

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

**FINANCIAL STATEMENTS, REPORT OF INDEPENDENT AUDITOR,
AND COMPLIANCE REPORT**

Years Ended June 30, 2026 and 2025

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

FINANCIAL STATEMENTS
Years Ended June 30, 2026 and 2025

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Report of Independent Auditor

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

Opinion

We have audited the accompanying 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 years ended June 30, 2026 and 2025, 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 financial statements present fairly, in all material respects, the financial position of the Airport as of June 30, 2026 and 2025, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits. 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.

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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

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 15 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 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2026 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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Lexington, Kentucky
September 23, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025

The Lexington-Fayette Urban County Airport Board owns and operates Blue Grass Airport (Airport). The following Management's Discussion and Analysis (MD&A) of the Airport's activities and financial performance provides an introduction and overview to the financial statements of the Airport for the fiscal years ended June 30, 2026 (FY 2026) and June 30, 2025 (FY 2025). 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.

Overview of the Financial Statements

The Airport's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Airport is accounted for as an enterprise fund, with revenues recognized when earned and expenses recognized when incurred. The financial statements consist of the statements of net position; revenues, expenses, and changes in net position; and cash flows, together with the accompanying notes to the financial statements.

The statement of net position reports the Airport's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end and provides information about the Airport's financial position. The statement of revenues, expenses, and changes in net position reports the Airport's financial activity during the year and explains the changes in net position from the beginning to the end of the fiscal year. The statement of cash flows reports the Airport's cash receipts and payments from operating, noncapital financing, capital and related financing, and investing activities and explains the change in cash and cash equivalents during the year.

Together, these statements provide information about the Airport's financial position, results of operations, and cash flows. The accompanying notes are an integral part of the financial statements and provide additional information necessary for a complete understanding of the Airport's financial position and activities.

See the Notes to Financial Statements for the Airport's significant accounting policies.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Financial Summary

SUMMARY OF STATEMENTS OF NET POSITION

	2026	2025	2024
Assets:			
Current assets-unrestricted	\$ 37,337,888	\$ 35,042,545	\$ 33,246,613
Restricted assets	48,891,697	43,538,211	54,410,316
Long term assets – unrestricted	10,613,458	16,957,638	23,585,314
Capital assets	251,736,542	234,894,977	224,565,617
Deferred outflows of resources	169,026	338,050	507,075
Total assets	<u>\$ 348,748,611</u>	<u>\$ 330,771,421</u>	<u>\$ 336,314,935</u>
Liabilities:			
Current liabilities-payable from unrestricted assets	\$ 5,032,392	\$ 3,046,338	\$ 3,135,536
Current liabilities-payable from restricted assets	18,671,664	13,326,488	15,307,572
Noncurrent liabilities	84,976,608	84,813,652	90,207,334
Deferred inflow of resources	17,342,226	23,577,102	30,314,906
Total liabilities	<u>\$ 126,022,890</u>	<u>\$ 124,763,580</u>	<u>\$ 138,965,348</u>
Net Position:			
Net investment in capital assets	161,549,392	154,583,469	145,410,859
Restricted	30,161,273	22,940,035	25,794,302
Unrestricted	31,015,056	28,484,337	26,144,426
Total net position	<u>\$ 222,725,721</u>	<u>\$ 206,007,841</u>	<u>\$ 197,349,587</u>

SUMMARY OF STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2026	2025	2024
Operating revenue	\$ 28,700,833	\$ 26,109,048	\$ 24,389,693
Operating expenses	(22,224,721)	(20,522,168)	(18,914,095)
Operating income before depreciation expense	6,476,112	5,586,880	5,475,598
Depreciation expense	(14,827,537)	(14,023,074)	(13,128,676)
Loss from operations	(8,351,425)	(8,436,194)	(7,653,078)
Noncapital subsidies	2,433,496	1,991,850	1,722,594
Loss from operations and noncapital subsidies	(5,917,929)	(6,444,344)	(5,930,484)
Net other non-operating revenue	22,635,809	15,102,598	27,828,718
Increase in net position	<u>\$ 16,717,880</u>	<u>\$ 8,658,254</u>	<u>\$ 21,898,234</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Financial Summary (Continued)

SUMMARY STATEMENTS OF CASH FLOW ACTIVITIES

Net cash flows provided by operating activities	\$ 6,802,338	\$ 5,700,223	\$ 5,563,223
Net cash flows provided (used) by capital and related financing activities	(11,603,176)	(17,122,503)	16,306,150
Net cash flows provided (used) by investing activities	<u>2,746,018</u>	<u>4,990,470</u>	<u>(9,798,684)</u>
Net increase (decrease) in cash and cash equivalents	(2,054,820)	(6,431,810)	12,070,689
Cash and cash equivalents, beginning of year	<u>15,477,682</u>	<u>21,909,492</u>	<u>9,838,803</u>
Cash and cash equivalents, end of year	<u>\$ 13,422,862</u>	<u>\$ 15,477,682</u>	<u>\$ 21,909,492</u>

Detailed Analysis

Financial Overview

Financially, the Airport continued to perform well during FY2026. Operating revenues increased by \$2.6 million, or 10%, while operating income before depreciation increased by \$0.9 million, or 16%, from \$5.6 million in FY 2025 to \$6.5 million in FY 2026. Total net position increased by \$16.7 million, or 8%, reaching \$222.7 million at June 30, 2026. Continued passenger growth, prudent financial management, and significant federal grant funding supported ongoing investment in the Airport's facilities and infrastructure while maintaining a strong financial position. These resources also enabled the Airport to advance Future LEX, its long-term capital improvement program, positioning the Airport to meet the region's evolving aviation needs. Additional information regarding Future LEX is provided in the Currently Known Facts, Decisions, or Conditions section. Airport operating statistics are presented in the Other Information section.

The Airport's assets and deferred outflows exceeded liabilities and deferred inflows by \$222.7 million on June 30, 2026, an increase of \$16.7 million from June 30, 2025. The Airport's assets exceeded liabilities by \$206.0 million on June 30, 2025, an increase of \$8.7 million from June 30, 2024.

Although the Airport reported an operating loss after depreciation expense, this result is typical for airports and other capital-intensive enterprises. Depreciation is a significant non-cash expense that allocates the cost of capital assets over their estimated useful lives. Depreciation is recognized on all depreciable capital assets, including those acquired through federal and state grant funding as well as those financed with Airport resources. Consequently, depreciation expense reflects the consumption of all capital infrastructure, not just assets funded with local operating revenues.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Detailed Analysis (Continued)

Revenue

Revenues for FY 2026, FY 2025, and FY 2024 are as follows:

	2026 Amount	2025 Amount	2024 Amount	% Change 2026/2025
Operating:				
Airline operations	\$ 9,586,189	\$ 8,890,455	\$ 8,583,141	7.83%
Parking	9,591,691	8,780,556	8,095,786	9.24%
Ground transportation	4,170,279	3,996,524	3,663,163	4.35%
Concessions	1,211,427	1,164,126	998,081	4.96%
General aviation	3,115,227	2,236,134	2,024,757	39.31%
Advertising	546,290	556,162	547,638	(1.78%)
Other	479,730	485,091	477,127	(1.11%)
Total operating revenue	<u>28,700,833</u>	<u>26,109,048</u>	<u>24,389,693</u>	<u>9.97%</u>
Noncapital subsidies				
Contract facility charges	<u>2,433,496</u>	<u>1,991,850</u>	<u>1,722,594</u>	<u>22.17%</u>
Other non-operating revenue (loss):				
Interest from leases	877,454	1,106,531	634,012	(20.70%)
Investment income, net of fees	1,999,169	2,200,518	2,167,000	(9.15%)
Net increase in fair value of investments	673,362	1,310,276	1,247,918	(48.61%)
Gain (loss) on disposal of capital assets	(63,575)	31,447	(154,991)	(302.17%)
Capital grants	14,919,763	11,039,167	24,677,358	35.15%
Passenger facility charges	3,248,458	3,226,354	2,973,151	0.69%
TSA grant- restricted for capital assets	4,756,105	-	-	NA
Total other non-operating revenue	<u>26,410,736</u>	<u>18,914,293</u>	<u>31,544,448</u>	<u>39.63%</u>
Total revenue	<u><u>\$ 57,545,065</u></u>	<u><u>\$ 47,015,191</u></u>	<u><u>\$ 57,656,735</u></u>	<u><u>22.40%</u></u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Detailed Analysis (Continued)

Expense

Expenses for FY 2026, FY 2025, and FY 2024 are as follows:

	2026 Amount	2025 Amount	2024 Amount	% Change 2026/2025
Operating:				
Administration	\$ 9,402,846	\$ 8,768,909	\$ 7,974,087	7.23%
General maintenance	4,935,602	4,590,624	4,459,132	7.51%
Safety, rescue and security	3,342,386	3,111,919	2,837,152	7.41%
General aviation	733,444	600,998	412,072	22.04%
Planning and construction	1,087,007	1,038,890	965,932	4.63%
Building maintenance	1,270,516	1,148,800	1,263,083	10.60%
Airport operations	1,452,920	1,262,028	1,002,637	15.13%
Total operating expense	22,224,721	20,522,168	18,914,095	8.30%
Other non-operating expense:				
Interest expense and fees	3,774,927	3,811,695	3,321,057	(0.96%)
Debt issuance costs	-	-	394,673	NA
Total other non-operating expense	3,774,927	3,811,695	3,715,730	(0.96%)
Depreciation expense	14,827,537	14,023,074	13,128,676	5.74%
Total expense	\$ 40,827,185	\$ 38,356,937	\$ 35,758,501	6.44%

FY 2026 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased by \$2.6 million or 10% compared to FY 2025. The increase was primarily driven by higher airline operations revenue resulting from a 5% airline rate increase and continued growth in passenger activity. Parking revenues also increased following the implementation of a \$1 per day rate increase. In addition, general aviation revenues benefited from a full year of rental income from Corporate Hangar One and Hangar 110, both of which were only partially operational during FY 2025.

- Airline operations revenue increased by \$695,000 or 8%. This was primarily due to a 5% airline rate increase. Higher enplanements and increased landed weight resulting from expanded airline service and passenger demand also contributed.
- General aviation revenue increased by \$879,000 or 39%. The increase resulted from recognizing a full year of hangar rental income from Corporate Hangar One and Hangar 110, compared with partial-year revenues generated by these hangars in FY 2025.
- Parking revenue increased by \$811,000 or 9%. This was due to the \$1 per day parking rate increase and higher enplanements.

Operating expenses increased by \$1.7 million, or 8%, primarily due to higher salary and related personnel costs. The increase in payroll reflected additional staffing in the Airport Fire and Police departments, the addition of a General Aviation Services position, and expanded building maintenance staffing. Operating expenses were also impacted by higher costs for building repairs, snow removal, supplies, and contracted services. The following describes the fluctuations of certain types of operating expense:

- Administration expenses increased by \$633,000 or 7%. The increase was primarily attributable to costs associated with the new five-year line of credit agreement with Pinnacle Bank. Additional factors contributing to the increase included expanded landside operations, greater utilization of shuttle bus services, higher utility rates, and increased expenses related to community engagement activities, including the Airport's Industry Day and sponsorship of 2026 Breeders' Cup events.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Detailed Analysis (Continued)

- General maintenance expenses increased by \$345,000 or 8%. The increase was primarily attributable to repairs at the Rental Car Service Facility buildings, higher snow removal costs resulting from colder winter weather and additional repairs and maintenance to the terminal HVAC system.
- Safety, rescue, and security increased by \$230,000 or 7%. This increase primarily reflected additional staffing costs associated with restructuring the combined Public Safety Department into separate Police and Fire departments, replacing the previous cross-trained staffing model. Following the reorganization, employees now serve in specialized Police or Fire roles, requiring additional staffing to maintain the same level of service. Also contributing to the increase was a new maintenance agreement for new equipment at the Airport Rescue Firefighters Training Center, which was replaced during FY 2025.

FY 2026 Noncapital subsidies and Net other non-operating revenues

Noncapital subsidies from Contract Facility Charges paid by rental car companies increased by \$442,000, or 40%, primarily due to a \$1-per-day increase in the CFC rate. The increase was also supported by higher passenger deplanements and increased rental car activity associated with FEMA disaster-response efforts following natural disasters in Kentucky during early 2025.

Net other non-operating revenue increased from \$18.9 million in FY 2025 to \$26.4 million in FY 2026, an increase of 22%. The following describes the fluctuations of certain types of non-operating revenue:

- Operating lease interest decreased by \$229,000, or 20%, primarily due to the continued amortization and expiration of existing lease agreements under GASB Statement No. 87, with no significant new lease agreements added during FY2026. For additional information regarding the Airport's lease arrangements, refer to Note 3 of the financial statements.
- Net increase in fair value of investments decreased by \$637,000, or 48%. The net increase in fair value of investments was lower in FY 2026 because investment values experienced less appreciation during the year compared with FY 2025. While the PFC account continued to benefit from equity appreciation and modest improvement in fixed-income valuations, a significant portion of the portfolio's appreciation had already been recognized in FY2025. Additionally, investment sales, calls, and redemptions converted certain unrealized gains to realized gains during FY2026.
- Capital grants increased by \$3,881,000, or 35%, primarily due to increased FAA and State grant funding for multiple projects.
- Intergovernmental revenues – restricted for capital assets increased by \$4.8 million, reflecting TSA grant funding recognized in FY 2026 for the baggage belt replacement project, compared with no TSA grant revenue received in FY 2025.

FY 2025 REVENUE AND EXPENSE ANALYSIS

Operating revenue increased from \$24.4 million in FY 2024 to \$26.1 million in FY 2025, an increase of 7%. The increase in revenue is primarily due to the increase in passenger enplanements, which drives most of the operations revenue. Compared to the previous year, enplanements increased by 9% and landed weight increased by 10%. The following describes the fluctuations of certain types of operating revenue:

- Airline operations revenue increased by \$307,000 or 4%. This increase was driven by a 69,207, or 9%, increase in passenger enplanements and a 85,120, or 10% increase in landed weight. New flight destinations and the airline's usage of larger aircraft contributed to this increase.
- General aviation revenue increased by \$211,000 or 10%. This growth was primarily driven by the addition of two newly constructed hangars, a general aviation hangar and a corporate hangar, which together generated approximately \$124,000 in new rental income. The remaining increase was attributable to higher avgas fuel sales, resulting from the Airport assuming responsibility for all avgas fuel sales on Airport property.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Detailed Analysis (Continued)

- The 9% increase in enplanements resulted in an increase in revenue in the following:
 - Concessions revenue increased by \$166,000, or 17%.
- Parking revenue increased by \$685,000, or 8%.
 - Ground transportation increased by \$333,000 or 9%. This growth was driven not only by higher passenger volumes but also by additional rental activity associated with FEMA operations supporting disaster response efforts in Kentucky.

Operating expense increased from \$18.9 million in FY 2024 to \$20.5 million in FY 2025, an increase of 9%. The primary driver of this increase was increased salary costs, reflecting additional staffing to support increased coverage airport operations department, expanded coverage for landside operations, and year-end paid time off accrual for unused time. The Airport also incurred greater expenses for equipment, supplies, and contracted services to meet operational demands. The following describes the fluctuations of certain types of operating expense:

- Administration increased by \$795,000 or 10%. The increase was primarily driven by a year-end adjustment for unused paid time off. Also contributing to the variance: additional staffing requirements, implementation of year-round shuttle bus operations, casualty insurance premiums and higher utility rates.
- General maintenance expenses increased by \$131,000, or 3%. This was due to new preventative maintenance agreements for passenger boarding bridges and baggage belt conveyors.
- Safety, rescue, and security increased by \$275,000 or 10%. This increase was primarily driven by higher costs for supplies, equipment, and staffing necessary to meet new employee screening requirements mandated by the Transportation Security Administration (TSA).
- General aviation expenses increased by \$189,000, or 46%. This increase was driven by higher costs for equipment, supplies, and salaries and benefits, primarily resulting from the addition of two new hangars and the expansion of avgas fuel sales operations.
- Planning and construction expenses increased by \$73,000, or 8%. This was the result of increase costs for professional services related to project design and other construction activities.
- Airport operations expenses increased by \$259,000, or 26%. This increase was driven by higher expenses related to equipment maintenance, supplies, and employee salaries and benefits.

FY 2025 Noncapital subsidies and Net other non-operating revenues

Noncapital subsidies from Contract Facility Charges paid by rental car companies increased \$269,000, or 16%, due to the increase in airline passenger deplanements.

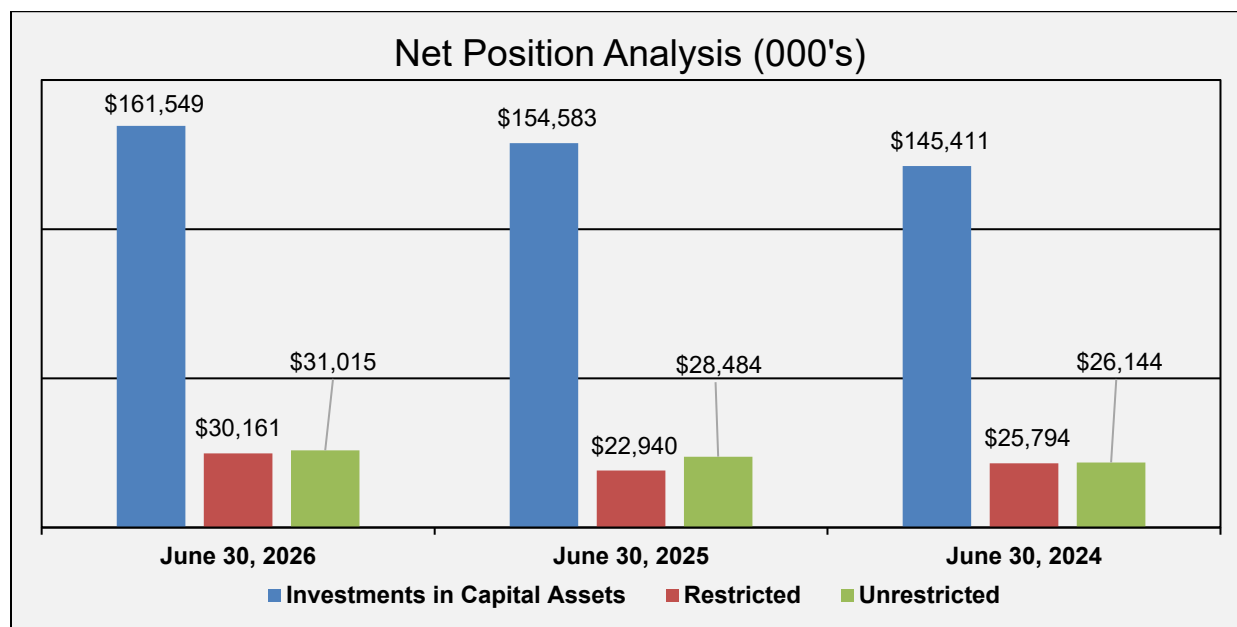
Net other non-operating revenue decreased from \$31.5 million in FY 2024 to \$18.9 million in FY 2025, a decrease of 40%. The following describes the fluctuations of certain types of non-operating revenue:

- Passenger facility charges increased by \$253,000, or 9%, due to higher airline passenger enplanements.
- Operating lease interest increased \$473,000, or 75%, primarily due to the renewal of rental car contracts executed prior to FY 2025. For additional details regarding lease arrangements, please refer to Note 3 of the financial statements.
- Interest expense increased by \$491,000 or 15% as a result of the FY 2024 debt issuance, which incurred a full year of interest in FY 2025. No additional debt issuance costs were incurred during FY 2025.
- Capital grants decreased from \$24.7 million in FY 2024 to \$11.0 million in FY 2025. This was due to several major FAA-funded projects being completed in FY 2024.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Detailed Analysis (Continued)

NET POSITION OVERVIEW



The largest portion of the Airport's net position each year (72.5% at June 30, 2026, 75.1% at June 30, 2025, and 73.7% at June 30, 2024) 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, Contract Facility Charge revenues 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 (13.5% on June 30, 2026, 11.1% on June 30, 2025, and 13.1% on June 30, 2024) is restricted. These restricted net assets include:

- Bond reserve and project funds that are subject to external restrictions under bond resolutions.
- PFCs received from airlines and CFCs received from rental car companies, which are restricted for eligible capital projects and related debt service.
- Accounts receivable for federal grants that are restricted for specific capital project use.

Unrestricted net assets (14.0% of the Airport's net position on June 30, 2026, 13.8% on June 30, 2025, and 13.2% on June 30, 2024) consist of resources that do not meet the definition of "restricted" or "net investment in capital assets".

The Airport continues to maintain a strong financial position, supported by positive operating cash flows, increasing unrestricted net position, and substantial federal grant funding.

FY 2026 NET POSITION ANALYSIS

The Airport's net position totaled \$222.7 million at June 30, 2026, an increase of \$16.7 million, or 8.1%, from the prior year. The increase reflects continued strong operating cash flows together with significant federal grant funding that supported ongoing infrastructure investments.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Detailed Analysis (Continued)

Net investment in capital assets increased by \$7.0 million as capital additions from completed and ongoing projects exceeded annual depreciation and reductions in related debt. Restricted net position increased by \$6.9 million, primarily due to an increase in grant receivables from the Federal Aviation Administration (FAA) and Transportation Security Administration (TSA) for capital improvement projects. Unrestricted net position increased by \$2.5 million, strengthening the Airport's financial flexibility to support operations and future capital investments.

FY 2025 NET POSITION ANALYSIS

The Airport's net position totaled \$206.0 million at June 30, 2025, an increase of \$8.6 million, or 4.3%, from the prior year. The increase was driven by continued positive operating cash flows and capital grant funding that supported ongoing infrastructure investments.

Net investment in capital assets increased by \$9.2 million as capital additions and project completions exceeded annual depreciation and reductions in related debt. Restricted net position decreased by \$2.9 million as previously restricted bond proceeds, Passenger Facility Charges (PFCs), Contract Facility Charges (CFCs), and grant funds were expended on eligible capital improvement projects and related debt service. Unrestricted net position increased by \$2.3 million, reflecting continued operating strength and providing additional financial flexibility to support future operational and capital needs.

SUMMARY OF CASH FLOW ANALYSIS

Operating activities generated \$6.8 million and \$5.7 million of cash in FY 2026 and FY 2025, respectively. The increase in cash provided by operating activities reflects the Airport's continued ability to generate positive cash flow from ongoing operations before capital and debt-related activities.

Capital and related financing activities used \$11.6 million of cash in FY 2026 and \$17.1 million in FY 2025. These cash outflows were primarily attributable to capital asset expenditures of \$20.7 million and \$30.7 million in FY 2026 and FY 2025, respectively, as well as scheduled principal and interest payments on outstanding debt. These uses of cash were partially offset by capital grants, PFC, and CFC.

Investing activities provided \$2.7 million and \$5.0 million of cash in FY 2026 and FY 2025, respectively, as proceeds from investment maturities and sales exceeded purchases of investments.

Overall, the decrease in cash and cash equivalents during FY 2026 and FY 2025 reflects the planned use of available resources to support the Airport's capital improvement program. The Airport continued to generate positive cash flow from operating activities while funding capital investments and meeting its debt service obligations.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Significant Capital Asset and Long-term Financing Activity

CAPITAL ASSETS

Net capital assets increased \$16.8 million to \$251.7 million at June 30, 2026. During FY 2026, the Airport recorded \$31.7 million of capital asset additions before depreciation and disposals, including \$31.1 million of construction-in-progress additions. Major capital projects in progress and expenditures incurred during FY 2026 included the following:

	<u>2026</u>	<u>Cumulative</u>
Airport Rescue Firefighting Training Center Building	\$ 349,000	\$ 4,809,000
Aircraft Fuel Facility	2,327,000	3,320,000
Terminal Road Relocation and Parking	15,477,000	17,475,000
Terminal Area Plan	468,000	1,757,000
Baggage Belt Replacement	8,069,000	8,069,000
Snow Removal Truck	872,000	872,000
Capital Program Manager	1,780,000	1,780,000

Net capital assets increased \$10.3 million to \$234.9 million at June 30, 2025. During FY 2025, the Airport recorded \$24.4 million of capital asset additions before depreciation and disposals, including \$23.0 million of construction-in-progress additions. Major capital projects in progress and expenditures incurred during FY 2025 included the following:

	<u>2025</u>	<u>Cumulative</u>
Airport Rescue Firefighting Training Center Modernization	\$ 516,000	\$ 9,737,000
Airport Rescue Firefighting Training Center Building	4,012,000	4,460,000
Corporate Hangar Construction	8,062,000	16,204,000
Hangar 110 Construction	2,275,000	5,608,000
Aircraft Fuel Facility	658,000	993,000
West Airfield Lighting Replacement	1,133,000	1,244,000
Terminal Road Relocation and Parking	1,997,000	1,998,000
Terminal Area Plan	1,286,000	1,289,000

The Airport Rescue and Firefighting Training Center (ARFFTC) Building, completed in FY 2026, includes the expansion and reconfiguration of the existing structure to support larger class sizes, vehicle storage, and gear accommodation. The cost was \$4.8 million, funded approximately 90% by FAA grants and 10% by a local match from the Airport.

The Aircraft Fuel Facility Replacement Project is currently in the construction phase and expected to be completed in FY 2027. The project will replace the existing fueling infrastructure with a higher-capacity facility to accommodate projected growth and serve all Airport users. The estimated cost is approximately \$20 million, funded through a combination of \$10 million in bond proceeds, \$6 million in FAA grant funds, and the remaining balance from Airport funds.

The Terminal Road and Parking Expansion Project includes the realignment of a portion of Terminal Drive, expansion of surface parking, and relocation of the parking exit plaza. Designed to address current and anticipated traffic capacity constraints and to support the expansion of paid parking operations, the project was mostly completed in FY 2026. The redesigned roadway will accommodate potential future terminal expansion. Estimated at \$19 million, the project will be funded through a combination of a \$5 million state grant, \$7 million in anticipated FAA grants, and \$7 million from Airport funds.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Significant Capital Asset and Long-term Financing Activity (Continued)

The Terminal Area Plan is a key planning initiative supporting the Airport's Future LEX program. Focused on the terminal and surrounding areas, the study will provide a phased, comprehensive roadmap to guide future development, identify necessary improvements, estimate project costs, and assess financial feasibility. The study is nearing completion at an estimated cost of \$1.8 million, with approximately 90% funded through FAA grants and the remaining 10% funded by the Airport.

The Baggage Belt Replacement project consists of new baggage screening machines and associated conveyors to create an inline screening system. A building expansion is necessary to house the new machines and introduce a new alarm reconciliation area. Estimated at \$26 million, the project will be funded through a combination of a \$19 million TSA grant, \$3 million in FAA grants and \$4 million from Airport funds.

The Snow Removal Equipment Truck was purchased in FY 2026 for \$871K. This was funded with \$619K in FAA grant funding and \$252K from Airport funds.

Capital Program Management consists of consulting fees associated with the new Terminal development plan. These services will be funded through PFC Funds, CFC Funds and Airport funds.

The Airport has outstanding construction contract commitments totaling \$38,504,000. Funding for these projects is expected to include approximately \$25,856,000 from FAA and TSA grants, \$5,800,000 from bond funds, with the remaining balance to be provided from Airport funds.

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 5 to the financial statements.

DEBT ADMINISTRATION

Outstanding bond principal decreased from \$87.2 million at June 30, 2025, to \$82.1 million on June 30, 2026, reflecting \$5.1 million in scheduled principal repayments. No additional bonds were issued during the fiscal year, and all outstanding bonded debt remained at fixed interest rates. The November 2023 bond refunding provided long-term savings, reducing future debt service by approximately \$2.1 million and generating an economic gain of approximately \$760,000.

In December 2025, the Airport amended its existing line of credit agreement to expand financing capacity for its capital improvement program. The revised agreement provides two credit facilities: (1) a Tax-Exempt Credit Note with a revolving borrowing capacity of up to \$25.0 million and (2) a Taxable Credit Note with a non-revolving borrowing capacity of up to \$40.0 million.

The expanded credit facilities will support a broad range of strategic capital investments, including terminal renovations, facility demolitions, restroom improvements, baggage handling system upgrades, passenger boarding bridge replacements, parking and roadway improvements, apron and hangar construction, acquisition of operational equipment such as aircraft tugs, deicers, and air stairs, and construction of a new rental car facility.

Outstanding borrowings under the line of credit totaled \$5.5 million at June 30, 2026, compared with no outstanding balance at June 30, 2025. The Airport remained in compliance with all applicable bond and line-of-credit covenants throughout the fiscal year.

Additional information regarding the Airport's line of credit is presented in Note 4 and long-term debt is presented in Note 7 to the financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2026 and 2025 (Continued)

Currently Known Facts, Decisions or Conditions

While the Airport has experienced strong growth over the past year, the aviation industry is facing near-term economic and geopolitical challenges, including rising fuel prices driven by conflict in the Middle East. These higher fuel costs have increased airline operating expenses and contributed to higher airfares. The aviation industry continues to monitor these conditions and their potential influence on passenger demand and travel decisions.

In May 2026, Blue Grass Airport announced Future LEX, the Airport's long-term, multi-phase infrastructure program designed to accommodate significant passenger growth while preserving the Airport's efficient and customer-focused travel experience. Representing approximately \$500 million in planned improvements over the first five years, Future LEX will modernize and expand the Airport through a thoughtful, phased approach while minimizing disruption to travelers. Funding for Future LEX is expected to include a combination of Airport revenues, federal and state grants, passenger facility charges, customer facility charges, and future debt financing.

The announcement outlined a series of foundational projects, including expanded parking, a relocated rental car facility, aircraft remote parking, expanded fuel capacity and preparations for future terminal improvements. These investments will create the foundation for a new eight-gate concourse, expanded dining and retail options, and a larger terminal designed to serve central and southeastern Kentucky for decades to come.

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
 STATEMENTS OF NET POSITION
 June 30, 2026 and 2025

	<u>2026</u>	<u>2025</u>
ASSETS		
Current Assets - Unrestricted:		
Cash and cash equivalents	\$ 2,570,092	\$ 2,182,186
Investments	23,786,275	21,926,254
Accounts receivable	2,774,973	3,066,948
Leases receivable	6,855,776	6,627,685
Accrued interest receivable	178,617	153,262
Other assets	1,172,155	1,086,210
Total Current Assets	<u>37,337,888</u>	<u>35,042,545</u>
Restricted Assets:		
Cash and cash equivalents	10,852,770	13,295,496
Investments	23,757,391	24,884,715
Accounts receivable	508,892	521,057
Accrued interest receivable	133,333	115,243
Grants receivable	13,639,311	4,721,700
Total Restricted Assets	<u>48,891,697</u>	<u>43,538,211</u>
Noncurrent Assets - Unrestricted:		
Leases receivable	<u>10,613,458</u>	<u>16,957,638</u>
Capital Assets:		
Capital assets not being depreciated	55,141,180	31,452,107
Capital assets being depreciated	405,092,695	409,388,785
Accumulated depreciation	<u>(208,497,333)</u>	<u>(205,945,915)</u>
Total Net Capital Assets	<u>251,736,542</u>	<u>234,894,977</u>
Deferred Outflows of Resources:		
Deferred amount on refunding	<u>169,026</u>	<u>338,050</u>
Total Assets and Deferred Outflows	<u><u>\$ 348,748,611</u></u>	<u><u>\$ 330,771,421</u></u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENTS OF NET POSITION (Continued)
June 30, 2026 and 2025

	<u>2026</u>	<u>2025</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets):		
Accounts payable	\$ 1,317,001	\$ 1,389,072
Accounts payable - construction	2,385,549	529,592
Accrued payroll and benefits	1,029,493	891,255
Unearned revenue	300,349	236,419
Total Current Liabilities (Payable from Unrestricted Assets)	<u>5,032,392</u>	<u>3,046,338</u>
Current Liabilities (Payable from Restricted Assets):		
Current portion of bonds payable	5,020,000	5,105,000
Accounts payable - construction	11,810,008	2,481,812
Accrued interest payable	1,841,656	1,916,721
Unearned revenue	-	3,822,955
Total Current Liabilities (Payable from Restricted Assets)	<u>18,671,664</u>	<u>13,326,488</u>
Total Current Liabilities	<u>23,704,056</u>	<u>16,372,826</u>
Noncurrent Liabilities:		
Accrued post-employment benefits	268,572	278,473
Equipment financing agreements	108,235	250,761
Bonds payable	79,124,801	84,284,418
Line of credit	5,475,000	-
Total Noncurrent Liabilities	<u>84,976,608</u>	<u>84,813,652</u>
Deferred Inflows of Resources:		
Deferred amount on refunding	973,257	1,064,220
Deferred inflow on leases	16,368,969	22,512,882
Total Deferred Inflows of Resources	<u>17,342,226</u>	<u>23,577,102</u>
Total Liabilities and Deferred Inflows	<u>126,022,890</u>	<u>124,763,580</u>
Net Position:		
Net investment in capital assets	161,549,392	154,583,469
Restricted for debt service	21,418,719	20,790,884
Restricted for capital projects	8,742,554	2,149,151
Unrestricted	31,015,056	28,484,337
Total Net Position	<u>222,725,721</u>	<u>206,007,841</u>
Total Liabilities, Deferred Inflows, and Net Position	<u><u>\$ 348,748,611</u></u>	<u><u>\$ 330,771,421</u></u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2026 and 2025

	2026	2025
Operating Revenue:		
Airline operations	\$ 9,586,189	\$ 8,890,455
Parking	9,591,691	8,780,556
Ground transportation	4,170,279	3,996,524
Concessions	1,211,427	1,164,126
General aviation	3,115,227	2,236,134
Advertising	546,290	556,162
Other	479,730	485,091
Total Operating Revenue	<u>28,700,833</u>	<u>26,109,048</u>
Operating Expense:		
Administration	9,402,846	8,768,909
General maintenance	4,935,602	4,590,624
Safety, rescue, and security	3,342,386	3,111,919
General aviation	733,444	600,998
Planning and construction	1,087,007	1,038,890
Building maintenance	1,270,516	1,148,800
Airport operations	1,452,920	1,262,028
Total Operating Expense	<u>22,224,721</u>	<u>20,522,168</u>
Operating income before depreciation expense	6,476,112	5,586,880
Depreciation expense	14,827,537	14,023,074
Operating Loss	<u>(8,351,425)</u>	<u>(8,436,194)</u>
Noncapital Subsidies		
Contract facility charges	<u>2,433,496</u>	<u>1,991,850</u>
Operating Loss and Noncapital Subsidies	<u>(5,917,929)</u>	<u>(6,444,344)</u>
Other Non-Operating Revenue (Expense):		
Interest on leases	877,454	1,106,531
Investment income, net of fees	1,999,169	2,200,518
Net increase in fair value of investments	673,362	1,310,276
Gain (loss) on disposal of capital assets	(63,575)	31,447
Interest expense and fees	(3,774,927)	(3,811,695)
Capital grants	14,919,763	11,039,167
Passenger facility charges	3,248,458	3,226,354
TSA grant- restricted for capital assets	4,756,105	-
Net Non-Operating Revenue	<u>22,635,809</u>	<u>15,102,598</u>
Increase in Net Position	16,717,880	8,658,254
Net Position, Beginning of Year	<u>206,007,841</u>	<u>197,349,587</u>
Net Position, End of Year	<u>\$ 222,725,721</u>	<u>\$ 206,007,841</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2026 and 2025

	2026	2025
Cash Flows From Operating Activities:		
Receipts from customers	\$ 28,568,234	\$ 25,762,109
Payments to suppliers	(11,126,614)	(10,083,184)
Payments to employees	(11,127,786)	(10,472,113)
Other receipts	488,504	493,411
Net Cash Flows Provided by Operating Activities	<u>6,802,338</u>	<u>5,700,223</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from capital grants	6,935,302	16,955,024
Passenger facility charges	3,265,322	3,494,834
Contract facility charges	2,428,796	1,950,520
Principal paid on bonds	(5,105,000)	(4,880,000)
Interest and fees paid on bonds	(3,911,546)	(3,940,207)
Proceeds from line of credit	5,475,000	-
Proceeds from sale of equipment	2,000	32,148
Acquisition and construction of capital assets	(20,693,050)	(30,734,822)
Net Cash Flows Used by Capital and Related Financing Activities	<u>(11,603,176)</u>	<u>(17,122,503)</u>
Cash Flows From Investing Activities:		
Interest received on investments and leases	2,695,106	3,018,504
Purchase of investments	(33,267,063)	(77,240,423)
Proceeds from sales and maturities of investments	33,317,975	79,212,389
Net Cash Flows Provided by Investing Activities	<u>2,746,018</u>	<u>4,990,470</u>
Net Decrease in Cash and Cash Equivalents	(2,054,820)	(6,431,810)
Cash and Cash Equivalents, Beginning of Year	15,477,682	21,909,492
Cash and Cash Equivalents, End of Year	<u>\$ 13,422,862</u>	<u>\$ 15,477,682</u>
Reconciliation of Loss From Operations to Net Cash flows from operating activities:		
Operating loss	\$ (8,351,425)	\$ (8,436,194)
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	14,827,537	14,023,074
Increase (decrease) due to changes in:		
Accounts receivable	291,975	123,447
Other assets	(85,945)	(191,448)
Accounts payable	(72,071)	(221,235)
Unearned revenue	63,930	23,025
Accrued payroll and benefits	128,337	379,554
Net cash flows from operating activities	<u>\$ 6,802,338</u>	<u>\$ 5,700,223</u>
Supporting Schedule of Noncash Transactions:		
Change in Construction in Progress Included in Accounts Payable & Equipment Financing	<u>\$ 11,041,627</u>	<u>\$ 6,381,688</u>
Noncash lease additions	<u>\$ 497,923</u>	<u>\$ -</u>

See accompanying notes to financial statements.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2026 and 2025

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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 recognized when earned and expenses recognized when liabilities are incurred.

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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 grants 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.

Lease Receivable and Deferred Inflow of Leases: The Airport, as a lessor, recognizes a lease receivable and a deferred inflow on leases at commencement of the lease term. Certain exceptions are made for regulated leases, leases with no minimum annual guarantee 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 plus any payments received at or before the commencement of the lease term. Revenue is recognized by amortizing the deferred inflow on a straight-line basis. For regulated leases, leases with no minimum annual guarantee and short-term leases, the Airport recognizes rental income based on the provisions of the lease agreement. 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 \$40,000. Estimated useful lives are as follows:

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

Deferred Outflows of Resources 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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 rentals, automobile parking, car rentals, concessions, and other activities associated with providing Airport services are reported as operating revenues. Revenues and expenses related to capital and related financing activities, investing activities, and other activities not considered part of the Airport's principal operations are reported as non-operating revenues and expenses.

During fiscal year 2026, the Airport adopted GASB Statement No. 103, *Financial Reporting Model Improvements*, which resulted in a change in accounting principle related to the classification and presentation of certain non-operating revenues. Under the new guidance, subsidies are separately identified as either capital subsidies or noncapital subsidies based on the purpose for which the resources are provided. Accordingly, certain revenues previously reported within non-operating revenues are presented separately in the statement of revenues, expenses, and changes in net position.

The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose Passenger Facility Charges (PFCs) on enplaning passengers. PFCs are collected by the airlines and remitted to the Airport and are recognized as revenue as earned. PFCs are reported as non-operating revenues and are generally restricted for approved capital projects and debt service.

Customer Facility Charges (CFCs) are collected by rental car companies and remitted to the Airport and are recognized as revenue as earned. Upon adoption of GASB Statement No. 103, CFC revenues are reported separately as noncapital subsidies because the charges subsidize the Airport's rental car operations and are not provided specifically for the acquisition or construction of capital assets. This represents a change in presentation from prior years, when CFC revenues were included with other non-operating revenues.

Capital grants and other capital contributions, including amounts received from federal and state agencies, are recognized as revenue when all applicable eligibility requirements imposed by the provider have been met. Upon adoption of GASB Statement No. 103, these amounts are included in other non-operating revenues. This represents a change in presentation from prior years, when capital grants and contributions were reported separately from non-operating revenues on the statement of revenues, expenses, and changes in net position.

The Airport's major operating expenses include salaries and employee benefits, maintenance, utilities, professional services, insurance, and other costs associated with providing Airport services. It is the Airport's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

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 balances as of June 30:

	2026	2025
Unrestricted	\$ 1,608,672	\$ 1,170,725
Restricted	974,148	442,104
Total cash	<u>\$ 2,582,820</u>	<u>\$ 1,612,829</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, 2026 and 2025, none of the Airport's cash balances were exposed to custodial credit risk.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

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, 2026 were as follows:

		Percentage of Total	Duration	Standard & Poor's Rating	Moody's
Unrestricted cash equivalents:					
Government Cash Reserves	\$ 391,666	0.7%	N/A	N/A	N/A
Insured Cash Sweep	569,754	0.9%	N/A	N/A	N/A
Total unrestricted cash equivalents	961,420	1.6%			
Unrestricted investments:					
Mortgage-Backed Securities	10,339,191	17.7%	7/15/26-12/15/41	NR/AA+/AAA A/A-/A+/AA/AA-/BB+/	NR/Aaa/Aa1
Corporate Bonds	5,122,037	8.8%	7/7/25-10/31/82	BBB/BBB-/	A1/A2/A3/Aa2/Aa3/
Collateralized Loan Obligations	18,472	0.1%	7/15/31-4/18/33	BBB+/NR	Baa1/Baa2//NR/WR
US Treasury Notes	1,569,204	2.5%	4/30/26-5/15/28	NR	NR
US Agency Bonds	2,790,752	4.8%	12/16/26-12/16/63	AA+/NR	NR
Exchange Traded Funds	3,946,619	6.8%	NA	NR	NR
Total unrestricted investments	23,786,275	40.7%			
Restricted cash equivalents:					
Government Cash Reserves	9,875,422	16.9%	N/A	N/A	N/A
Insured Cash Sweep	3,200	0.1%	N/A	N/A	N/A
Total restricted cash equivalents	9,878,622	17.0%			
Restricted investments:					
Mortgage-Backed Securities	6,453,833	11.1%	7/25/26-7/25/38	AA+/AAA/NR	Aaa/Aa1/NR
Corporate Bonds	1,029,610	1.8%	10/15/26-12/31/99	A/A-/A+/AA-/	A1/A2/A3/Aa2/
Collateralized Loan Obligations	18,472	0.1%	7/15/31-4/18/33	AA/BB+/BBB+/BBB-/BBB	Aa3/Ba1/Baa1/Baa2/
US Treasury Notes	14,301,609	24.4%	8/31/26-5/15/28	AAA	Baa3/NR/WR
US Agency Bonds	1,071,017	1.8%	12/16/26-12/16/63	AA+/NR	Aaa/NR
Exchange Traded Funds	882,850	1.5%	NA	AA+	Aa1/NR
Total restricted investments	23,757,391	40.7%		NR	Aa1
Total cash equivalents and investments	\$ 58,383,708	100.0%			NR

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

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

Unrestricted and restricted cash equivalents and investments of the Airport as of June 30, 2025 were as follows:

		Percentage of Total	Duration	Standard & Poor's Rating	Moody's
Unrestricted cash equivalents:					
Government Cash Reserves	\$ 391,700	0.7%	N/A	N/A	N/A
Insured Cash Sweep	619,761	1.0%	N/A	N/A	N/A
Total unrestricted cash equivalents	1,011,461	1.7%			
Unrestricted investments:					
Mortgage-Backed Securities	10,677,048	17.6%	8/25/25-9/16/63	NR/AA+/AAA A/A-/A+/AA/AA-/BB+/	NR/Aaa/Aa1 A1/A2/A3/Aa2/Aa3/ Ba1/Baa1/Baa2/Baa3/NR/WR
Corporate Bonds	5,123,587	8.4%	7/7/25-10/31/82	BBB/BBB-/BBB+/NR	
Collateralized Loan Obligations	511,341	0.8%	7/15/31-4/18/33	AAA/NR	Aaa/NR
US Treasury Notes	1,608,098	2.7%	4/30/26-5/15/28	AA+/NR	Aa1/NR
US Agency Bonds	1,033,311	1.7%	12/16/26-1/23/45	AA+	Aa1
Exchange Traded Funds	2,972,869	4.9%	NA	NR	NR
Total unrestricted investments	21,926,254	36.1%			
Restricted cash equivalents:					
Government Cash Reserves	9,386,993	15.5%	N/A	N/A	N/A
Insured Cash Sweep	3,466,399	5.7%	N/A	N/A	N/A
Total restricted cash equivalents	12,853,392	21.2%			
Restricted investments:					
Mortgage-Backed Securities	7,598,713	12.5%	7/25/24-12/16/63	AA+/AAA/NR A/A-/A+/AA-/	Aaa/Aa1/NR A1/A2/A3/Aa2/ Aa3/Ba1/Baa1/Baa2/ Baa3/NR/WR
Corporate Bonds	1,211,795	2.0%	7/7/25-10/31/82	/AA/BB+/BBB+/BBB-/BBB	
Collateralized Loan Obligations	185,414	0.3%	7/18/31-1/15/32	AAA	Aaa/NR
US Treasury Notes	14,968,237	24.7%	7/1/25-12/31/30	AA+/NR	Aa1/NR
US Agency Bonds	309,590	0.5%	12/16/26-1/23/45	AA+	Aa1
Exchange Traded Funds	610,966	1.0%	NA	NR	NR
Total restricted investments	24,884,715	41.0%			
Total cash equivalents and investments	\$ 60,675,822	100.0%			

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Airport does not have a formal policy on interest rate risk but maintains an average weighted life on its investment portfolio of 5 years or less to comply with trust indentures and to limit the exposure to interest rate market risks. The investment portfolio as of June 30, 2026 and 2025, had an average duration of 1.93 and 1.88 years, respectively.

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.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

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

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, 2026 and 2025:

Fair Value Measurements as of June 30, 2026				
	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
US Treasury Notes	\$ 15,870,813	\$15,870,813	\$ -	\$ -
Corporate Bonds	6,151,647	-	6,151,647	-
Collateralized Loan Obligations	36,944	-	36,944	-
US Agency Bonds	3,861,769	-	3,861,769	-
Exchange Traded Funds	4,829,469	-	4,829,469	-
Mortgage-Backed Securities	16,793,024	-	16,793,024	-
Total investments by fair value level	<u>\$ 47,543,666</u>	<u>\$15,870,813</u>	<u>\$ 31,672,853</u>	<u>\$ -</u>
Fair Value Measurements as of June 30, 2025				
	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
US Treasury Notes	\$ 16,576,335	\$16,576,335	\$ -	\$ -
Corporate Bonds	6,335,382	-	6,335,382	-
Collateralized Loan Obligations	696,755	-	696,755	-
US Agency Bonds	1,342,901	-	1,342,901	-
Exchange Traded Funds	3,583,835	-	3,583,835	-
Mortgage-Backed Securities	18,275,761	-	18,275,761	-
Total investments by fair value level	<u>\$ 46,810,969</u>	<u>\$16,576,335</u>	<u>\$ 30,234,634</u>	<u>\$ -</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 3 - LESSOR AIRPORT TENANT AGREEMENTS

The Airport leases terminal space, hangars, and land to airlines, concessionaires, and other tenants under various operating lease agreements. Except for regulated leases and leases with no minimum annual guarantee, the Airport records a lease receivable and a corresponding deferred inflow of resources. The lease receivable activity for FY 2026 and FY 2025 is as follows:

*Annual Lease Payment = Receivable Reduction + Implied Interest

Lease receivables were discounted to present value by using implied interest rates ranging from 3% - 5%.

	<u>Beginning Balance</u>	<u>New Lease Additions</u>	<u>Receivable Reduction</u>	<u>Ending Balance</u>	<u>Implied Interest</u>	<u>Annual Lease Payments*</u>
FY 2026	\$ 23,585,323	\$ 497,923	\$ (6,614,012)	\$ 17,469,234	\$ 877,454	\$ 7,491,466
FY 2025	\$ 29,912,608	\$ -	\$ (6,327,285)	\$ 23,585,323	\$ 1,106,531	\$ 7,433,816

The deferred inflows on lease activity for FY 2026 and FY 2025 are as follows:

	<u>Beginning Balance</u>	<u>New Lease Additions</u>	<u>Deferred Revenue Recognized</u>	<u>Ending Balance</u>
FY 2026	\$ 22,512,882	\$ 497,923	\$ 6,641,836	\$ 16,368,969
FY 2025	\$ 29,159,724	\$ -	\$ 6,646,842	\$ 22,512,882

The lease agreements are as follows:

Automobile Rental Business: Concession, lease, and operating agreements with three rental car companies expiring on June 30, 2030.

Ground Lease Parking: Twenty-year (20) ground lease agreement for use of Airport property located on Air Freight Drive expiring on June 30, 2039.

Terminal Space: Property lease agreement for the use of 3,478 square feet located in the Airport's terminal that ends on January 15, 2034.

Food and Beverage Concessionaire: Food and beverage concessionaire agreement expires on June 30, 2032.

Parking Concessionaire: Concessionaire agreement for concessions of public parking and luggage cart rental expiring on June 30, 2027, with an option for a five (5) year extension upon mutual agreement by both parties. The five-year (5) option is not included in the lease receivable calculation.

Retail/Gift Shop – Terminal Space (New Agreement): During FY 2026, the Retail/Gift Shop terminal space lease agreement was amended to extend the lease term. The lease, which originally commenced on July 1, 2024 and was scheduled to expire on November 30, 2026, now expires on November 30, 2029.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 3 - LESSOR AIRPORT TENANT AGREEMENTS (Continued)

Future minimum lease payments of leases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FY 2027	\$ 6,855,776	\$ 635,675	\$ 7,491,451
FY 2028	3,063,670	427,781	3,491,451
FY 2029	3,058,910	278,907	3,337,817
FY 2030	3,095,967	132,737	3,228,704
FY 2031	443,792	44,362	488,154
FY 2032 - FY 2036	825,243	61,318	886,561
FY 2037 - FY 2039	125,876	5,983	131,859
Total	<u>\$ 17,469,234</u>	<u>\$ 1,586,763</u>	<u>\$ 19,055,997</u>

Regulated Leases

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: Month-to-month Operating Permits with four (4) airlines that detail the rights, services, and privileges each airline has with use of the airport and its facilities.

General Aviation and Property Agreements: Hangars, ground rentals, and building rentals on Airport property, with varying terms. 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.

Fixed-Base Operator: Fixed Base Operator (FBO) Lease and Development Agreement that commenced on July 1, 2009 and ends on July 1, 2029 for ground rent and hangars. The rent is adjusted by Consumer Price Index (CPI) every three (3) years.

Future minimum lease payments for regulated leases are as follows:

Leases – No Minimum Annual Guarantee

The Airport does not recognize a lease receivable and a deferred inflow of resources for leases that do not have minimum annual guarantee payments but collect variable payments based on current year activities.

FY 2027	\$ 1,897,573
FY 2028	1,875,867
FY 2029	1,643,104
FY 2030	845,816
FY 2031	596,223
FY 2032 - FY 2036	710,806
FY 2037 - FY 2041	91,585
FY 2042 - FY2046	91,585
FY 2047 - FY 2051	87,971
FY 2052 - FY2056	38,685
Total future minimum rental revenue	<u>\$ 7,879,215</u>

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 4 - LINE OF CREDIT

On December 10, 2025, the Airport entered into a Line of Credit Agreement with Pinnacle Bank consisting of a \$25,000,000 tax-exempt revolving line of credit and a \$40,000,000 taxable non-revolving line of credit to provide interim financing for capital improvement projects. The agreement matures on December 10, 2030. As of June 30, 2026, outstanding borrowings under the line of credit totaled \$5,475,000, consisting of \$5,375,000 outstanding under the tax-exempt line and \$100,000 outstanding under the taxable line. The tax-exempt variable rate is calculated as follows: (1-month SOFR + 163 basis points) * 79%, resulting in a tax-exempt interest rate of 4.155% as of June 30, 2026. The taxable variable interest rate is calculated as (1-month SOFR + 163 basis points), with a rate of 5.260% as of June 30, 2026.

The agreement also provides for an unused fee when the average monthly amount outstanding under either credit note is less than 50% of its authorized amount. The unused fee is calculated at a rate of 0.25% per annum based on the daily unused portion of the applicable credit note. Accordingly, the fee applies when the average daily amount outstanding is less than \$12,500,000 for the \$25,000,000 tax-exempt credit note or less than \$20,000,000 for the \$40,000,000 taxable credit note.

The line of credit is secured by the general revenues of the Airport, the Airport's interest in certain pledged funds, and the Airport's rights under the lease agreement between the Airport, as lessor, and the Lexington-Fayette Urban County Government, as lessee. As of June 30, 2026, the Airport was in compliance with all financial covenants and other requirements of the Line of Credit Agreement.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 5 - CAPITAL ASSETS

Capital asset activity for FY 2026 and FY 2025 is as follows:

As of June 30, 2026, several uncompleted construction projects were 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 \$38,504,550 on June 30, 2026.

	2026				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets being depreciated:					
Land improvements	\$ 129,727,893	\$ 44,952	\$ 1,386,086	\$ 2,591,916	\$ 130,978,675
Structures and other improvements	224,761,192	119,301	10,495,954	3,265,241	217,649,780
Equipment	54,899,700	383,329	459,656	1,640,867	56,464,240
Total capital assets being depreciated	409,388,785	547,582	12,341,696	7,498,024	405,092,695
Capital assets not being depreciated:					
Land	20,213,806	44,958	-	-	20,258,764
Construction in progress	11,238,301	31,142,139	-	(7,498,024)	34,882,416
Total capital assets not being depreciated	31,452,107	31,187,097	-	(7,498,024)	55,141,180
Less accumulated depreciation:					
Land improvements	51,862,491	5,747,127	1,386,086	-	56,223,532
Structures and other improvements	138,128,040	6,144,332	10,495,952	-	133,776,420
Equipment	15,955,384	2,936,078	394,081	-	18,497,381
Total accumulated depreciation	205,945,915	14,827,537	12,276,119	-	208,497,333
Net capital assets	\$ 234,894,977	\$ 16,907,142	\$ 65,577	\$ -	\$ 251,736,542
	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets being depreciated:					
Land improvements	\$ 127,364,664	\$ 52,414	\$ 6,342,286	\$ 8,653,101	\$ 129,727,893
Structures and other improvements	219,338,663	160,200	4,532,306	9,794,635	224,761,192
Equipment	37,555,804	1,170,132	732,236	16,906,000	54,899,700
Total capital assets being depreciated	384,259,131	1,382,746	11,606,828	35,353,736	409,388,785
Capital assets not being depreciated:					
Land	20,213,806	-	-	-	20,213,806
Construction in progress	23,621,649	22,970,388	-	(35,353,736)	11,238,301
Total capital assets not being depreciated	43,835,455	22,970,388	-	(35,353,736)	31,452,107
Less accumulated depreciation:					
Land improvements	52,676,767	5,528,011	6,342,287	-	51,862,491
Structures and other improvements	136,495,730	6,164,616	4,532,306	-	138,128,040
Equipment	14,356,472	2,330,447	731,535	-	15,955,384
Total accumulated depreciation	203,528,969	14,023,074	11,606,128	-	205,945,915
Net capital assets	\$ 224,565,617	\$ 10,330,060	\$ 700	\$ -	\$ 234,894,977

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 6 - EQUIPMENT FINANCING AGREEMENTS

As of June 30, 2026, the outstanding balance of the equipment financing agreements is \$250,761. Payments are scheduled as follows:

FY 2027	\$ 142,526
FY 2028	108,235
Total	250,761
Less current payable	(142,526)
Total noncurrent	<u>\$ 108,235</u>

The amount shown as current payable in the table above is included in accounts payable on the statement of net position.

The following is a summary of the changes in the principal amount of equipment financing agreements during FY 2026 and FY 2025:

		2026			
		Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Equipment financing agreements		\$ 392,127	\$ (141,366)	\$ 250,761	\$ 142,526

		2025			
		Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Equipment financing agreements		\$ 533,493	\$ (141,366)	\$ 392,127	\$ 141,366

NOTE 7 - BONDS PAYABLE

The following is a summary of the changes in the principal amount of bonds payable during FY 2026 and FY 2025:

		2026			
		Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General Bonds		\$ 87,240,000	\$ (5,105,000)	\$ 82,135,000	\$ 5,020,000

		2025			
		Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General Bonds		\$ 92,120,000	\$ (4,880,000)	\$ 87,240,000	\$ 5,105,000

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 7 - BONDS PAYABLE (continued)

Bonds payable on June 30, 2026 and June 30, 2025 are as follows:

	<u>2026</u>	<u>2025</u>
2016 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%.	\$ 16,600,000	\$ 19,945,000
2016 Series D, Fixed Rate General Airport, Revenue Bonds (non-AMT) due through July 2036 with coupon rates ranging from 3% to 5%.	3,705,000	3,965,000
2016 Series E, Fixed Rate General Airport, Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 3%-4%.	1,005,000	1,605,000
2019 Series A, Fixed Rate General Airport, Revenue & Revenue Refunding Bonds (Federally Taxable) due through July 2036 with coupon rates ranging from 1.97%-3.25%.	13,575,000	14,475,000
2023 Series A, Fixed Rate General Airport, Revenue & Revenue Refunding Bonds (non-AMT) due through July 2027 with coupon rates ranging from 5%-5.25%.	29,160,000	29,160,000
2023 Series B, Fixed Rate General Airport Revenue Bonds (AMT) due through July 2049 with coupon rates ranging from 4%-5%.	1,170,000	1,170,000
2023 Series C, Fixed Rate General Airport Revenue Bonds (Federally Taxable) due through July 2049 with coupon rates ranging from 5.962%-6.124%.	16,920,000	16,920,000
Total principal payable	82,135,000	87,240,000
Unamortized bond premiums	2,009,801	2,149,418
Total bonds payable	84,144,801	89,389,418
Less current portion	5,020,000	5,105,000
Noncurrent portion of bonds payable	<u>\$ 79,124,801</u>	<u>\$ 84,284,418</u>

2023 General Airport Revenue & Revenue Refunding Bonds

On November 30, 2023, the Airport issued \$47,250,000 of General Airport Revenue and Revenue Refunding Bonds, Series 2023 (2023 Bonds), consisting of three series with effective interest rates of 4.58% for Series A, 5.17% for Series B, and 6.22% for Series C. The 2023 Bonds were issued at an original issue premium of \$1,908,547 to finance various Airport capital improvements and to advance refund the 2009 Series B Bonds and the tax-exempt portion of the 2019 Series A Bonds. Net proceeds of \$18,421,000 from the refunding portion of the 2023 Series A Bonds were deposited in an irrevocable escrow to refund the outstanding principal and interest on the 2009 Series B Bonds and a portion of the 2019 Series A Bonds. As a result, the refunded bonds were defeased and the related liabilities were removed from the Airport's financial statements.

A portion of the 2023 Bond proceeds was designated to fund interest costs associated with the financed projects. During FY 2026 and FY 2025, \$638,062 and \$1,632,696, respectively, of interest costs were paid from bond proceeds and reported as interest expense. Bond proceeds will continue funding interest costs associated with the 2023 Series A Bonds through September 2026.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 7 - BONDS PAYABLE (continued)

The refunding resulted in a difference of \$1,080,095 between the reacquisition price and the net carrying amount of the refunded debt, which was reported as a deferred outflow of resources and is being amortized to interest expense through June 30, 2038. The refunding reduced total debt service payments by \$2,063,879 and resulted in an economic gain of \$759,902. At June 30, 2026, the outstanding principal balance of the refunded bonds payable from escrow was \$14,445,000.

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 on June 30, 2026 for all bonds outstanding are outlined below.

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ 5,020,000	\$ 3,607,360	\$ 8,627,360
2028	4,050,000	3,465,777	7,515,777
2029	4,685,000	3,316,909	8,001,909
2030	4,815,000	3,148,463	7,963,463
2031	5,060,000	2,972,438	8,032,438
2032-2036	24,490,000	11,742,051	36,232,051
2037-2041	10,125,000	7,810,463	17,935,463
2042-2046	7,375,000	5,836,323	13,211,323
2047-2051	9,495,000	3,439,490	12,934,490
2052-2056	7,020,000	623,264	7,643,264
Total	<u>\$ 82,135,000</u>	<u>\$ 45,962,538</u>	<u>\$ 128,097,538</u>

NOTE 8 - 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 per enplaned passenger to fund FAA-approved capital projects and associated debt service attributable to those projects. During FY 2026 and FY 2025 the Airport received PFCs totaling \$3,265,322 and \$3,494,834. As of June 30, 2026, the Airport is authorized to collect and use PFCs for approved costs of \$53 million under the authority granted by the FAA.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 9 - RETIREMENT PLANS

The Airport maintains a defined contribution retirement plan (the "Plan"), known as the Blue Grass Airport Employees Retirement Plan, which covers all full-time employees. The Plan is administered by Voya Financial. It was established by the Airport Board and may be amended at the Board's discretion.

Under the Plan, each employee is required to contribute 5% of gross earnings to participate. For public safety employees, the required contribution is 7%. The Airport contributes 9% of total participant compensation, reduced by forfeitures from non-vested accounts of terminated employees, on a bi-weekly basis. For public safety employees, the Airport's contribution rate is 12.15%.

Vesting occurs over a five-year graded schedule as follows:

- 1 year – 0%
- 2 years – 25%
- 3 years – 50%
- 4 years – 75%
- 5 years – 100%

A year of service is defined as the completion of at least 1,000 hours during the applicable computation period.

Upon termination of service, participants may elect to receive their benefits as either a single lump-sum payment or a lifetime annuity, provided their account balance is \$5,000 or greater. If the annuity option is selected, it is anticipated that the participant's account balance will be used to purchase an annuity contract. Participants with balances of \$5,000 or less are required to take a lump-sum distribution.

Employer contributions to the Plan made by the Airport totaled \$764,000 for FY 2026 and \$706,000 for FY 2025. Required employer contributions were reduced by forfeitures of \$58,000 and \$28,000 in FY 2026 and FY 2025, respectively. Employee contributions totaled \$424,000 in FY 2026 and \$401,000 in FY 2025.

Because Plan assets are held in trust for the exclusive benefit of Plan participants, they are not included in the accompanying statement of net position.

In addition, the Airport offers a deferred compensation plan under Internal Revenue Code Section 457(b), which allows employees to defer up to \$24,500 annually in pre-tax contributions. The Airport does not contribute to this Plan.

LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended June 30, 2026 and 2025

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Airport has a plan that provides medical insurance post-employment benefits to qualifying employees. The plan is currently unfunded, and no assets have been set aside in a trust to finance future obligations. Employees who retire after completing 27 years of service, or 20 years of service for public safety officers, are eligible to receive a fixed monthly subsidy of up to \$275 towards medical insurance premiums. This subsidy remains in effect until the retiree becomes eligible for other health insurance coverage, including Medicare or Medicaid. The benefit amount is fixed unless changed at the discretion of the Airport.

There is no required employee contribution related to this benefit. Management estimates the post-employment benefits liability based on the number of eligible retirees and the expected duration of future payments.

The following table presents the change in the post-employment benefits liability for FY 2026 and FY 2025:

	Beginning Balance	(Payments)	Ending Balance
FY 2026	\$ 278,473	\$ (9,901)	\$ 268,572
FY 2025	\$ 286,172	\$ (7,699)	\$ 278,473

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.

STATISTICAL SECTION

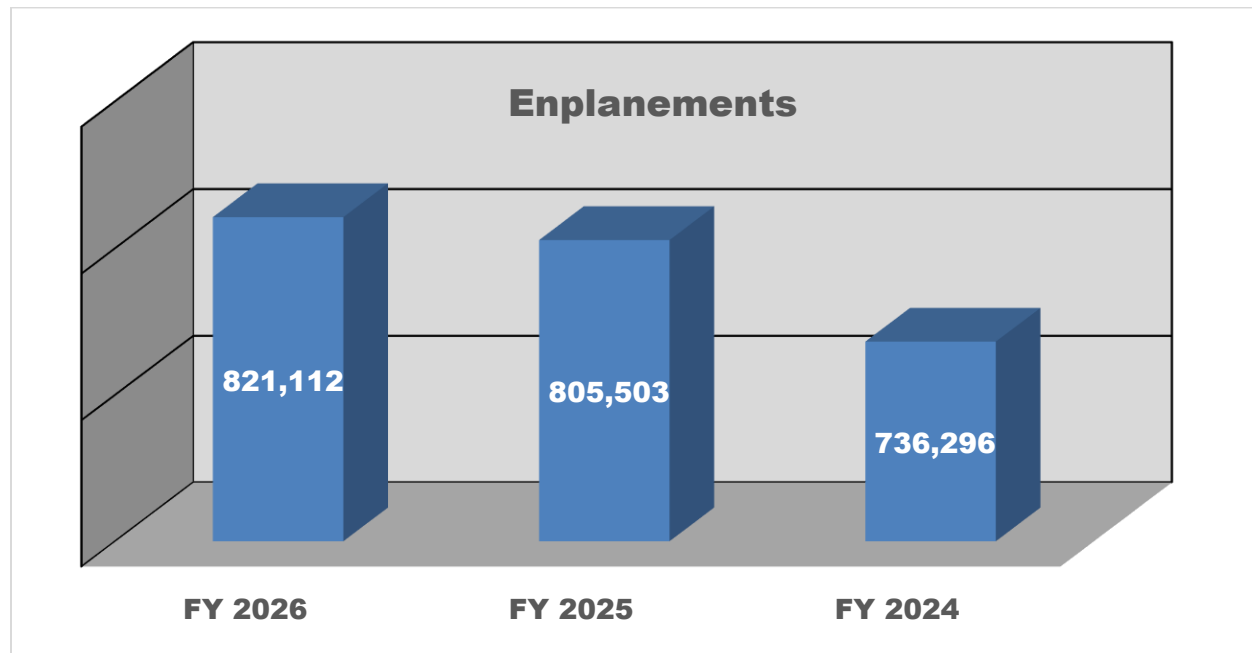
LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATISTICAL SECTION
Years Ended June 30, 2026 and 2025

Other Information

Operations Statistical Data

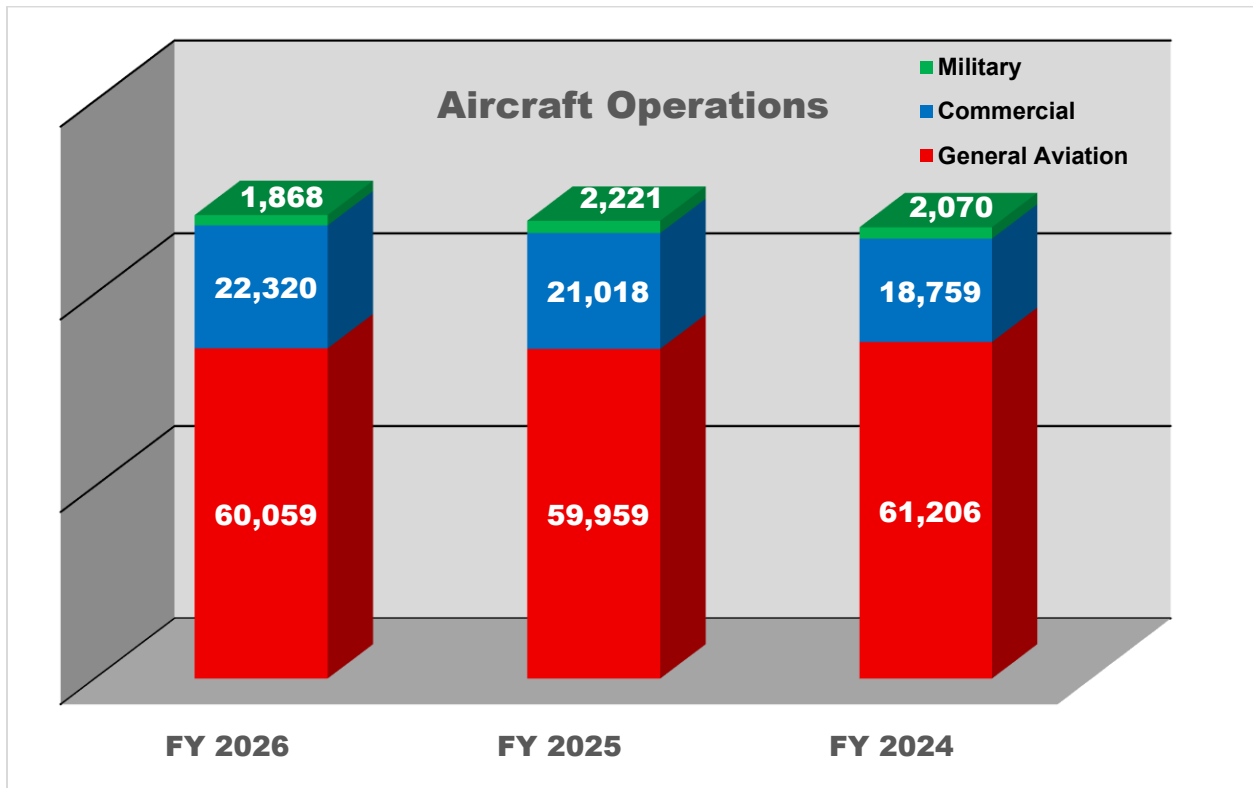
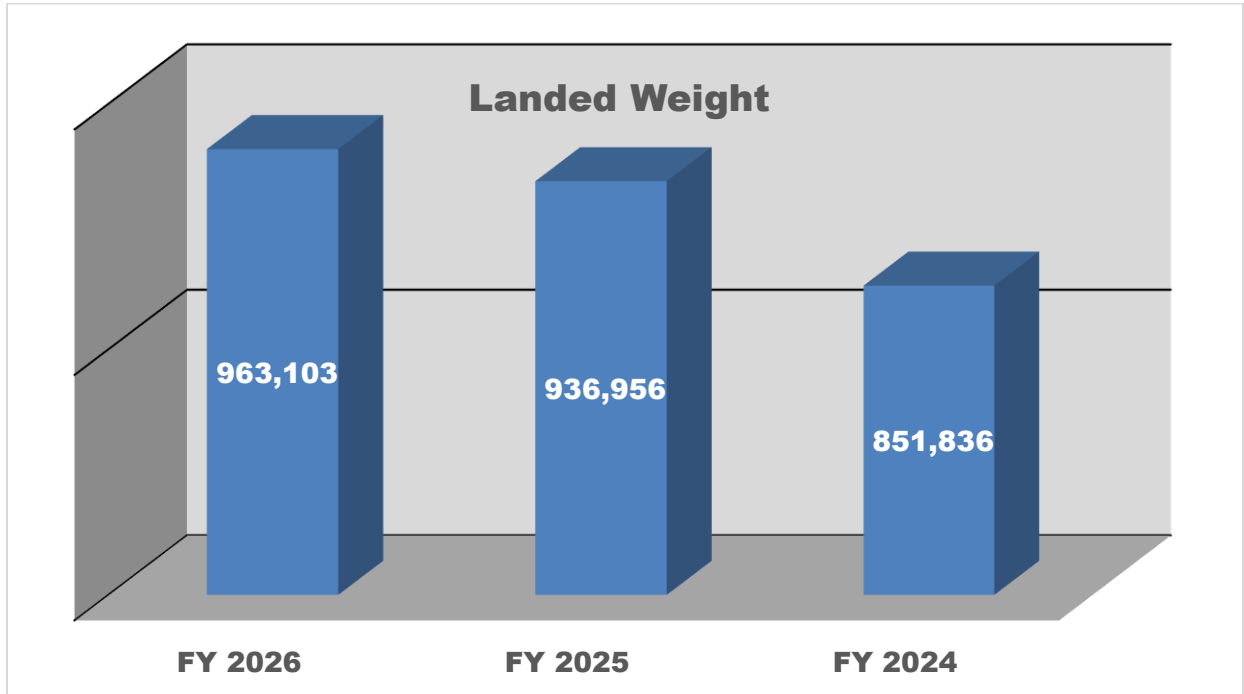
	2026	2025	2024
Enplanements	821,112	805,503	736,296
Increase	15,609	69,207	102,542
% Increase	1.94%	9.40%	16.18%
Landed weight (1,000 pounds)	963,103	936,956	851,836
Increase	26,147	85,120	123,934
% Increase	2.79%	9.99%	17.03%
Aircraft operations - commercial	22,320	21,018	18,759
Increase	1,302	2,259	1,139
% Increase	6.19%	12.04%	6.46%
Aircraft operations - general aviation	60,059	59,959	61,206
Increase (decrease)	100	(1,247)	(484)
% Increase (decrease)	0.17%	(2.04%)	(0.78%)
Aircraft operations - military	1,868	2,221	2,070
Increase (decrease)	(353)	151	(107)
% Increase (decrease)	(15.89%)	7.29%	(4.92%)

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



LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
STATISTICAL SECTION (Continued)
Years Ended June 30, 2026 and 2025

Other Information (Continued)



COMPLIANCE REPORT

**Report of Independent Auditor on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Lexington-Fayette Urban County Airport Board (the "Airport"), a component unit of the Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements, and have issued our report thereon dated September 23, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting ("internal control") as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Airport's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lexington, Kentucky
September 23, 2026