

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
FINANCIAL STATEMENTS, SUPPLEMENTARY  
INFORMATION, AND INDEPENDENT AUDITOR'S REPORTS  
June 30, 2004 and 2003

LOUISVILLE REGIONAL AIRPORT AUTHORITY

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the  
Louisville Regional Airport Authority

We have audited the accompanying financial statements of the Louisville Regional Airport Authority (the Authority) as of and for the years ended June 30, 2004 and 2003 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville Regional Airport Authority as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority, taken as a whole. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is also not a required part of the basic Financial Statements. Such information

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has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Moore Stephens Potter, LLP*

MOORE STEPHENS POTTER, LLP  
September 3, 2004



## Management's Discussion and Analysis

The Louisville Regional Airport Authority is a municipal corporation established by Chapter 77 of the 1928 Public Acts of the Commonwealth of Kentucky. The Authority was organized for and has its purpose, as set forth in Kentucky Revised Statutes Chapter 183, to establish, maintain, operate and expand airport and air navigation facilities either acquired by or placed under control of the Authority as provided by Kentucky law, and to promote and develop aviation. The Authority currently operates Louisville International Airport (SDF) and Bowman Field (LOU). The management of the Authority offers readers of our financial statements the following narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2004.

### Basic Financial Statements

Our financial statements are prepared using propriety fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The Authority is operated under one enterprise fund. This method of accounting utilizes a focus on economic resources measurement and an accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses & Changes in Net Assets, and Statement of Cash Flows. These are followed by notes to the financial statements. In addition to the financial statements, this report also contains required supplementary information.

The Statement of Net Assets presents information on Assets, Liabilities, and the difference between these two is reported as Net Assets. Over time, increases or decreases in Net Assets may serve as a useful indicator of whether the financial position of the Airport is improving or deteriorating.

The Statement of Revenues, Expenses & Changes in Net Assets reports operating and non-operating revenues and expenses of the Airport for the fiscal year with the difference being a net income or loss. This net income or loss is combined with any capital contributions to determine the net change in assets for the fiscal year. That change combined with last fiscal year's Net Asset total reconciles to the Net Asset total at the end of this fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operations, capital and related financing, and investments. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance at the end of the current fiscal year. Contrary to the other basic financial statements, this statement is prepared on a cash basis.

### Financial Highlights (versus Budget and Prior Year)

- Net Assets increased from prior year by \$24,239,338 to \$336,028,813. This increase is due to net loss of \$7,193,694 and capital contributions received of \$31,433,032.
- Total Revenues, excluding capital contributions, for fiscal year 2004 were 9.7% less than budget and 15.0% less than fiscal year 2003 actual. The reduction versus budget and 2003 actual was primarily due to less landing fee revenue due to the end of a 10 year landing fee surcharge agreement with UPS whereby they agreed to cover a portion of bond debt used for airfield improvements. Exclusive of the preceding reduction, revenues were either flat or had slight increases as passenger traffic remained flat versus FY 2003
- Operating Expenses for fiscal year 2004 were 10.2% less than budget and 8.4% greater than fiscal year 2003 actual. Major contributors to the increase versus prior year were increased costs due to employee wage increases and cost of insurance and retirement benefits.
- Operating income before depreciation was \$28,237,168 which is \$643,087 (2.2%) less than budgeted and \$8,820,217 (23.8%) less than fiscal year 2003 actual.
- Net loss before capital contributions was \$7,193,694 which is \$442,731 (5.8%) less than budget and \$8,536,787 (100%) greater than fiscal year 2003 actual.

## Financial Information

**Statement of Net Assets.** The following schedule presents a summary of net assets for the fiscal years ended June 30, 2004, 2003, and 2002.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>Assets:</b>			
Unrestricted	\$ 39,486,778	\$ 18,560,943	\$ 14,095,593
Restricted	83,669,241	106,508,707	94,169,697
Capital Assets (Includes In Progress)	683,324,251	655,051,813	647,795,782
Other	17,747,038	18,562,897	12,504,647
<b>Total Assets</b>	<b>\$ 824,227,308</b>	<b>\$ 798,684,360</b>	<b>\$ 768,565,719</b>
<b>Liabilities:</b>			
Unrestricted	\$ 7,119,943	\$ 1,741,982	\$ 2,835,496
Restricted	41,790,681	31,034,349	109,542,017
Long Term Debt	407,355,000	421,685,000	344,850,000
Other	31,932,871	32,433,554	23,296,849
<b>Total Liabilities</b>	<b>\$ 488,198,495</b>	<b>\$ 486,894,885</b>	<b>\$ 480,524,362</b>
<b>Net Assets</b>	<b>\$ 336,028,813</b>	<b>\$ 311,789,475</b>	<b>\$ 288,041,357</b>

**Revenue.** The following schedule presents a summary of revenues, excluding capital contributions, for the fiscal years ended June 30, 2004, 2003 and 2002.

	<u>Actual June 30, 2004</u>	<u>Budget June 30, 2004</u>	<u>Actual June 30, 2003</u>	<u>Actual June 30, 2002</u>
<b>Operating Revenues</b>				
Landing and Field Use	\$15,607,052	\$18,873,500	\$23,593,759	\$22,522,742
Apron Area	1,589,422	1,289,500	1,227,164	1,142,363
Landside Terminal	3,791,948	3,932,200	3,965,596	3,685,553
Airside Terminal	3,497,273	3,221,480	3,801,444	3,069,070
Leases	5,752,739	5,647,132	5,033,907	3,854,293
Ground Transportation	18,130,597	18,277,054	17,947,314	18,289,514
Other	132,615	199,900	189,616	327,642
<b>Total Operating Revenues</b>	<b>48,501,646</b>	<b>51,440,766</b>	<b>55,758,800</b>	<b>52,891,177</b>
<b>Non Operating Revenues</b>				
Passenger Facility Charge	4,630,820	4,800,000	4,548,046	4,859,834
Interest Income	2,253,055	4,433,000	4,353,435	6,562,838
Other	(565,711)	-	(144,028)	(374,170)
<b>Total Non Operating Revenues</b>	<b>6,318,164</b>	<b>9,233,000</b>	<b>8,757,453</b>	<b>11,048,502</b>
<b>Total Revenues</b>	<b>\$54,819,180</b>	<b>\$60,673,766</b>	<b>\$64,516,253</b>	<b>\$63,939,679</b>

The reductions in Landing and Field Use Revenue were due to the surcharge agreement with UPS ending in FY 2003. The Authority also receives capital contributions from Federal and State Government grants. These funds are restricted to the specific capital project for which they were intended. The funds received from capital contributions for fiscal year 2004 and 2003 were \$31,433,032 and \$22,405,025 respectively. The majority of grant funds are for the acceleration of our Part 150 programs. These funds are on a reimbursement basis and are restricted to the specific capital project or equipment specified in the grant agreement. After these funds are received the Authority may use these funds for other projects such as Part 150 projects.

**Expenses.** The following schedule presents a summary of expenses for the fiscal years ended June 30, 2004, 2003, and 2002:

	Actual <u>June 30, 2004</u>	Budget <u>June 30, 2004</u>	Actual <u>June 30, 2003</u>	Actual <u>June 30, 2002</u>
Operating Expenses:				
Payroll & Fringe Benefits	\$10,546,966	\$10,519,278	\$ 9,525,622	\$ 9,105,898
Contract Services	3,555,281	3,612,262	3,259,705	3,063,251
Supplies, Parts and Misc. Services	883,025	881,972	1,309,537	898,348
Fuel and Utilities	2,103,554	1,795,900	2,016,175	1,770,203
Other	3,175,652	5,750,599	2,590,376	1,651,875
Total Operating Expenses	<u>20,264,478</u>	<u>22,560,011</u>	<u>18,701,415</u>	<u>16,489,575</u>
Other Expenses				
Interest Expense	14,562,491	20,354,680	17,413,882	20,329,913
Depreciation	27,186,535	25,395,000	27,057,863	26,687,340
Total Other Expenses	<u>41,749,026</u>	<u>45,749,680</u>	<u>44,471,745</u>	<u>47,017,253</u>
Total Expenses	<u>\$62,013,504</u>	<u>\$68,309,691</u>	<u>\$63,173,160</u>	<u>\$63,506,828</u>

**Capital Assets.** During fiscal year 2004, the Airport's capital spending and accruals totaled \$55,118,911. Major projects were Noise Mitigation, Land Acquisition and Relocation Program - \$27,351,856; Terminal Renovation Projects - \$19,820,079; Hotel - \$1,976,225; Airfield - \$1,601,279. Fixed Asset's purchased and Projects completed and capitalized during the year totaled \$10,986,453.

**Debt.** Currently, the Authority has bonds outstanding of \$434,675,000 of which \$421,685,000 is considered long-term. Future revenues of the Authority are pledged to pay the debt and debt service payments of all bonds. Major projects that were or are being funded by the debt currently recorded on the Authority's statements include Terminal Construction and Renovation, Parking Garage and Lot Construction, Airfield Expansions and Upgrades, Land Acquisitions, and Upgrades at Bowman Field. A summary of changes in long-term debt and annual debt service requirements is found in Note 7 to the financial statements.

**Requests for Information.** The financial report is intended to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any information contained in this report may be directed to the Director of Finance, P.O. Box 9129, Louisville, KY 40209.

Respectfully submitted,



Lawrence A. Huber  
Director of Finance

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF NET ASSETS  
June 30, 2004 and 2003

	2004	2003
<u>ASSETS</u>		
Current assets (unrestricted)		
Cash and cash equivalents	\$ 20,083,133	\$ 14,271,690
Investments	15,130,085	100,000
Fees and rentals receivable	3,594,580	3,510,148
Supplies and prepaid expenses	678,980	679,105
Total current assets	39,486,778	18,560,943
Restricted assets		
Cash - PFC fund	2,947,806	872,195
Cash and cash equivalents	61,687,537	73,222,513
Investments	19,033,898	30,536,233
Grants receivable	0	1,877,766
Total restricted assets	83,669,241	106,508,707
Capital assets		
Airport property, facilities and equipment		
Land	202,315,988	198,056,260
Land improvements	317,344,850	312,577,392
Buildings	144,217,641	143,514,985
Utility systems	34,992,442	34,956,875
Vehicles and other	19,526,231	18,305,185
	718,397,152	707,410,697
Less accumulated depreciation	270,150,454	243,681,743
Net airport property, facilities and equipment	448,246,698	463,728,954
Construction in progress	235,077,553	191,322,859
Total capital assets	683,324,251	655,051,813
Other assets		
Deferred bond costs, net of accumulated amortization of \$2,710,709 in 2004 and \$1,792,450 in 2003	17,747,038	18,562,897
Total assets	\$ 824,227,308	\$ 798,684,360

See accompanying notes.

	<u>2004</u>	<u>2003</u>
<u>LIABILITIES</u>		
Current liabilities (payable from unrestricted current assets)		
Accounts payable	\$ 6,058,100	\$ 776,760
Accrued expenses and other	849,420	738,833
Deferred income	<u>212,423</u>	<u>226,389</u>
Total current liabilities (unrestricted)	<u>7,119,943</u>	<u>1,741,982</u>
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	12,990,000	5,205,000
Accounts payable	958,447	2,862,632
Accrued interest	9,212,234	5,676,717
Revolving coverage	<u>4,300,000</u>	<u>4,300,000</u>
Total current liabilities (restricted)	<u>27,460,681</u>	<u>18,044,349</u>
Total current liabilities	<u>34,580,624</u>	<u>19,786,331</u>
Long-term debt		
Bonds payable	<u>421,685,000</u>	<u>434,675,000</u>
Other liabilities		
Deposit from Kentucky Air National Guard	3,033	3,033
Deposit from UPS Land Option	2,186,987	2,186,987
Unamortized bond premium, net	9,568,288	10,058,352
Deposit from Commonwealth of Kentucky	20,000,000	20,000,000
Deferred revenue	<u>174,563</u>	<u>185,182</u>
Total other liabilities	<u>31,932,871</u>	<u>32,433,554</u>
Total liabilities	<u>488,198,495</u>	<u>486,894,885</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt	319,200,005	300,918,279
Restricted for debt service	8,885,114	8,885,114
Restricted for capital projects	2,947,806	2,749,961
Unrestricted net assets (deficit)	<u>4,995,888</u>	<u>(763,879)</u>
Total net assets	<u>\$ 336,028,813</u>	<u>\$ 311,789,475</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues		
Rentals and concessions	\$ 32,894,594	\$ 32,165,040
Landing and field use fees	<u>15,607,052</u>	<u>23,593,760</u>
Total operating revenues	<u>48,501,646</u>	<u>55,758,800</u>
Operating expenses		
Operations and maintenance	11,826,265	10,961,954
Depreciation and amortization	27,186,535	27,057,863
Administrative, general, planning and engineering	<u>8,438,213</u>	<u>7,739,461</u>
Total operating expenses	<u>47,451,013</u>	<u>45,759,278</u>
Operating income	<u>1,050,633</u>	<u>9,999,522</u>
Nonoperating revenues (expenses)		
Investment earnings, net	2,253,055	4,353,435
Interest expense	(14,562,491)	(17,413,882)
Passenger facility charges	4,630,820	4,548,046
Net loss on sale of assets and other revenue	<u>(565,711)</u>	<u>(144,028)</u>
Net nonoperating revenues (expenses)	<u>(8,244,327)</u>	<u>(8,656,429)</u>
Income (loss) before capital contributions	(7,193,694)	1,343,093
Capital contributions	<u>31,433,032</u>	<u>22,405,025</u>
Increase in net assets	24,239,338	23,748,118
Net assets, beginning of year	<u>311,789,475</u>	<u>288,041,357</u>
Net assets, end of year	<u>\$ 336,028,813</u>	<u>\$ 311,789,475</u>

See accompanying notes.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Receipts from customers and users	\$ 49,915,119	56,982,194
Payments to suppliers	(9,858,604)	(12,778,725)
Payments to employees	(6,539,702)	(7,535,785)
Net cash provided by operating activities	33,516,813	36,667,684
Cash flows from capital and related financing activities		
Capital contributions	33,310,798	21,115,290
Repayment of capital contributions	0	(2,000,000)
Passenger facility charges	4,556,577	4,548,046
Acquisition and construction of capital assets	(57,878,580)	(32,628,337)
Proceeds from sale of assets	0	25,550
Proceeds from issuance of capital debt	0	235,980,000
Principal paid on capital debt	(5,205,000)	(238,545,000)
Interest paid on capital debt	(11,026,974)	(13,591,215)
Fees paid on bonds	(222,468)	(69,000)
Issuance costs of capital debt	(148,107)	(6,882,536)
Cash flows used by capital and related financing activities	(36,613,754)	(32,047,202)
Cash flows from investing activities		
Proceeds from maturities of investments	17,100,869	65,282,483
Purchase of investments	(19,595,196)	(27,118,753)
Investment income	1,943,346	12,282,149
Net cash provided (used) by investing activities	(550,981)	50,445,879
Net increase (decrease) in cash and cash equivalents	(3,647,922)	55,066,361
Cash and cash equivalents, beginning of year	88,366,398	33,300,037
Cash and cash equivalents, end of year	\$ 84,718,476	\$ 88,366,398
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,050,633	\$ 9,999,522
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	27,186,535	27,057,863
Changes in assets and liabilities:		
Fees and rentals receivable	84,432	792,379
Deferred income	24,585	(1,336,984)
Supplies and prepaid expenses	(125)	(3,381)
Accounts payable	5,281,340	106,234
Accrued expenses and other	(110,587)	52,051
Net cash provided by operating activities	\$ 33,516,813	\$ 36,667,684

Noncash capital and financing activities:

The Authority has retainage and accounts payable related to construction in progress of \$5,621,405 and \$2,862,632 as of June 30, 2004 and 2003, respectively. These noncash transactions have been excluded from the above statements.

See accompanying notes.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2004 and 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Louisville Regional Airport Authority (the Authority) is a municipal corporation established by Chapter No. 77 of the 1928 Public Acts of the Commonwealth of Kentucky and existing pursuant to Kentucky Revised Statutes Chapter 183. The Board consists of the Mayor of the City of Louisville, seven members appointed by the Mayor of the City of Louisville, and three members appointed by the Governor of the Commonwealth of Kentucky.

The Authority is responsible for the operation of the Louisville International Airport at Standiford Field and Bowman Field in Louisville, Jefferson County, Kentucky. Costs of operating the Authority are recovered primarily through user charges. Primary revenue sources are:

Rentals and Concessions:

These are revenues from airlines, fixed base operators, rental car companies, parking lot, food, gift shop and other commercial tenants. Leases generally are for terms from one to five years and require rentals based on the volume of business of the lessee, with specified minimum rentals.

Landing and Field Use Fees:

These fees are generally from scheduled airlines and nonscheduled commercial aviation and are assessed based on the landing weight of the aircraft. The scheduled airline fee structure is assessed pursuant to use agreements between the Authority and the signatory airlines. The Authority has entered into a Landing Fee Surcharge Agreement with one of its commercial tenants to provide financial support for the Louisville Airport Improvement Program. The revenue generated from this agreement was approximately \$594,000 for fiscal year 2004 and \$8,500,000 for fiscal year 2003.

Construction and Equipment Grants:

Certain expenditures for airport capital improvements are significantly funded through the Airport Improvement Program (AIP) of the FAA, with certain matching funds provided by the State and the Authority, or from various State allocations or grant programs. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants for capital asset acquisition, facility development and rehabilitation and eligible long-term planning studies are reported in the Statement of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital contributions.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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

A summary of the significant accounting policies consistently applied in the accompanying financial statements is presented to assist in the understanding the Authority's financial statements.

**Basis of Accounting:**

The Authority is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Authority complies with all applicable Government Accounting Standards Board (GASB) statements to the extent they do not conflict with the provisions of the use agreements or the various bond resolutions. Under the provisions of GASB Statement No. 20, the Authority has elected to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**Cash and Cash Equivalents:**

For purposes of these financial statements, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Both restricted and unrestricted amounts are included on the statements of cash flows.

**Fees and Rentals Receivable:**

Receivables are reported at their fair value and are reduced by the estimated portion that is expected to be uncollectible, if appropriate. As of June 30, 2004 and 2003, the allowance for uncollectible accounts was \$400,000.

**Investments:**

All investments are valued at amortized cost since it is generally the Authority's policy to hold such investments until they mature. It is management's intention to reinvest all maturing funds.

**Airport Property, Facilities and Equipment:**

Airport property and facilities that were transferred from the United States Government in 1948 are stated at approximate reproduction costs in 1948. Other donated assets are stated at approximate market value at the date the assets were placed into service. Substantially all other assets are stated at cost. The interest carrying costs of facilities being constructed are capitalized during their construction period based on the Authority's average borrowing rate related to outstanding debt less interest income associated with the proceeds of such debt. Interest cost capitalized was approximately \$5,473,015 and \$4,382,178 during 2004 and 2003, respectively.

Depreciation of facilities and equipment 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. Estimated useful lives are as follows:

Land improvements	10 – 25 years
Buildings	15 – 25 years
Utility systems	5 – 20 years
Vehicles and other	5 – 15 years

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2004 and 2003

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

Advertising:

Advertising costs are considered administration expenses in the year incurred and totaled \$316,823 and \$88,976 in 2004 and 2003, respectively.

Deferred Bond Costs:

Costs related to the issuance of the Revenue Bonds have been deferred and are being amortized over the term that interest is accruable on the Revenue Bonds using the straight-line method.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30:

	2004	2003
Cash on hand	\$ 3,069	\$ 3,207
Deposits with financial institutions	23,027,870	15,140,678
Repurchase agreements	<u>61,687,537</u>	<u>73,222,513</u>
	<u>\$ 84,718,476</u>	<u>\$ 88,366,398</u>

NOTE 3 – INVESTMENTS

Investments made by the Authority, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories described below:

- Category 1 – Securities insured or registered in the name of the Authority or held by the Authority or by its agent in the Authority's name.
- Category 2 – Securities uninsured and unregistered and held by the counterparty's trust department or by its agent in the Authority's name.
- Category 3 – Securities uninsured and unregistered and held by the counterparty, its trust department, or its agent, but not held in the Authority's name.

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NOTE 3 – INVESTMENTS (CONTINUED)

	Category			Carrying Amount	Market Value
	1	2	3		
June 30, 2004:					
Cash equivalents:					
Repurchase agreements	\$ 0	\$ 61,380,350	\$ 0	\$ 61,380,350	\$ 61,380,350
Certificates of deposits	100,000	0	0	100,000	100,000
Investments:					
U.S. federal agency obligations	<u>34,063,983</u>	<u>0</u>	<u>0</u>	<u>34,063,983</u>	<u>34,063,983</u>
Total	<u>\$ 34,163,983</u>	<u>\$ 61,380,350</u>	<u>\$ 0</u>	95,544,333	95,544,333
Accrued interest				<u>307,187</u>	<u>307,187</u>
Grand total				<u>\$ 95,851,520</u>	<u>\$ 95,851,520</u>
June 30, 2003:					
Cash equivalents:					
Repurchase agreements	\$ 0	\$ 72,734,971	\$ 0	\$ 72,734,971	\$ 72,734,971
Certificates of deposits	100,000	0	0	100,000	100,000
Investments:					
U.S. federal agency obligations	<u>30,536,233</u>	<u>0</u>	<u>0</u>	<u>30,536,233</u>	<u>30,536,233</u>
Total	<u>\$ 30,636,233</u>	<u>\$ 72,734,971</u>	<u>\$ 0</u>	103,371,204	103,371,204
Accrued interest				<u>487,542</u>	<u>487,542</u>
Grand total				<u>\$ 103,858,746</u>	<u>\$ 103,858,746</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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NOTE 4 – RESTRICTED ASSETS

The Authority's restricted assets, primarily available for debt service requirements and airport improvements are as follows:

June 30, 2004:

	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Interest Receivable</u>	<u>Grants Receivable</u>	<u>Total</u>
Bond Funds	\$ 61,380,350	\$ 10,117,240	\$ 201,200	\$ 0	\$ 71,698,790
Revolving Debt Coverage	0	8,916,65810	5,987	0	9,022,645
PFC Fund	<u>2,947,806</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,947,806</u>
	<u>\$ 64,328,156</u>	<u>\$ 19,033,898</u>	<u>\$ 307,187</u>	<u>\$ 0</u>	<u>\$ 83,669,241</u>

June 30, 2003:

	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Interest Receivable</u>	<u>Grants Receivable</u>	<u>Total</u>
Bond Funds	\$ 72,734,971	\$ 21,110,644	\$ 440,200	\$ 1,877,766	\$ 96,163,581
Revolving Debt Coverage	0	9,425,589	47,342	0	9,472,931
PFC Fund	<u>872,195</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>872,195</u>
	<u>\$ 73,607,166</u>	<u>\$ 30,536,233</u>	<u>\$ 487,542</u>	<u>\$ 1,877,766</u>	<u>\$ 106,508,707</u>

The Authority's Airport System Revenue Bond Resolution adopted by the Authority's Board in 1983 required that the Authority collect revenues equal to at least 125% of the aggregate debt service for the fiscal year. During 1995, the Authority made a resolution to allow revolving coverage of the debt service. This revision requires the Authority to restrict assets equal to 25% of the current year debt service amount which approximated \$8,900,000 for June 30, 2004 and 2003. Upon maturity of the debt service, the portion of these assets which were funded by the airlines will be reimbursed to the airlines based on their respective funding amounts. As of June 30, 2004 and 2003, this reimbursement amount was approximately \$4,300,000 for both years.

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NOTE 5 – COMMITMENTS AND CONTINGENCIES

Part 150 Land Acquisition Program:

The Authority is acquiring certain residential properties surrounding the Louisville International Airport at Standiford Field that are adversely impacted by noise. To accomplish this acquisition, the Authority has instituted a FAA Part 150 voluntary relocation program. Under this program, residents in the noise-impacted areas may sell their property to the Authority at its appraised value. The Authority will also make a replacement housing payment, if applicable, and pay most closing and moving expenses.

To assist residents in finding replacement housing, the Authority, in conjunction with the FAA, has developed an Innovative Housing Program. Through this program, the Authority is developing a subdivision located outside the noise-impacted areas, which will consist of moderately priced houses similar to the houses of the residents seeking replacement. Residents participating in this program may exchange their residential property in the noise-impacted area for similar property in the new subdivision. This program will provide approximately 400 replacement lots at an estimated cost of \$20 million. This program is being funded by a special grant from the FAA of \$10 million with remaining costs being paid with surplus funds of the Authority.

Upon completion of the Part 150 Land Acquisition Program, 2,179 residential properties will have been acquired at an estimated cost of \$248 million.

Deposit from Commonwealth of Kentucky:

During Fiscal 1999, the Authority received \$20 million from the Commonwealth of Kentucky (the Commonwealth) to acquire residential property under its Part 150 Land Acquisition Program. The Authority, in turn, agreed to transfer certain property to the Commonwealth. The Authority has a "Lease in Anticipation of Transfer" with the Commonwealth relating to this property, and it is anticipated that the transfer will occur during Fiscal 2005.

Litigation:

In connection with the expansion project, the Authority brought a condemnation action against a property located within the expansion area, which was challenged by the property owner. During 1993, a settlement agreement was reached whereby the property owner withdrew its challenge in exchange for a \$20 million payment by the Authority to the property owner as a non-refundable advance on the amount to which the property owner is entitled as compensation for the property and relocation benefits. The \$20 million payment made by the Authority has been reflected in these financial statements as "land". The ultimate amount of compensation to which the property owner may be entitled will be determined by a jury trial, while the amount of relocation benefits will be determined by impartial appraisers and contractors. In October 2003 a Jefferson circuit court jury found that the real estate was worth \$21,325,000. No judgment has been entered following the trial and that award is not final and is eligible for appeal. Legal counsel is unable to assess whether the likelihood that the combined relocation benefits and condemnation award will exceed \$20 million.

In addition, the Authority has brought condemnation actions against other properties located within the expansion area. Certain of the property owners have challenged or are expected to challenge the condemnation and/or the amount of compensation to which they are entitled. Any payments made by the Authority in relation to these actions have been reflected in these financial statements as "construction in progress".

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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NOTE 5 – COMMITMENTS AND CONTINGENCIES (Continued)

The Authority is a defendant in several other lawsuits. Outside Counsel for the Authority has advised that at this time they cannot assess whether the likelihood of an unfavorable outcome is either probable or remote in any of the lawsuits.

NOTE 6 – LINE OF CREDIT

Line of Credit:

The Authority has a \$10,000,000 line of credit available through June 30, 2005, with National City Bank. When the authority draws on the line of credit they can choose prime minus .75% or the 30, 60, 90 London Interbank offer rate plus 2.00%. The minimum draw is \$1,000,000, and when drawn, the line is unsecured. The outstanding balance was \$0 at both June 30, 2004 and 2003.

NOTE 7 – BONDS PAYABLE

Bonds payable consists of the following at June 30:

	<u>2004</u>	<u>2003</u>
1995 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.30% to 5.625% through July 1, 2025, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	\$ 47,390,000	\$ 48,515,000
1997 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 5.75% to 6.50% through July 1, 2017, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	36,240,000	37,865,000
1998 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 3.80% to 5.00% through July 1, 2025, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	10,110,000	10,370,000
2001 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.50% to 5.75% through July 1, 2031, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	93,800,000	95,535,000

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NOTE 7 – BONDS PAYABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
2001 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.00% to 5.50% through July 1, 2031, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	11,155,000	11,615,000
2002 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (1.1% at June 30, 2003) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	46,800,000	46,800,000
2002 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (1.1% at June 30, 2003) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	37,450,000	37,450,000
2003 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 2.50% to 4.77% through July 1, 2013, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	14,680,000	14,680,000
2003 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 2.00% to 4.60% through July 1, 2023, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	7,745,000	7,745,000

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2004 and 2003

NOTE 7 – BONDS PAYABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
2003 Series C Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 2.00% to 5.50% through July 1, 2023, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	<u>129,305,000</u>	<u>129,305,000</u>
Total debt	434,675,000	439,880,000
Less current portion	<u>12,990,000</u>	<u>5,205,000</u>
	<u>\$ 421,685,000</u>	<u>\$ 434,675,000</u>

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds	<u>\$ 439,880,000</u>	<u>\$ 0</u>	<u>\$ (5,205,000)</u>	<u>\$ 434,675,000</u>	<u>\$ 12,990,000</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds	\$ 362,445,000	\$ 235,980,000	\$(158,545,000)	\$ 439,880,000	\$ 5,205,000
Bond anticipation notes	<u>80,000,000</u>	<u>0</u>	<u>(80,000,000)</u>	<u>0</u>	<u>0</u>
Total bonds and notes payable	<u>\$ 442,445,000</u>	<u>\$ 235,980,000</u>	<u>\$(238,545,000)</u>	<u>\$ 439,880,000</u>	<u>\$ 5,205,000</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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NOTE 7 – BONDS PAYABLE (CONTINUED)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2004, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 12,990,000	\$ 22,371,864
2006	14,330,000	21,194,515
2007	15,025,000	20,504,080
2008	15,780,000	19,760,455
2009	16,510,000	18,995,092
2010-2014	95,680,000	81,907,463
2015-2019	102,195,000	55,104,814
2020-2024	92,085,000	30,359,000
2025-2029	41,590,000	11,702,831
2030-2032	<u>28,490,000</u>	<u>2,955,113</u>
Total	<u>\$ 434,675,000</u>	<u>\$ 284,855,227</u>

NOTE 8 – OUTSTANDING LETTERS OF CREDIT

At June 30, 2004, the Authority had \$387,000 of outstanding letters of credit.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 9 – SPECIAL FACILITY REVENUE BONDS

Special Facility Revenue Bonds of \$108,800,000 and \$15,500,000 (collectively, the Facility Bonds) were issued during Fiscal 1999 to finance the acquisition and construction of facilities of United Parcel Service and Airis (collectively, the Companies), respectively. Although taking the legal form of a financing lease between the Authority and the Companies, the substance of these arrangements is that the Facility Bonds constitute special and limited obligations and do not constitute a debt, liability or general obligation of the Authority or a pledge of Authority revenues. Repayment of the Facility Bonds and related interest is unconditionally the obligation of the Companies. As such, no liability relating to the Facility Bonds is included in the accompanying financial statements.

NOTE 10 – DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by ICMA Retirement Corporation, available to all Authority employees, and allows each one to defer a portion of their salary until future years. The deferred compensation is not available to an employee until termination, retirement or death. Employee contributions to the Plan for the years ended June 30, 2004 and 2003 totaled approximately \$67,712 and \$54,952, respectively.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Effective May 1, 2001, all current Authority employees who worked more than one hundred hours per month could elect to participate in a defined benefit plan administered by the County Employees Retirement System of Kentucky (CERS), a cost-sharing multiple-employer public employee retirement system or the Kentucky Public Employees Deferred Compensation Authority 401(k) Plan. All new employees hired after May 1, 2001 are required to participate in the CERS Plan.

County Employees Retirement System of Kentucky

The eligible payroll for employees covered by the Plan was approximately \$6,807,206 and \$6,026,932, out of a total payroll of approximately \$8,101,050 and \$7,513,598, for the years ended June 30, 2004 and 2003, respectively.

Employees who retire at or after age 65 with 48 months of credited services are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of their final compensation multiplied by his or her service credit. Final compensation is the average of the five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest upon reaching five years of service. Any non-hazardous employee with twenty-seven years of service may retire at any time with full benefits. Any hazardous employee with twenty years of service may retire at any time with full benefits. Vested employees with less than twenty-seven years of service may retire at or after age fifty-five and receive reduced retirement benefits. The CERS also provides death and disability benefits. Benefits are established by state statute.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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June 30, 2004 and 2003

NOTE 11 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Covered employees are required by state statute to contribute 5% of their salary to the CERS for a non-hazardous position and 8% for a hazardous position. The Authority was required by the same statute to contribute 7.34% and 6.34% of the covered employees' salaries for non-hazardous positions, and 18.51% and 16.78% for a hazardous position for 2004 and 2003, respectively. The contribution requirement for the year ended June 30, 2004 was \$1,050,463, consisting of \$659,464 from the Authority and \$390,999 from employees. The contribution requirement for the year ended June 30, 2003 was \$843,412, consisting of \$501,932 from the Authority and \$341,480 from employees.

A ten-year historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the CERS' Annual Financial Reports (which are a matter of public record). The most recent actuarial valuation was as of June 30, 2003. The Commonwealth of Kentucky's Comprehensive Annual Financial Reports should be referred to for additional disclosures related to the County Employees Retirement System ([www.kyret.com](http://www.kyret.com)).

In addition to the above defined benefit pension plan, effective May 1, 2001 all current Authority employees could elect to have the amounts listed as "single/lump sum value" rolled over from the current retirement plan into a 401 (k) account with the Kentucky Public Employees Deferred Compensation Authority on their behalf if they chose not to participate in the CERS plan. Thereafter, the Authority will contribute the same percentage of their annual income that the Authority is required to pay to CERS for similarly situated employees. This amount will continue to be contributed into the 401 (k) account as long as they are employed by the Authority as a full-time regular (or project) employee and under this option. (Employee contributions are not mandatory. Under this option an employee can make voluntary contributions up to the maximum allowable by law.)

Total contributions of \$202,258, consisting of \$60,604 from the Authority and \$141,654 from employees were made for the year ending June 30, 2004. Total contributions of \$218,572, consisting of \$66,712 from the Authority and \$151,860 from employees were made for the year ending June 30, 2003.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits and deferred compensation described in Notes 10 and 11, the Authority offers post employment health care benefits to all employees who retire from the Authority prior to May 1, 2001 on or after attaining age 55 with at least ten years of service and to all disabled employees with at least one year of service who were injured on the job. The Authority contributes between 83% and 100% of the amount of medical insurance premiums approved by the Authority for such retired and disabled employees and their dependents. These contributions are recognized by the Authority as they are made. The cost of providing such benefits was approximately \$170,213 for 34 employees and \$134,918 for 28 employees during 2004 and 2003, respectively. The plan may be terminated at the election of the board without notice.

NOTE 13 – MAJOR CUSTOMERS

The Authority had one major customer for the years ended June 30, 2004 and 2003, which comprised approximately 23% and 34% of its operating revenue for each respective year.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents:

The fair value approximates the carrying cost because of the short maturity of these instruments.

Investments:

The fair values are based on quoted market prices for such investments, adjusted for amortization.

Bonds Payable:

The fair value is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Authority for debt of the same remaining maturities.

The estimated fair values of the Authority's financial instruments are as follows:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and equivalents	\$ 84,718,476	\$ 84,718,476	\$ 88,366,398	\$ 88,366,398
Investments	\$ 34,163,983	\$ 34,163,983	\$ 30,636,233	\$ 30,636,233
Bonds Payable	\$ 434,675,000	\$ 420,454,394	\$ 439,880,000	\$ 446,943,416

NOTE 15 – PROPERTY LEASED TO OTHERS

The Authority leases a portion of its property, facilities and equipment under operating lease agreements for concessions and other commercial purposes. Future minimum rental revenues to be received under these operating leases as of June 30, 2004, are as follows:

<u>Year ending June 30:</u>	
2005	\$ 12,940,196
2006	6,111,097
2007	5,562,945
2008	4,908,700
2009	4,365,270
Thereafter	<u>28,357,078</u>
	<u>\$ 62,245,286</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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NOTE 16 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 198,056,260	\$ 4,259,728	\$ 0	\$ 202,315,988
Construction in progress	191,322,859	55,019,172	(11,264,478)	235,077,553
Total capital assets not being depreciated	<u>389,379,119</u>	<u>59,278,900</u>	<u>(11,264,478)</u>	<u>437,393,540</u>
Other capital assets:				
Land improvements	312,577,392	4,767,458	0	317,344,850
Buildings	143,514,985	702,656	0	144,217,641
Utility systems	34,956,875	35,567	0	34,992,442
Equipment (excluding automotive)	6,025,571	55,200	0	6,080,771
Vehicle and automotive equipment	7,512,585	26,895	0	7,539,480
Furniture and fixtures	4,767,029	1,138,951	0	5,905,980
Total other capital assets at historical cost	<u>509,354,437</u>	<u>6,726,727</u>	<u>0</u>	<u>516,081,164</u>
Less accumulated depreciation for:				
Land improvements	149,106,375	15,881,112	0	164,987,487
Buildings	57,658,485	7,297,009	0	64,955,494
Utility systems	21,216,149	2,327,240	0	23,543,389
Equipment (excluding automotive)	5,108,334	192,367	0	5,300,701
Vehicle and automotive equipment	6,151,425	159,740	0	6,311,165
Furniture and fixtures	4,440,975	611,243	0	5,052,218
Total accumulated depreciation	<u>243,681,743</u>	<u>26,468,711</u>	<u>0</u>	<u>270,150,454</u>
Other capital assets, net	<u>265,672,694</u>	<u>19,741,984</u>	<u>0</u>	<u>245,930,710</u>
Net capital assets	<u>\$ 655,051,813</u>	<u>\$ 39,536,916</u>	<u>\$ (11,264,478)</u>	<u>\$ 683,324,251</u>

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NOTE 16 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning <u>Balance</u>	Increases	Decreases	Ending <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 195,413,907	\$ 2,642,353	\$ 0	\$ 198,056,260
Construction in progress	<u>176,947,619</u>	<u>31,529,257</u>	<u>(17,154,017)</u>	<u>191,322,859</u>
Total capital assets not being depreciated	<u>372,361,526</u>	<u>34,171,610</u>	<u>(17,154,017)</u>	<u>389,379,119</u>
Other capital assets:				
Land improvements	302,646,368	9,931,024	0	312,577,392
Buildings	136,560,711	6,954,274	0	143,514,985
Utility systems	34,831,436	484,081	(358,642)	34,956,875
Equipment (excluding automotive)	5,861,479	177,610	(13,518)	6,025,571
Vehicle and automotive equipment	8,028,581	44,022	(560,018)	7,512,585
Furniture and fixtures	<u>4,934,350</u>	<u>73,934</u>	<u>(241,255)</u>	<u>4,767,029</u>
Total other capital assets at historical cost	<u>492,862,925</u>	<u>17,664,945</u>	<u>(1,173,433)</u>	<u>509,354,437</u>
Less accumulated depreciation for:				
Land improvements	132,385,950	16,720,425	0	149,106,375
Buildings	51,187,522	6,470,963	0	57,658,485
Utility systems	18,812,217	2,477,155	73,223	21,216,149
Equipment (excluding automotive)	4,853,538	260,928	6,132	5,108,334
Vehicle and automotive equipment	5,950,769	358,932	158,276	6,151,425
Furniture and fixtures	<u>4,238,673</u>	<u>202,302</u>	<u>0</u>	<u>4,440,975</u>
Total accumulated depreciation	<u>217,428,669</u>	<u>26,490,705</u>	<u>237,631</u>	<u>243,681,743</u>
Other capital assets, net	<u>275,434,256</u>	<u>8,825,760</u>	<u>(935,802)</u>	<u>265,672,694</u>
Net capital assets	<u>\$ 647,795,782</u>	<u>\$ 25,345,850</u>	<u>\$ (18,092,819)</u>	<u>\$ 655,051,813</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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June 30, 2004 and 2003

NOTE 17 – PASSENGER FACILITY CHARGES

The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on passengers. During the year ended June 30, 1997, the Authority was approved by the Federal Aviation Administration (FAA) to impose a \$3.00 passenger facility charge on enplaning revenue passengers. The FAA has authorized the airport to collect total net PFC revenue of \$106,998,940 to be applied as follows:

For direct payment on capital project costs	\$ 19,000,000
To be applied to the debt service and related costs on the 2001 Series A & B Bonds issued to finance PFC approved project costs	<u>87,998,940</u>
	<u>\$ 106,998,940</u>

During the year ended June 30, 2004 and 2003, amounts of \$4,630,820 and \$4,548,046, respectively were received in passenger facility charges.

NOTE 18 – DEFEASED DEBT

On May 28, 2003, the Authority issued 2003 Series A, B, and C Revenue Bonds of \$152,282,740 (above par) with variable interest rates, to refund the 1993 Series A, B, and C Revenue Bonds with variable interest rates. The 1993 Series A Revenue Bonds mature on July 1, 2013 and were callable on July 1, 2003. The 1993 Series B and C Revenue Bonds mature on July 1, 2023, and were callable on July 1, 2003. The 2003 bonds were issued at above par and, after paying issuance costs of \$5,658,490, the net proceeds were \$146,624,250. The net proceeds from the issuance of the 2003 bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 1993 bonds were called on July 1, 2003. The current refunding met the requirements of a legal debt defeasance, and the 1993 bonds were removed from the Authority's financial statements.

As a result of the current refunding, the Authority reduced its total debt service requirements by \$18,299,429, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$7,980,142.

NOTE 19 – RECLASSIFICATION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS:

Certain accounts on the financial statements as of June 30, 2003 and for the year then ended have been reclassified to be consistent with the classifications adopted for the financial statements as of June 30, 2004 and for the year then ended. There is no effect on total assets, total liabilities, net assets or changes in net assets as previously reported.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 For the year ended June 30, 2004 with comparative totals for 2003

	2004			2003 Total
	Standiford Field	Bowman Field	Total	
Operating revenues				
Landing and field use fees	\$ 15,557,552	\$ 49,500	\$ 15,607,052	\$ 23,593,760
Terminal area	7,232,959	56,264	7,289,223	7,767,041
Apron area	1,589,422	0	1,589,422	1,227,165
Ground transportation	18,130,589	0	18,130,589	17,947,205
Aviation related facility leases	3,128,603	1,136,646	4,265,249	3,934,131
Land leases and other	1,300,255	187,235	1,487,490	1,099,777
Airport services	158,807	17,926	176,733	189,435
Other revenue	172	(44,284)	(44,112)	286
	<u>47,098,359</u>	<u>1,403,287</u>	<u>48,501,646</u>	<u>55,758,800</u>
Total operating revenues				
Operating expenses				
Operations and maintenance:				
Salaries, wages	6,148,713	466,225	6,614,938	6,027,542
Contracts	3,371,167	129,605	3,500,772	3,672,843
Utilities	1,752,121	245,243	1,997,364	1,922,740
Fuel supplies	99,129	7,061	106,190	93,437
Other	875,770	253,722	1,129,492	1,013,391
Costs recovered from tenants	(1,475,436)	(47,055)	(1,522,491)	(1,767,999)
	<u>10,771,464</u>	<u>1,054,801</u>	<u>11,826,265</u>	<u>10,961,954</u>
Depreciation and amortization	<u>26,550,040</u>	<u>636,495</u>	<u>27,186,535</u>	<u>27,057,863</u>
Administrative, general, planning and engineering	<u>7,669,837</u>	<u>768,376</u>	<u>8,438,213</u>	<u>7,739,461</u>
Total operating expenses	<u>44,991,341</u>	<u>2,459,672</u>	<u>47,451,013</u>	<u>45,759,278</u>
Operating income (loss)	<u>2,107,018</u>	<u>(1,056,385)</u>	<u>1,050,633</u>	<u>9,999,522</u>
Nonoperating revenues (expenses)				
Investment income, net	2,253,055	0	2,253,055	4,353,435
Interest expense	(14,562,491)	0	(14,562,491)	(17,413,882)
Passenger facility charge	4,630,820	0	4,630,820	4,548,046
Net loss on sale of assets and other revenue	(557,521)	(8,190)	(565,711)	(144,028)
Construction and equipment grants	<u>30,062,526</u>	<u>1,370,506</u>	<u>31,433,032</u>	<u>22,405,025</u>
	<u>21,826,389</u>	<u>1,362,316</u>	<u>23,188,705</u>	<u>13,748,596</u>
Increase in net assets	<u>\$ 23,933,407</u>	<u>\$ 305,931</u>	<u>\$ 24,239,338</u>	<u>\$ 23,748,118</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT  
June 30, 2004

	Cost				Accumulated Depreciation			Net Balance June 30, 2004
	Balance July 1, 2003	Additions	Transfers/ Adjustments	Balance June 30, 2004	Balance July 1, 2003	Provisions	Balance June 30, 2004	
Louisville International Airport at Standiford Field:								
Land	\$ 197,313,894	\$ 0	\$ 4,259,728	\$ 201,573,622	\$ 0	\$ 0	\$ 0	\$ 201,573,622
Land improvements - runways, taxiways and aprons	268,454,253	0	3,628,911	272,083,164	119,558,425	13,912,309	133,470,734	138,612,430
Land improvements - ground transportation and other	35,371,854	0	222,576	35,594,430	23,931,149	1,802,087	25,733,236	9,861,194
Buildings	133,835,080	0	537,493	134,372,573	52,171,063	6,820,784	58,991,847	75,380,726
Utility systems	34,832,337	0	35,567	34,867,904	21,118,060	2,317,672	23,435,732	11,432,172
Equipment (excluding automotive)	5,864,651	55,199	0	5,919,850	5,036,473	172,943	5,209,416	710,434
Vehicle and automotive equipment	6,797,841	26,895	0	6,824,736	5,521,641	128,130	5,649,771	1,174,965
Furniture and fixtures	4,767,029	17,645	1,121,306	5,905,980	4,440,975	611,243	5,052,218	853,762
Construction in progress	189,663,354	53,308,936	(10,233,426)	232,738,864	0	0	0	232,738,864
 Total Louisville International Airport at Standiford Field	 \$ 876,900,293	 \$ 53,408,675	 \$ (427,845)	 \$ 929,881,123	 \$ 231,777,786	 \$ 25,765,168	 \$ 257,542,954	 \$ 672,338,169

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT (CONTINUED)  
June 30, 2004

	Cost			Accumulated Depreciation			Net Balance June 30, 2004	
	Balance July 1, 2003	Additions	Transfers/ Adjustments	Balance June 30, 2004	Balance July 1, 2003	Provisions		Balance June 30, 2004
Bowman Field:								
Land	\$ 742,367	\$ 0	\$ 0	\$ 742,367	\$ 0	\$ 0	\$ 0	\$ 742,367
Land improvements - runways, taxiways and aprons	8,657,684	0	915,971	9,573,655	5,526,973	164,829	5,691,802	3,881,853
Land improvements - ground transportation and other	93,602	0	0	93,602	89,828	1,887	91,715	1,887
Buildings	9,679,906	0	165,162	9,845,068	5,487,422	476,225	5,963,647	3,881,421
Utility systems	124,536	0	0	124,536	98,091	9,567	107,658	16,878
Equipment (excluding automotive)	160,920	0	0	160,920	71,859	19,425	91,284	69,636
Vehicle and automotive equipment	714,743	0	0	714,743	629,784	31,610	661,394	53,349
Construction in progress	1,659,505	1,710,236	(1,031,050)	2,338,691	0	0	0	2,338,691
<b>Total Bowman Field</b>	<b>21,833,263</b>	<b>1,710,236</b>	<b>50,083</b>	<b>23,593,582</b>	<b>11,903,957</b>	<b>703,543</b>	<b>12,607,500</b>	<b>10,986,082</b>
<b>Total Louisville International Airport at Standiford Field and Bowman Field</b>	<b>\$ 898,733,556</b>	<b>\$ 55,118,911</b>	<b>\$ (377,762)</b>	<b>\$ 953,474,705</b>	<b>\$ 243,681,743</b>	<b>\$ 26,468,711</b>	<b>\$ 270,150,454</b>	<b>\$ 683,324,251</b>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF INSURANCE COVERAGE  
June 30, 2004

	<u>Expiration Date</u>	<u>Amount of Coverage</u>
XL Speciality: General airport liability	07/31/04	\$ 25,000,000
XL Speciality: Excess coverage	07/31/04	225,000,000
Industrial Risk Insurers: All risk property	07/31/04	500,000,000
Hartford Fire Insurance Company: Property damage, bodily injury and medical payments, comprehensive fire, lightning and theft on motor vehicles	07/31/04	1,000,000
Fidelity and Deposit: Fidelity and crime covering board members and all employees		
Employee dishonesty	02/04/05	500,000
Forgery/alteration	02/04/05	100,000
Theft	02/04/05	100,000
Federal Insurance Company: Pension trust liability covering fiduciaries of the Authority retirement plans	12/04/04	2,000,000
Coregis Insurance Company: Public officials liability covering board members and all employees	12/31/04	10,000,000
Hartford Fire Insurance Company: All risk unlicensed equipment floater	07/31/04	5,361,000
Old Republic: Worker's compensation and employers liability	07/31/04	1,000,000

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES  
For the year ended June 30, 2004

	1991 Series A Revenue Bond Funds		
	Construction Fund	Debt Service Reserve Fund	Bond Service Fund
Bond fund balances, July 1, 2003	\$ 589	\$ 0	\$ 0
Additions:			
Deposits	0	0	0
Investment earnings	1	0	0
Deductions:			
Capital expenditures	0	0	0
Bond principal and interest payments	0	0	0
Transfers to other funds	(590)	0	0
Bond fund balances, June 30, 2004	\$ 0	\$ 0	\$ 0

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	1993 Series A Revenue Bond Funds	
	Debt Service Reserve Fund	Bond Service Fund
Bond fund balances, July 1, 2003	\$ 2,301,184	\$ 700
Additions:		
Deposits	0	0
Investment earnings	65,638	1
Deductions:		
Capital expenditures	0	0
Bond principal and interest payments	0	0
Transfers to other funds	<u>(2,366,822)</u>	<u>(701)</u>
Bond fund balances, June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	<u>1993 Series B Revenue Bond Funds</u>		
	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Service Fund</u>
Bond fund balances, July 1, 2003	\$ 1,257	\$ 46,238	\$ 314,830
Additions:			
Deposits	0	0	0
Investment earnings	4	614	739
Deductions:			
Capital expenditures	0	0	0
Bond principal and interest payments	0	0	0
Transfers to other funds	<u>(1,261)</u>	<u>(46,852)</u>	<u>(315,569)</u>
Bond fund balances, June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	1993 Series C Revenue Bond Funds		
	Construction Fund	Debt Service Reserve Fund	Bond Service Fund
Bond fund balances, July 1, 2003	\$ 3,762	\$ 1,211,129	\$ 3,422
Additions:			
Deposits	0	0	0
Investment earnings	12	20,032	7
Deductions:			
Capital expenditures	0	0	0
Bond principal and interest payments	0	0	0
Transfers to other funds	(3,774)	(1,231,161)	(3,429)
Bond fund balances, June 30, 2004	\$ 0	\$ 0	\$ 0

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	<u>1995 Series A Revenue Bond Funds</u>		
	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Service Fund</u>
Bond fund balances, July 1, 2003	\$ 1,028	\$ 4,185,137	\$ 2,150,498
Additions:			
Deposits	0	0	0
Investment earnings	3	9,749	4,809
Deductions:			
Capital expenditures	0	0	0
Bond principal and interest payments	0	0	(3,757,901)
Transfers (to) from other funds	<u>(1,031)</u>	<u>(4,194,886)</u>	<u>4,085,559</u>
Bond fund balances, June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,482,965</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	1997 Series A Bond Funds		
	Debt Service Reserve Fund	Bond Service Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 4,751,784	\$ 2,485,391	\$ 89,226
Additions:			
Deposits	0	0	0
Investment earnings	182,316	5,648	41
Deductions:			
Capital expenditures	0	0	0
Other expenditures	0	0	0
Bond principal and interest payments	0	(3,942,554)	0
Transfers (to) from other funds	<u>(4,934,100)</u>	<u>4,306,933</u>	<u>(89,267)</u>
Bond fund balances, June 30, 2004	<u>\$ 0</u>	<u>\$ 2,855,418</u>	<u>\$ 0</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	1998 Series A Bond Funds			
	Construction Fund	Debt Service Reserve Fund	Bond Service Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 406	\$ 823,030	\$ 451,448	\$ 955
Additions:				
Deposits	0	0	0	0
Investment earnings	1	35,182	1,019	2
Deductions:				
Capital expenditures	0	0	0	0
Other expenditures	0	0	(196)	0
Bond principal and interest payments	0	0	(761,865)	0
Transfers (to) from other funds	(407)	(858,212)	827,732	(957)
Bond fund balances, June 30, 2004	\$ <u>0</u>	\$ <u>0</u>	\$ <u>518,138</u>	\$ <u>0</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2001 Series A Bond Funds			
	Construction Fund	Debt Service Reserve Fund	Bond Service Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 29,806,282	\$ 7,208,158	\$ 1,128,997	\$ 4,502
Additions:				
Deposits	0	0	0	0
Investment earnings	324,188	125,911	9,246	0
Deductions:				
Capital expenditures	(27,054,350)	0	0	0
Other expenditures	0	0	(2,113)	0
Bond principal and interest payments	0	0	(6,846,138)	0
Transfers (to) from other funds	(3,076,056)	(7,334,069)	8,544,916	(4,502)
Bond fund balances, June 30, 2004	\$ <u>64</u>	\$ <u>0</u>	\$ <u>2,834,908</u>	\$ <u>0</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2001 Series B Bond Funds			
	Construction Fund	Debt Service Reserve Fund	Bond Service Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 10,063,650	\$ 1,069,640	\$ 559,936	\$ 4,505
Additions:				
Deposits	0	0	0	0
Investment earnings	40,855	22,223	1,464	0
Deductions:				
Capital expenditures	(5,512,673)	0	0	0
Other expenditures	0	0	(500)	0
Bond principal and interest payments	0	0	(1,010,938)	0
Transfers (to) from other funds	(106,538)	(1,091,863)	1,235,911	(4,505)
Bond fund balances, June 30, 2004	<u>\$ 4,485,294</u>	<u>\$ 0</u>	<u>\$ 785,873</u>	<u>\$ 0</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2002 Series A Bond Funds		
	Debt Service Reserve Fund	Bond Service Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 1,612,589	\$ 723,826	\$ 71,962
Additions:			
Deposits	0	0	0
Investment earnings	3,818	2,821	167
Deductions:			
Capital expenditures	0	0	0
Other expenditures	0	(125,125)	(3,609)
Bond principal and interest payments	0	(477,295)	0
Transfers (to) from other funds	<u>(1,616,407)</u>	<u>775,773</u>	<u>(68,507)</u>
Bond fund balances, June 30, 2004	<u>\$ 0</u>	<u>\$ 900,000</u>	<u>\$ 13</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2002 Series B Bond Funds		
	Debt Service Reserve Fund	Bond Service Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 1,290,416	\$ 576,890	\$ 57,700
Additions:			
Deposits	0	0	0
Investment earnings	3,059	2,258	134
Deductions:			
Capital expenditures	0	0	0
Other expenditures	0	(91,024)	(2,894)
Bond principal and interest payments	0	(349,169)	0
Transfers (to) from other funds	<u>(1,293,475)</u>	<u>611,991</u>	<u>(54,930)</u>
Bond fund balances, June 30, 2004	<u>\$ 0</u>	<u>\$ 750,946</u>	<u>\$ 10</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2003 Series A Bond Funds			
	Construction Fund	Escrow Fund	Debt Service Reserve Fund	Cost of Issuance Fund
Bond fund balances, July 1, 2003	\$ 0	\$ 6,208,610	\$ 1,790,576	\$ 59,100
Additions:				
Deposits	0	0	0	0
Investment earnings	2,433	13,040	3,281	232
Deductions:				
Capital expenditures	0	0	0	(578,544)
Other expenditures	0	0	0	0
Bond principal and interest payments	(307,821)	(165,776,762)	0	0
Transfers (to) from other funds	1,790,519	159,555,112	(1,793,857)	531,772
Bond fund balances, June 30, 2004	<u>\$ 1,485,131</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,560</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2003 Series B Bond Funds	
	Debt Service Reserve Fund	Bond Service Fund
Bond fund balances, July 1, 2003	\$ 581,482	\$ 0
Additions:		
Deposits	0	0
Investment earnings	1,071	884
Deductions:		
Capital expenditures	0	0
Other expenditures	0	0
Bond principal and interest payments	0	(183,143)
Transfers (to) from other funds	(582,553)	581,835
Bond fund balances, June 30, 2004	\$ 0	\$ 399,576

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
For the year ended June 30, 2004

	2003 Series C Bond Funds		
	Construction Fund	Debt Service Reserve Fund	Bond Service Fund
Bond fund balances, July 1, 2003	\$ 0	\$ 10,523,754	\$ 0
Additions:			
Deposits	0	0	0
Investment earnings	30,440	74,331	10,399
Deductions:			
Capital expenditures	0	0	0
Other expenditures	0	0	0
Bond principal and interest payments	0	0	(3,854,455)
Transfers (to) from other funds	<u>9,592,176</u>	<u>(10,598,085)</u>	<u>9,967,498</u>
Bond fund balances, June 30, 2004	<u>\$ 9,622,616</u>	<u>\$ 0</u>	<u>\$ 6,123,442</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
 For the year ended June 30, 2004

	Gross Revenue Fund
	Bond Service Fund
Bond fund balances, July 1, 2003	\$ 1,690,030
Additions:	
Deposits	0
Investment earnings	1,468
Deductions:	
Capital expenditures	0
Other expenditures	0
Bond principal and interest payments	0
Transfers to other funds	(1,691,498)
Bond fund balances, June 30, 2004	\$ 0

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)  
 For the year ended June 30, 2004

		Aggregate Debt Service Reserve <u>Fund</u>
Bond fund balances, July 1, 2003	\$	0
Additions:		
Deposits		0
Investment earnings		379,269
Deductions:		
Capital expenditures		0
Other expenditures		0
Bond principal and interest payments		0
Transfers from other funds		<u>35,161,366</u>
Bond fund balances, June 30, 2004	\$	<u><u>35,540,635</u></u>



**MOORE STEPHENS POTTER LLP**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board of the  
Louisville Regional Airport Authority

We have audited the financial statements of the Louisville Regional Airport Authority (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the Board of the Authority, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Moore Stephens Potter, LLP*

MOORE STEPHENS POTTER, LLP  
September 3, 2004

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**MOORE STEPHENS POTTER LLP**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

To the Members of the Board of the  
Louisville Regional Airport Authority

Compliance

We have audited the compliance of the Louisville Regional Airport Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The Authority's major federal programs are identified in the accompanying schedule of federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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This report is intended for the information of the members of the Board of the Authority, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Moore Stephens Potter, LLP*

MOORE STEPHENS POTTER, LLP  
September 3, 2004



LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/ Program	Federal CFDA No.	Federal Project Number	Project Description	Total Federal Program or Award Amount	Expenditures for the year ended June 30, 2004	Accumulated Expenditures
<u>U.S. Department of Transportation</u>						
Direct Program:						
Airport Improvement Program:						
Louisville International Airport at Standiford Field:						
	20.106	3-21-0031-51	Rehabilitate Taxiway	\$ 1,518,182	\$ 151,818	\$ 1,518,182
	20.106	3-21-0031-65	Pavement Maintenance Program	858,000	85,800	858,000
	20.106	3-21-0031-66	Acquire Land for Noise Compatibility Provide Relocation Assistance	8,000,000	8,000,000	8,000,000
	20.106	3-21-0031-67	Modify Terminal Building, Regional Jet Gate Construction and Security Checkpoint Expansion	2,649,359	2,384,423	2,384,423
	20.106	3-21-0031-68	Runway Safety Enhancements	267,206	240,485	240,485
	20.106	3-21-0031-70	Acquire Land for Noise Compatibility Provide Relocation Assistance	1,200,000	1,200,000	1,200,000
	20.106	3-21-0031-71	Acquire Land for Noise Compatibility Provide Relocation Assistance	18,000,000	18,000,000	18,000,000
	Bowman Field:					
	20.106	3-21-0032-11	Rehabilitate Taxiways, Lighting, and Guidance Signs	900,000	778,028	778,028
	20.106	3-21-0032-12	Rehabilitate Taxiways	<u>1,285,742</u>	<u>462,478</u>	<u>462,478</u>
	Total Louisville International Airport at Standiford Field and Bowman Field			<u>\$ 34,678,489</u>	<u>\$ 31,303,032</u>	<u>\$ 33,441,596</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Louisville Regional Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Litigation

The Authority is currently involved in litigation in connection with the Louisville Airport Improvement Program expansion project, for which the Authority has received federal financial assistance. For further information, refer to Note 5 in the notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2004

Summary of auditor's results

We have issued an unqualified opinion, dated September 3, 2004, on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2004.

Our audit disclosed no material weaknesses or reportable conditions that are considered to be material weaknesses in relation to internal control over financial reporting or internal control over major programs.

Our audit disclosed no instances of noncompliance which are material to Louisville Regional Airport Authority's financial statements.

We have issued an unqualified opinion, dated September 3, 2004, on Louisville Regional Airport Authority's compliance for major programs.

Our audit disclosed no findings required to be reported under the provisions of OMB Circular A-133.

Louisville Regional Airport Authority's major federal program for the year ended June 30, 2004, was the U.S. Department of Transportation, CFDA No. 20.106.

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

Louisville Regional Airport Authority qualified as a low-risk auditee under the provisions of OMB Circular A-133.

Findings relating to the financial statements

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

Findings and questioned costs for federal awards

Our audit disclosed no findings or questioned costs for federal awards as defined by OMB Circular A-133.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTION  
June 30, 2004

No findings that are required to be reported in accordance with *Government Auditing Standards* were reported for the year ended June 30, 2003.



**MOORE STEPHENS POTTER LLP**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE (PFC) PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED

To the Members of the Board of the  
Louisville Regional Airport Authority

We have audited the compliance of Louisville Regional Airport Authority (Authority) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2004. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2004.

### Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Authority as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole.

The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the Guide and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Board of the Authority, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

MOORE STEPHENS POTTER, LLP  
September 3, 2004



LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SUPPLEMENTARY SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED  
 For the year ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Record of Decision</u>	<u>Impose Authority</u>	<u>Use Authority</u>	<u>PFC Collected</u>	<u>Interest Earned</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>						
Passenger Facility Charge Program	97-01-C-00-SDF	\$ 40,000,000	\$ 40,000,000	\$ 35,895,992	\$ 123,074	\$ 27,817,519
	97-01-C-01-SDF	50,600,000	50,600,000	0	0	0
	01-02-C-00-SDF	10,732,140	10,732,140	0	0	5,253,741
	01-02-C-00-SDF	<u>5,666,800</u>	<u>5,666,800</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals		\$ <u>106,998,940</u>	\$ <u>106,998,940</u>	\$ <u>35,895,992</u>	\$ <u>123,074</u>	\$ <u>33,071,260</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2004

Summary of auditor's results

We have issued an unqualified opinion, dated September 3, 2004, on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2004.

Our audit disclosed no material weaknesses or reportable conditions that are considered to be material weaknesses in relation to internal control over financial reporting or internal control over the passenger facility charge program.

Our audit disclosed no instances of noncompliance which are material to Louisville Regional Airport Authority's financial statements.

We have issued an unqualified opinion, dated September 3, 2004, on Louisville Regional Airport Authority's compliance for the passenger facility charge program.

Our audit disclosed no findings required to be reported under the provisions of the Passenger Facility Charge Audit Guide for Public Agencies.

Findings relating to the financial statements

Our audit disclosed no findings which are required to be reported in accordance with the Passenger Facility Charge Audit Guide for Public Agencies.

Findings and questioned costs for the passenger facility charge program

Our audit disclosed no findings or questioned costs for passenger facility charge program as defined by the Passenger Facility Charge Audit Guide for Public Agencies.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF PRIOR AUDIT PASSENGER FACILITY CHARGES FINDINGS AND THEIR RESOLUTION  
Year ended June 30, 2004

No findings that are required to be reported in accordance with the provisions of the Passenger Facility Charge Audit Guide for Public Agencies were reported for the year ended June 30, 2003.