>2023</u> <u>Amount</u>	<u>2022</u> <u>Amount</u>	<u>% Change</u> <u>2023/2022</u>
<b>Operating:</b>			
Administration	\$ 7,165,900	\$ 5,471,230	30.97%
General maintenance	4,265,641	3,308,291	28.94%
Safety, rescue and security	2,621,132	2,493,648	5.11%
Engineering	824,379	894,333	(7.82%)
Building maintenance	970,011	894,659	8.42%
Airport operations	1,260,758	1,124,758	12.09%
	<u>17,107,821</u>	<u>14,186,919</u>	<u>20.59%</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Year ended June 30, 2023

**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

	<u>2023 Amount</u>	<u>2022 Amount</u>	<u>% Change 2023/2022</u>
<b>Non-operating</b>			
Interest expense and fees	2,311,142	2,272,529	1.70%
Total non-operating	2,311,142	2,272,529	1.70%
<b>Depreciation</b>	12,880,053	12,251,905	5.13%
<b>Total expense</b>	<u>\$ 32,299,016</u>	<u>\$ 28,711,353</u>	<u>12.50%</u>

FY 2023 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$18.6 million in FY 2022 to \$22.0 million in FY 2023, an increase of 18%. The increase in revenue is primarily due to the increase in passenger enplanements, which drives most of the operations revenue. Compared to prior year, enplanements increased by 10% and landed weight increased by 12%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$587,000 or 9%. This was driven by a 58,206, or 10% increase in enplanements and a 78,350, or 12% increase in landed weight. Although business travel is still lagging pre-COVID levels, the leisure market has shown strength and is helping drive enplanements to higher levels.
- The 10% increase in enplanements resulted in an increase in revenue in the following: Parking revenue increased by \$1,381,000 or 24%. Ground transportation revenue increased by \$693,000, or 22%;
- Concessions revenue increased by \$421,000, or 94%. The increase in revenue can be attributed to an investment, made by the concessionaire on the Airport's behalf, of \$332,000. The remaining increase is due to the increase in enplanements.

Operating expense increased from \$14.2 million in FY 2022 to \$17.1 million in FY 2023, an increase of 21%. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by \$1,695,000 or 31%. This was due to increased expenses in FY23 for IT expenses, marketing expenses for new air service, and salaries and benefits.
- General maintenance expenses increased by \$957,000, or 29%. This was due to increased expenses for maintenance of the airfield, repair and replacement of HVACs, and salaries and benefits.
- Safety, rescue and security expenses increased by \$127,000, or 5%. This was due to an increase in salaries and benefits.
- Engineering expenses decreased by \$70,000, or 8%. This was due to a decrease in professional services.
- Building maintenance expenses increased by \$75,000, or 8%. This was due to an increase in salaries and benefits.
- Airport operations expenses increased by \$136,000, or 6%. This was due to an increase in salaries and benefits.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Year ended June 30, 2023

**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

Net non-operating revenue decreased from \$7.8 million in FY 2022 to \$3.9 million in FY 2023, a decrease of 47%. The following describes the fluctuations of certain types of non-operating revenue:

- Due to the increase in enplanements, contract facility charges provided by car rentals increased \$276,000, or 25%, and airline passenger facility charges increased by \$163,000 or 7%.
- No additional COVID FAA relief grants were awarded in FY 2023.
- The Airport had net insurance proceeds of \$650,000 from a windstorm in March 2023.
- Operating lease interest decreased \$187,000, or 19% in FY 2023. Additional information for leases can be found in Note 3 to the financial statements.
- Due to the increase in interest rates, investment income increased \$434,000, or 80% in FY 2023.

**FINANCIAL POSITION HIGHLIGHTS**

The following represents the Airport's financial position at June 30, 2023 and 2022. The Airport's assets exceeded liabilities by \$175.5 million at June 30, 2023, a \$2.2 million increase from June 30, 2022.

	<u>FY 2023</u>	<u>FY 2022</u>
<b>Assets</b>		
Current assets-unrestricted	\$ 32,536,701	\$ 30,428,046
Restricted assets	26,297,672	28,940,150
Long term assets-unrestricted	16,703,769	23,191,878
Capital assets	198,095,745	201,053,360
Deferred outflows of resources	<u>676,101</u>	<u>845,127</u>
 Total assets and deferred outflows	 <u>\$ 274,309,988</u>	 <u>\$ 284,458,561</u>
 <b>Liabilities</b>		
Current liabilities-payable from unrestricted assets	\$ 1,838,577	\$ 2,544,293
Current liabilities-payable from restricted assets	8,867,213	9,037,396
Noncurrent liabilities	65,519,213	70,337,790
Deferred inflows of resources	<u>22,633,632</u>	<u>29,245,699</u>
 Total liabilities and deferred inflows	 <u>\$ 98,858,635</u>	 <u>\$ 111,165,178</u>
 <b>Net Position</b>		
Net investment in capital assets	\$ 126,059,009	\$ 124,272,771
Restricted	24,799,809	27,352,809
Unrestricted	<u>24,592,535</u>	<u>21,667,803</u>
 Total net position	 <u>\$ 175,451,353</u>	 <u>\$ 173,293,383</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Year ended June 30, 2023

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**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

LEASE RECEIVABLE

The Airport had lease receivables totaling \$23,192,000 and total deferred inflow on leases totaling \$22,498,000 at June 30, 2023. Additional information on the Airport's leases can be found in Note 3 to the financial statements.

CAPITAL ASSETS

Major capital projects in progress and expenditures incurred during FY 2023 included the following:

	<u>FY 2023</u>	<u>Cumulative</u>
Airport Rescue Firefighting Training Center Modernization	\$ 2,347,000	\$ 2,375,000
Hangar 40 Construction	1,457,000	2,877,000
Masterplan Plan Update	1,415,000	1,722,000
Runway 22 Runway Safety Area Improvements	1,190,000	1,190,000

The Airport Rescue Firefighting Training Center (ARFFTC) is a training facility used to provide airport firefighters the training specific to the needs of the airport community. ARFFTC Modernization is a \$9 million project funded approximately 90% by grants with the FAA with a 10% matching contribution from the Airport. The modernization that the ARFFTC is undergoing is replacing systems and equipment that are over twenty-five years old.

Hangar 40, completed in FY 2023, was constructed to meet the growing demand for general aviation hangars. Hangar 40 is a 3-unit hangar approximately 80' deep and 240' long.

The Airport began undertaking a new Master Plan in FY 2022. The Master Plan is a strategic study which forecasts future aviation activity and creates a vision to accommodate the needs of the region. It will include a comprehensive assessment of core infrastructure needs. In conjunction with the Federal Aviation Administration (FAA), a plan will be developed to provide short-term and long-term improvements. The Master Plan is being funded approximately 90% by grants with the FAA with a 10% matching contribution from the Airport and is scheduled to be completed during FY 2024.

Runway 22 Runway Safety Area Improvements project adds an Engineered Material Arresting System (EMAS) to the northeast end of the runway. EMAS safety blocks are a device used at the end of the runway to reduce the risk of any overrun off the end of the runway. This safety project is being funded approximately 90% by grants with the FAA with a 10% matching contribution from the Airport and is scheduled to be completed during FY 2024.

The Airport has outstanding construction contract commitments totaling \$27,243,583. Over \$24,000,000 will be funded by grants with the FAA with the remaining amount to be paid by 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.

**FINANCIAL OPERATIONS AND HIGHLIGHTS (Continued)**

**BONDS PAYABLE**

Total bonds payable at June 30, 2023 were \$69,455,000. Fixed rate bonds make up approximately 92% of the Airport's debt structure with \$64,055,000 in fixed rate bonds at June 30, 2023. Variable rate debt was \$5,400,000 at June 30, 2023. The index interest rate for the variable rate bonds is based ((1-month SOFR plus 0.1%) multiplied by 80% plus 1%). The variable rate at June 30, 2023 was 5.1322%.

The Airport is planning to issue approximately \$63,115,000 of General Airport Revenue and Revenue Refunding Bonds before the end of calendar year 2023. Approximately \$28,000,000 of the bonds will be used to refund the 2009 Series B Bonds and 2019 Series A Bonds. The remaining bond funds of \$35,115,000 will be used to provide funds for future capital expenditures.

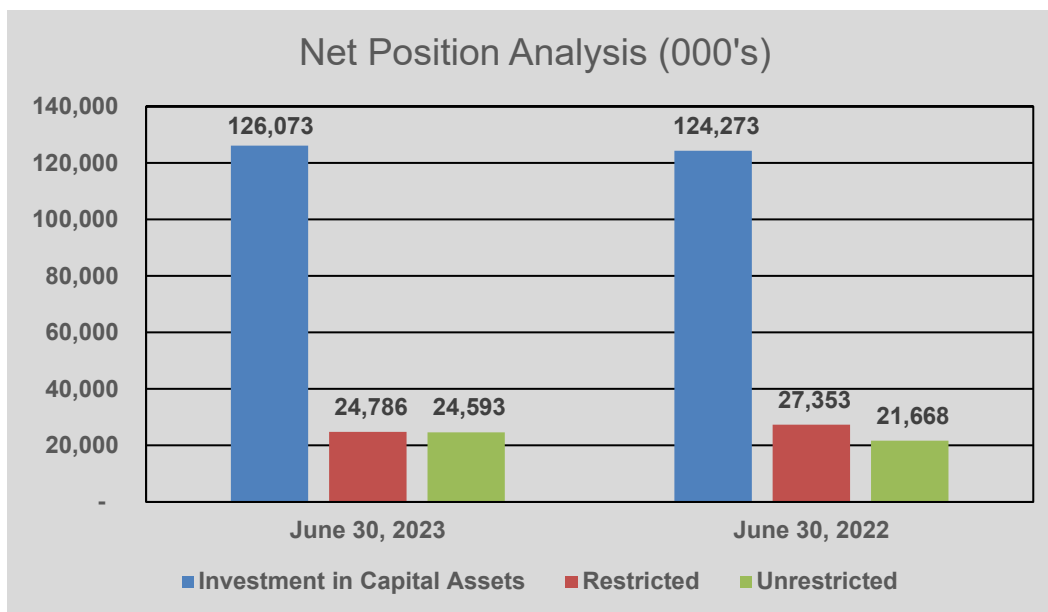
Additional information regarding bonds payable is provided in Note 5 to the financial statements.

**NET POSITION**

The largest portion of the Airport's net position each year (71.9% at June 30, 2023 and 71.7% at June 30, 2022) 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 (14.1% at June 30, 2023, and 15.8% at June 30, 2022) 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 (14.0% of the Airport's net position at June 30, 2023, and 12.5% at June 30, 2022) 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)  
Year ended June 30, 2023

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**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 2023</u>	<u>FY 2022</u>
Net cash provided by operating activities	\$ 4,406,835	\$ 4,259,190
Net cash provided by noncapital financing activities	-	7,553,813
Net cash used by capital and related financing activities	(4,231,861)	(12,864,833)
Net cash used by investing activities	<u>(4,739,210)</u>	<u>(5,247,128)</u>
Net decrease in cash and cash equivalents	(4,564,236)	(6,298,958)
Cash and cash equivalents, beginning of year	<u>14,403,039</u>	<u>20,701,997</u>
Cash and cash equivalents, end of year	<u>\$ 9,838,803</u>	<u>\$ 14,403,039</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 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, 2023

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**Assets**

**Current assets - unrestricted**

Cash and cash equivalents	\$ 2,214,704
Investments	20,356,475
Accounts receivable	2,521,635
Lease receivable	6,487,922
Accrued interest receivable	127,747
Other assets	<u>828,218</u>

Total current assets 32,536,701

**Restricted assets**

Cash and cash equivalents	7,624,099
Investments	13,832,446
Accounts receivable	605,519
Accrued interest receivable	97,467
Grants receivable	<u>4,138,141</u>

Total restricted assets 26,297,672

**Noncurrent assets - unrestricted**

Lease receivable	<u>16,703,769</u>
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**Capital Assets**

Capital assets not being depreciated	27,733,937
Capital assets being depreciated	365,125,639
Accumulated depreciation	<u>(194,763,831)</u>

Total net capital assets 198,095,745

**Deferred outflows of resources**

Deferred amount on refunding	<u>676,101</u>
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**Total assets and deferred outflows** \$ 274,309,988

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
STATEMENT OF NET POSITION (Continued)  
June 30, 2023

**Liabilities**

**Current liabilities (payable from unrestricted assets)**

Accounts payable	\$ 813,784
Accounts payable - construction	358,549
Accrued payroll and benefits	443,636
Unearned revenue	<u>222,608</u>

Total current liabilities (payable from unrestricted assets) 1,838,577

**Current liabilities (payable from restricted assets)**

Current portion of bonds payable	4,740,000
Accounts payable - construction	3,017,627
Accrued interest payable	<u>1,109,586</u>

Total current liabilities (payable from restricted assets) 8,867,213

Total current liabilities 10,705,790

**Noncurrent liabilities**

Accrued post-employment benefits	310,918
Bonds payable	<u>65,208,295</u>

Total noncurrent liabilities 65,519,213

**Deferred inflows of resources**

Deferred amount on refunding	135,192
Deferred inflow on leases	<u>22,498,440</u>

Total deferred inflows of resources 22,633,632

Total liabilities and deferred inflows 98,858,635

**Net position**

Net investment in capital assets	126,059,009
Restricted for debt service	20,661,668
Restricted for capital projects	4,138,141
Unrestricted	<u>24,592,535</u>

Total net position 175,451,353

**Total liabilities, deferred inflows and net position** **\$274,309,988**

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended June 30, 2023

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<b>Operating revenue</b>	
Airline operations	\$ 7,335,332
Parking	7,096,753
Ground transportation	3,795,345
Concession	867,940
General aviation	1,975,351
Advertising	507,726
Other	421,037
	<u>21,999,484</u>
Total operating revenue	
<b>Operating expense</b>	
Administration	7,165,900
General maintenance	4,265,641
Safety, rescue and security	2,621,132
Engineering	824,379
Building maintenance	970,011
Airport operations	1,260,758
	<u>17,107,821</u>
Total operating expense	
<b>Operating income before depreciation expense</b>	4,891,663
<b>Depreciation expense</b>	<u>12,880,053</u>
<b>Loss from operations</b>	<u>(7,988,390)</u>
<b>Non-operating revenue (expense)</b>	
Passenger facility charges	2,496,522
Contract facility charges	1,373,048
Interest on leases	799,386
Investment income, net of fees	979,608
Net loss in fair value of investments	(131,311)
Insurance net proceeds	650,429
Interest expense and fees	(2,311,142)
	<u>3,856,540</u>
Net non-operating revenue	
<b>Capital grants</b>	<u>6,289,820</u>
<b>Increase in net position</b>	2,157,970
<b>Net position, beginning of year</b>	<u>173,293,383</u>
<b>Net position, end of year</b>	<u>\$175,451,353</u>

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See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2023

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 20,904,329
Payments to suppliers	(7,793,537)
Payments to employees	(9,189,525)
Other receipts	485,568
	4,406,835
 <b>Cash flows from capital and related financing activities</b>	
Proceeds from capital grants	8,974,734
Passenger facility charges	2,459,621
Contract facility charges	1,360,936
Principal paid on bonds	(4,690,000)
Interest and fees paid on bonds	(2,193,345)
Proceeds from insurance	949,948
Acquisition and construction of capital assets	(11,093,755)
	(4,231,861)
 <b>Cash flows from investing activities</b>	
Interest received on investments	1,582,602
Purchase of investments	(20,505,938)
Proceeds from sales and maturities of investments	14,184,126
	(4,739,210)
 <b>Net decrease in cash and cash equivalents</b>	
	(4,564,236)
 <b>Cash and cash equivalents, beginning of year</b>	
	14,403,039
 <b>Cash and cash equivalents, end of year</b>	
	\$ 9,838,803
 <b>Reconciliation of loss from operations to net cash provided by operating activities</b>	
Loss from operations	\$ (7,988,390)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	12,880,053
Bad debt expense	2,517
Increase (decrease) due to changes in:	
Accounts receivable	(302,317)
Other assets	(86,320)
Accounts payable	153,325
Unearned revenue	(309,787)
Accrued payroll and benefits	57,754
	4,406,835
 <b>Supplemental schedule of noncash transactions</b>	
Change in construction in progress included in accounts payable	\$ 871,438

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS  
Year ended June 30, 2023

**NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization: The Lexington-Fayette Urban County Airport Board (Airport) operates under, and in accordance with, Chapter 183 of the Kentucky Revised Statutes. It owns and operates the Blue Grass Airport. The Airport is a component unit of the Lexington-Fayette Urban County Government (LFUCG) and its financial statements are included in LFUCG's Comprehensive Annual Financial Report as a discreetly 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 Airport 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 a 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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year ended June 30, 2023

**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 and accounts payable for construction, 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. The unrealized loss on investments was \$2,287,231 on June 30, 2023.

Lease Receivable and Deferred Inflow of Leases: The Airport, as a lessor, accounts for its leases in accordance with GASB Statement No. 87, Leases. The Airport 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. 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 \$30,000. Estimated useful lives are as follows:

- |                                     |               |
|-------------------------------------|---------------|
| ▪ Land improvements                 | 5 - 40 years  |
| ▪ Structures and other improvements | 10 - 40 years |
| ▪ Equipment                         | 3 - 10 years  |

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year ended June 30, 2023

**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.

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 (PTO) hours annually, depending on their length of employment and classification. There is no limit on the amount of unused PTO hours employees may roll over. Employees also have the option to be paid up to 168 hours of unused PTO in July each year. Liabilities for PTO payouts are accrued at June 30<sup>th</sup> for the amount of PTO paid out in July.

Full-time employees earn from 96 to 136 Family Medical Leave Time hours 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, the Airport has accrued a liability based on the average hours of Family Medical Leave Time taken the past two years. The Liability is accrued at current rates of compensation.



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year ended June 30, 2023

**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:

	<u>FY 2023</u>
Unrestricted	\$ 3,739,814
Restricted	<u>1,035,957</u>
Total cash	<u>\$ 4,775,771</u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Airport will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. As of June 30, 2023, \$0 of the Airport's cash balances were exposed to custodial credit risk because cash balances of \$867,840 were insured by the FDIC and cash balances of \$3,907,931 were collateralized by securities held in the Airport's name.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year ended June 30, 2023

**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, 2023 were as follows:

		<u>Percentage of Total</u>	<u>Duration</u>	<u>Standard &amp; Poors Rating</u>	<u>Moody's</u>
Unrestricted cash equivalents					
Government Cash Reserves	\$ 49,650	0.1%	N/A	N/A	N/A
Unrestricted investments					
Mortgage-Backed Securities	5,721,109	14.0%	7/25/23-12/16/63	NR/AA+	NR/Aaa
Corporate Bonds	4,309,478	10.6%	11/15/23-10/31/82	A/A-/A+/AA/AA- BB+/BBB/BBB- /BBB+/NR	A1/A2/A3Aa2/Aa3/B a1/Baa1/Baa2/Baa2 u/NR
Collateralized Loan Obligations	192,611	0.5%	7/18/31-7/20/31	NR	Aaa
US Treasury Notes	6,606,079	16.2%	8/17/23-5/15/28	AA+	Aaa
US Agency Bonds	1,425,304	3.5%	9/23/24-1/25/36	AA+	Aaa
Exchange Traded Funds	<u>2,101,894</u>	<u>5.1%</u>	NA	NR	NR
Total unrestricted investments	<u>20,356,475</u>	<u>50.0%</u>			
Restricted cash equivalents					
Government Cash Reserves	<u>6,588,142</u>	<u>16.1%</u>	N/A	N/A	N/A
Restricted investments					
Mortgage-Backed Securities	6,263,859	15.3%	7/25/23-12/16/63	AA+/AAA/NR	Aaa/NR
Corporate Bonds	1,695,560	4.2%	1/15/24-10/31/82	A/A-/A+/AA- /AA/BB+/BBB+/BBB-/BBB	A1/A2/A3/Aa2/ Aa3/Ba1/Baa1 Baa2/NR/WR
Collateralized Loan Obligations	192,611	0.5%	7/18/31-7/20/31	Aaa	NR
US Treasury Notes	3,524,440	8.6%	7/13/23-5/15/28	AA+	Aaa
US Agency Bonds	1,204,034	2.9%	2/8/24-2/17/32	AA+/NR	Aaa
Exchange Traded Funds	<u>951,942</u>	<u>2.3%</u>	NA	NR	NR
Total restricted investments	<u>13,832,446</u>	<u>33.9%</u>			
Total cash equivalents and investments	<u>\$ 40,826,713</u>	<u>100.0%</u>			

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**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 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, 2023, had an average duration of 2.42 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 by the following three levels of inputs:

- 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 fair value measurements as of June 30, 2023:

	<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	\$ 10,130,519	\$ 10,130,519	\$ -	\$ -
US Agency Bonds	2,629,338	-	2,629,338	-
Corporate Bonds	6,005,038	-	6,005,038	-
Collateralized Loan Obligations	385,222	-	385,222	-
Exchange Traded Funds	3,053,836	-	3,053,836	-
Mortgage-Backed Securities	<u>11,984,968</u>	<u>-</u>	<u>11,984,968</u>	<u>-</u>
Total investments by fair value level	<u>\$ 34,188,921</u>	<u>\$ 10,130,159</u>	<u>\$ 24,058,402</u>	<u>\$ -</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**NOTE 3 - LESSOR AIRPORT TENANT AGREEMENTS**

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

1. GASB Statements No. 87 - 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 2023 is as follows:

	<u>Beginning Balance</u>	<u>Receivable Reduction</u>	<u>Ending Balance</u>	<u>Implied Interest</u>	<u>Annual Lease Payments*</u>
Total of GASB No. 87 - Included	\$29,540,378	\$6,348,687	\$23,191,691	\$799,386	\$7,148,073

\*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 2023 is as follows:

	<u>Beginning Balance</u>	<u>Deferred Revenue Recognized</u>	<u>Ending Balance</u>
Deferred Inflows on Leases	\$29,093,610	\$6,595,170	\$22,498,440

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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**NOTE 3 - LESSOR AIRPORT TENANT AGREEMENTS (Continued)**

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.

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.

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.

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

<u>Years</u>	<u>Net Present Value</u>	<u>Discount (3%)</u>	<u>Total</u>
FY 2024	\$ 6,487,922	\$ 606,497	\$ 7,094,619
FY 2025	6,607,654	410,749	7,018,403
FY 2026	4,088,514	246,971	4,335,485
FY 2027	4,212,870	122,614	4,335,484
FY 2028	285,547	49,937	335,484
FY 2029 - FY 2033	1,275,376	117,204	1,392,580
FY 2034 - FY 2038	189,728	21,729	211,457
FY 2039	44,080	720	44,800
Total	<u>\$ 23,191,691</u>	<u>\$ 1,576,421</u>	<u>\$ 24,768,112</u>

**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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**NOTE 3 - LESSOR AIRPORT TENANT AGREEMENTS (Continued)**

Future minimum lease payments are as follows:

FY 2024	\$ 350,547
FY 2025	297,734
FY 2026	197,225
FY 2027	121,500
FY 2028	121,500
FY 2029 - FY 2033	298,125
FY 2034 - FY 2038	270,000
FY 2039 - FY 2042	<u>189,000</u>

Total future minimum rental revenue	<u><u>\$ 1,845,631</u></u>
-------------------------------------	----------------------------

**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 \$586,977 for FY 2023. 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 2024	\$ 586,977
FY 2025	586,977
FY 2026	586,977
FY 2027	586,977
FY 2028	586,977
FY 2029	<u>586,977</u>

Total future minimum rental revenue	<u><u>\$ 3,521,862</u></u>
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**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 and ends on November 30, 2026. 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. Total revenues related to the Bourbon Store for the year ended June 30, 2023 were \$36,055.

**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. Total revenues related to the Gift Shop for the year ended June 30, 2023 were \$273,676.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year ended June 30, 2023

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for FY 2023 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets being depreciated:					
Land improvements	\$ 115,820,022	\$ 83,347	\$ -	\$ 1,179,549	\$ 117,082,918
Structures and other improvements	213,006,019	339,073	655,997	1,588,268	214,277,363
Equipment	<u>31,890,620</u>	<u>703,806</u>	<u>129,456</u>	<u>1,300,388</u>	<u>33,765,358</u>
Total capital assets being depreciated	<u>360,716,661</u>	<u>1,126,226</u>	<u>785,453</u>	<u>4,068,205</u>	<u>365,125,639</u>
Capital assets not being depreciated:					
Land	20,213,806	-	-	-	20,213,806
Construction in progress	<u>2,488,417</u>	<u>9,099,919</u>	<u>-</u>	<u>(4,068,205)</u>	<u>7,520,131</u>
Total capital assets not being depreciated	<u>22,702,223</u>	<u>9,099,919</u>	<u>-</u>	<u>(4,068,205)</u>	<u>27,733,937</u>
Less accumulated depreciation:					
Land improvements	42,592,761	5,042,558	-	-	47,635,319
Structures and other improvements	129,311,275	5,799,211	355,998	-	134,754,488
Equipment	<u>10,461,488</u>	<u>2,038,284</u>	<u>125,748</u>	<u>-</u>	<u>12,374,024</u>
Total accumulated depreciation	<u>182,365,524</u>	<u>12,880,053</u>	<u>481,746</u>	<u>-</u>	<u>194,763,831</u>
Net capital assets	<u>\$ 201,053,360</u>	<u>\$ (2,653,908)</u>	<u>\$ 303,707</u>	<u>\$ -</u>	<u>\$ 198,095,745</u>

As of June 30, 2023, several uncompleted construction projects funded in-part by Federal grants and Airport funds. 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 \$27,243,583 on June 30, 2023. Of this amount, Federal grants will fund approximately \$24,500,000 of the outstanding commitments. The remaining balance to be funded by the Airport.

**NOTE 5 - BONDS PAYABLE**

The following is a summary of the changes in the principal amount of bonds payable during FY 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General bonds	\$ 68,745,000	\$ -	\$ 4,690,000	\$ 64,055,000	\$ 4,740,000
Bonds from direct placements	<u>5,400,000</u>	<u>-</u>	<u>-</u>	<u>5,400,000</u>	<u>-</u>
Total borrowings	<u>\$ 74,145,000</u>	<u>\$ -</u>	<u>\$ 4,690,000</u>	<u>\$ 69,455,000</u>	<u>\$ 4,740,000</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 (Continued)  
Year ended June 30, 2023

**NOTE 5 - BONDS PAYABLE (Continued)**

Bonds payable at June 30, 2023 are as follows:

2009 Reissued Series B, Variable Rate General Airport, Direct 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%	26,235,000
2016D Series D, Fixed Rate General Airport, Revenue Bonds (non AMT) due through July 2036 with coupon rates ranging from 3%-5%	4,455,000
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%	2,700,000
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>30,665,000</u>
Total principal payable	69,455,000
Unamortized bond premiums	<u>493,295</u>
Total bonds payable	69,948,295
Less current portion	<u>4,740,000</u>
Noncurrent portion of bonds payable	<u>\$ 65,208,295</u>

Reissued Series 2009 B Bonds: On May 1, 2023, the Airport entered into a new agreement for the direct placement debt. The Reissued Series 2009B Bonds are multi-modal direct placement bonds and currently bear an index interest rate with maturities July 1, 2033 through July 1, 2038. The index interest rate is a variable rate of interest based (1-month SOFR plus 0.1%) multiplied by 80% plus 1%. As of June 30, 2023, the variable interest rate is 5.132%. The bonds are subject to mandatory tender on May 1, 2026, 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 May 1 which follows May 1, 2026, as identified by the Holder in a notice from the Holder to the Trustee and the Board.

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



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**NOTE 5 - BONDS PAYABLE (Continued)**

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

Debt service requirements for principal and estimated interest using the interest rate in effect at June 30, 2023 for all bonds outstanding are outlined below.

Year Ending June 30,	General Bonds		Direct Placement		Total Principal & Interest
	Principal	Interest	Principal	Interest*	
2024	\$ 4,740,000	\$ 1,885,947	-	\$ 270,444	\$ 6,896,391
2025	4,880,000	1,757,843	-	270,444	6,908,287
2026	5,105,000	1,615,820	-	270,444	6,991,264
2027	5,020,000	1,464,803	-	270,444	6,755,247
2028	4,350,000	1,320,542	-	270,444	5,940,986
2029-2033	26,605,000	4,387,754	-	1,303,890	32,296,644
2034-2038	12,580,000	1,161,824	\$ 5,305,000	216,480	19,263,304
2039	775,000	12,586	95,000	2,379	884,965
<b>Total</b>	<b>\$ 64,055,000</b>	<b>\$ 13,607,119</b>	<b>\$ 5,400,000</b>	<b>\$ 2,874,969</b>	<b>\$ 85,937,088</b>

\* Variable rate debt of \$5.4 million makes up approximately 8% 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 - 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 2023 the Airport received PFCs totaling \$2,459,621. In future years, the Airport is authorized to collect and use PFCs for approved costs of \$58 million under the authority granted by the FAA.

**NOTE 7 - CONCENTRATIONS OF CUSTOMER REVENUE**

During FY 2023 the Airport earned approximately 79% of airline operations revenue from two carriers.

**NOTE 8 - RETIREMENT PLANS**

The Airport contributes to a defined contribution retirement plan (the Plan), the Blue Grass Airport Employees Retirement Plan, covering all full-time employees of the Airport. The Plan 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%.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**NOTE 8 - RETIREMENT PLANS (Continued)**

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 \$636,000 for FY 2023. For the year the required employer contributions were reduced by forfeitures of \$40,000. Required contributions made by Plan participants for FY 2023 were \$358,000. 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 \$22,500. The Airport does not contribute to this Plan.

**NOTE 9 - 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, 2023 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.

	<u>BOY Liability</u>	<u>(Payments)</u>	<u>EOY Liability</u>
FY 2023	\$ 314,219	\$ (3,301)	\$ 310,918

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 Year ended June 30, 2023

**NOTE 9 - POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT PLANS (Continued)**

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 3.00% 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 (4.00% percent) than the current rate:

	<i>1% Decrease (2.00%)</i>	<i>Current Discount Rate (3.00%)</i>	<i>1% Increase (4.00%)</i>
Post-Employment Benefits Liability	\$ 334,550	\$ 310,918	\$ 289,643

**NOTE 10 - CONTINGENCIES**

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

**NOTE 11 - SUBSEQUENT EVENTS**

Bond Placement: The Airport is planning to issue approximately \$63,115,000 of General Airport Revenue and Revenue Refunding Bonds before the end of calendar year 2023. Of the total amount \$28,000,000 will be used to refund the 2009 Series B Bonds and the 2019 Series A Bonds. The remaining balance of the bond issuance of \$35,115,000 will be used to provide funds for future capital expenditures related to a 50,000 square foot hangar, a 120,000 gallon fuel storage facility for aviation fuels, terminal renovations, and general improvements to the existing Airport facilities at the Airport.