LOUISVILLE RENAISSANCE ZONE CORPORATION
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2012 and 2011

LOUISVILLE RENAISSANCE ZONE CORPORATION
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2012 and 2011

CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Louisville Renaissance Zone Corporation
Louisville, Kentucky

We have audited the accompanying statements of financial position of the Louisville Renaissance Zone Corporation (a non-profit corporation) (the "LRZC"), a component unit of Louisville Regional Airport Authority (the "Authority") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the LRZC'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LRZC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 LRZC as of June 30, 2012 and 2011 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 12, 2012

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and equivalents	$ 1,929,724	$ 916,259
Fees receivable	2,389,944	1,847,169
Total current assets	4,319,668	2,763,428
Long-term assets		
Capital assets not being depreciated	9,379,272	11,270,847
Depreciable capital assets, net	11,080,954	6,178,213
Deferred loan costs	2,943,176	3,138,304
Total long-term assets	23,403,402	20,587,364
Total assets	$ 27,723,070	$ 23,350,792
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable – Authority	$ 3,189,268	$ 2,922,863
Accounts payable	183,030	229,668
Accrued interest	19,594	234,441
Loans payable – current	1,260,690	3,469,360
Total current liabilities	4,652,582	6,856,332
Long-term liabilities		
Loans payable	13,174,896	15,274,506
Total liabilities	17,827,478	22,130,838
Net assets – unrestricted	9,895,592	1,219,954
Total liabilities and net assets	$ 27,723,070	$ 23,350,792

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF ACTIVITIES
Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues		
Land sales, net of costs	$ 7,137,290	$ -
Lease revenue	693,086	-
TIF revenue	2,409,637	1,337,673
Total operating revenues	10,240,013	1,337,673
Operating expenses		
General and administrative	454,280	198,557
Depreciation	525,686	354,262
Total expenses	979,966	552,819
Operating income	9,260,047	784,854
Non-operating revenues (expenses)		
Interest revenue	375	710
Interest expense	(584,784)	(469,803)
Total non-operating revenues (expenses)	(584,409)	(469,093)
Change in net assets	8,675,638	315,761
Net assets, beginning of year	1,219,954	904,193
Net assets, end of year	$ 9,895,592	$ 1,219,954

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Land sales, lease revenue, and TIF revenue	$ 2,556,161	$ 1,110,108
Cash paid to suppliers and others	(661,918)	(173,341)
Net cash provided by operating activities	1,894,243	936,767
Cash flows from financing activities		
Proceeds from loans payable	5,145,857	1,435,196
Payments on loans payable	(248,076)	(1,492,583)
Additions to capital assets	(5,656,315)	(1,527,956)
Net proceeds received from the Authority	260,381	309,037
Cash paid for interest	(383,000)	(305,852)
Net cash used for financing activities	(881,153)	(1,582,158)
Cash flows from investing activities		
Interest and dividend income	375	710
Net cash provided by investing activities	375	710
Net change in cash and equivalents	1,013,465	(644,681)
Cash and equivalents, beginning of year	916,259	1,560,940
Cash and equivalents, end of year	$ 1,929,724	$ 916,259
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 9,260,047	$ 784,854
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	525,686	354,262
Sale of land to relieve debt	(7,137,290)	-
Changes in assets and liabilities:		
Fees receivable	(542,775)	(227,565)
Accounts payable	(211,425)	25,216
Net cash provided by operating activities	$ 1,894,243	$ 936,767

Noncash capital and financing activities

LRZC financed the purchase of capital assets through accounts payable of approximately $161,000 and $139,000 in 2012 and 2011, respectively.

LRZC sold land with a book cost of approximately $2.3 million to relieve loans payable of approximately $9.2 million and interest charges of approximately $215,000 in 2012.

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Louisville Renaissance Zone Corporation ("LRZC") is a non-stock, non-profit public property corporation set up to oversee an area that is bordered at the north by Fern Valley Road, the east by I-65, the south by I-265, and the west by CSX railroad. The photo below is an aerial view of this area bordered in red. This area can be developed for commercial or industrial uses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The LRZC entered into an Interlocal Cooperation Agreement with the Louisville Metro Government and the Commonwealth of Kentucky whereby funding will be provided by Tax Incremental Financing ("TIF"). The Louisville Regional Airport Authority's (the "Authority") Board members also serve as the LRZC's Board. This causes the relationship between the Authority and the LRZC to be related entities resulting in LRZC being defined as a component unit of the Authority. Accordingly, the LRZC financial statements are presented in the Authority's financial statements as a discretely presented component unit.

General Accepted Accounting Principles: The LRZC follows the Financial Accounting Standards Board statements for non-profit organizations. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board ("GASB") recognition criteria and presentation features, as presented in the Authority's financial statements.

Accounting principles for external financial reporting by non-profit organizations require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

- Unrestricted net assets include the surplus or deficit in expendable funds available for support in the operation of the entity.

- Temporarily restricted net assets include contributions for which donor imposed restrictions have not been met and pledges unavailable for expenditure until collection. There were no temporarily restricted net assets at June 30, 2012 and 2011.

- Permanently restricted net assets include amounts, which the donors have stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. There were no permanently restricted net assets at June 30, 2012 and 2011.

Basis of Accounting: The financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and earned, and expenses are recognized in the accounting period in which the liabilities are incurred.

Cash and Equivalents: For purposes of the statements of cash flows, LRZC considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

LRZC uses commercial banks as depositories. At June 30, 2012, balances were insured by the Federal Depository Insurance Corporation ("FDIC") up to $250,000 for each bank with which LRZC had accounts. All noninterest-bearing accounts at participating banks are fully guaranteed by the FDIC for the entire balance of the account under the Transaction Account Guarantee Program. The banks at which the LRZC maintains its accounts participate in the program. All deposits exceeding the federal insurance coverage level are collateralized with securities held by LRZC's agent in LRZC's name.

Deferred Loan Costs: Amortization of loan costs is computed on the straight-line method (which approximates the effective-interest method over the lives of the related loans).

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Capital assets are recorded at cost or at estimated fair value, if donated, at the date of purchase. Costs that clearly relate to land development projects are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, costs are allocated based on their relative value to the total project. Interest costs are capitalized while development is in progress. Depreciation is provided on all depreciable assets over the estimated useful lives of the respective assets using the straight-line method. The LRZC is depreciating land improvements and utility systems over periods of 10 to 20 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. If impaired, the assets are recorded at fair value. LRZC has a capitalization threshold of $50,000 for all capital assets.

Income Taxes: LRZC is a non-profit corporation created as an agency of the Authority under the provisions of KRS 58.180. Therefore, the entity is exempt from income taxes. Accordingly, there is no provision for income taxes in the accompanying financial statements. Accounting principles generally accepted in the United States of America prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Due to its tax-exempt status, the LRZC is generally not subject to U.S. federal income tax or state income tax. The LRZC does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The LRZC recognizes interest and / or penalties related to income tax matters in income tax expense. The LRZC has no amounts accrued for interest and penalties as of June 30, 2012 and 2011.

Fees Receivable: Receivables represent TIF requests submitted to state and local governments. The LRZC has obtained information from the local government to calculate receivables from TIF revenue through December 31, 2008 and information from the state government to calculate receivables from TIF revenue through December 31, 2009. Receivables are reported at fair value and are reduced by the estimated portion that is expected to be uncollectible. Interest is not normally charged on receivables. As of June 30, 2012, management has estimated all amounts to be fully collectible.

Revenues: LRZC recognizes revenue from land sales upon transfer of title. Revenue from the TIF agreements are recognized when reasonably measurable and determinable based on the terms of the respective agreements.

Management’s Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2012 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2012. Management has performed their analysis through October 12, 2012, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

(Continued)

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,664,932	$ 415,000	$ (2,280,463)	$ 8,799,469
Construction projects	605,915	5,402,315	(5,428,427)	579,803
Total capital assets not being depreciated	11,270,847	5,817,315	(7,708,890)	9,379,272
Other capital assets:				
Land improvements	3,654,595	5,428,427	-	9,083,022
Utility systems	3,114,054	-	-	3,114,054
Total other capital assets	6,768,649	5,428,427	-	12,197,076
Less accumulated depreciation	(590,436)	(525,686)	-	(1,116,122)
Other capital assets, net	6,178,213	4,902,741	-	11,080,954
Net capital assets	$ 17,449,060	$ 10,720,056	$ (7,708,890)	$ 20,460,226

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,550,023	$ 1,114,909	$ -	$ 10,664,932
Construction projects	54,090	551,825	-	605,915
Total capital assets not being depreciated	9,604,113	1,666,734	-	11,270,847
Other capital assets:				
Land improvements	3,654,595	-	-	3,654,595
Utility systems	3,114,054	-	-	3,114,054
Total other capital assets	6,768,649	-	-	6,768,649
Less accumulated depreciation	(236,174)	(354,262)	-	(590,436)
Other capital assets, net	6,532,475	(354,262)	-	6,178,213
Net capital assets	$ 16,136,588	$ 1,312,472	$ -	$ 17,449,060

(Continued)

NOTE 3 – LOANS PAYABLE

In February 2007, the LRZC signed a Loan and Participation Agreement ("Agreement") with United Parcel Service ("UPS"). Under the Agreement, UPS purchased a 60-acre site within the Minors Lane redevelopment area and relocated a ground sort facility previously located at the Louisville International Airport. The Agreement also contained additional options to purchase land which have since expired. In addition, UPS agreed to loan the LRZC $6.9 million (interest-bearing) for the purchase of property, and $11.2 million (interest-free) for construction of the Phase I projects that include a bridge and various roadway, utility and other public infrastructure improvements. In lieu of paying interest on the infrastructure loan, the Agreement called for the LRZC to expend up to $5.6 million to make site improvements on the 60-acre parcel to address floodplain, wetland and other related issues.

In 2007, the LRZC purchased 424 acres that was held by the Authority under a voluntary federally-funded Noise Mitigation program conducted in the Minors Lane area, an adjoining 75 acres from the Louisville Metropolitan Sewer District, and a small adjacent parcel from a private seller. The total acreage purchased was approximately 500, with the funds coming from the UPS land acquisition loan of $5.3 million. In 2011, the LRZC purchased an additional 125 acres of similarly situated land from the Authority with the funds coming from the UPS land acquisition loan of $1.1 million. In 2012, an additional 6.4 acres was purchased from the Authority for $411,500 utilizing one UPS land acquisition loan.

Repayment of the loans from UPS and reimbursement of costs incurred by the Authority on behalf of the LRZC will come from future land sales and/or leases, and revenues generated from tax increment financing provided by the Commonwealth of Kentucky and Metro Louisville. The Statements of Financial Position reflect the value of land purchased, construction costs incurred and other liabilities to date. In 2012, the LRZC sold approximately 116 acres to UPS and in return UPS reduced loans payable of approximately $9.2 million and interest charges of $215,000.

	2012	2011
Loan payable to UPS to be paid in five annual installments of principal and accrued interest payable at 6%, beginning August 12, 2008 and maturing on August 12, 2012. Paid in full.	$ -	$ 5,440,377
Loan payable to UPS to be paid in fourteen annual installments of principal, beginning September 21, 2008 and maturing on September 21, 2021. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	5,720,294	8,205,600
Loan payable to UPS to be paid in seven annual installments of principal beginning September 21, 2021 and maturing on September 21, 2027. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	5,097,889	5,097,889
Loan payable to be paid to Louisville Paving in sixty monthly installments of $75,062, including interest at 6.5%, beginning March 1, 2012 and maturing on February 1, 2017. Repayments on this loan are secured by an assignment of certain rents.	3,617,403	-
Total loans payable	14,435,586	18,743,866
Less current portion	1,260,690	3,469,360
Long-term portion	$ 13,174,896	$ 15,274,506

(Continued)

NOTE 3 – LOANS PAYABLE (Continued)

Annual Loan Repayment Requirements: The annual loan repayment requirements to maturity, including principal and interest, as of June 30, 2012, are estimated as follows:

	Principal	Interest	Total
Year ended June 30,			
2013	$ 1,260,690	$ 214,939	$ 1,475,629
2014	1,306,471	169,010	1,475,481
2015	1,355,724	120,005	1,475,729
2016	1,407,999	67,717	1,475,716
2017	1,161,136	14,377	1,175,513
2018-2022	2,887,480	-	2,887,480
2023-2027	4,213,397	-	4,213,397
2028	842,689	-	842,689
	$ 14,435,586	$ 586,048	$ 15,021,634

NOTE 4 – OPERATING LEASE OF A LESSOR

The LRZC entered into an operating lease with Ford Motor Company for 14.593 acres of land and land improvements that commenced on July 7, 2011 with an original term through December 2016 and an option to renew for five years. The lease includes ground rent, improvement rent, and commission rent components. The approximate future minimum lease payments to be received in each of the five succeeding years and thereafter under noncancelable operating leases are as follows:

Year ended June 30,	
2013	$ 1,094,837
2014	1,097,410
2015	1,100,034
2016	1,102,710
2017	483,669
	$ 4,878,660

Lease revenue recognized during the year ended June 30, 2012 was $693,086. The net book value of the property subject to the lease was $4,100,000 at June 30, 2012.

NOTE 5 – RELATED PARTY TRANSACTIONS

In 2012 and 2011, the LRZC purchased 6.6 acres and 125 acres of land with a fair market value of $415,000 and $1,100,000 from the Authority, respectively. The Authority retained avigation easements related to this land.

The Authority provides management services to the LRZC. The amount due to the Authority was approximately $3,189,000 and $2,923,000 at June 30, 2012 and 2011, respectively.

(Continued)

NOTE 5 – RELATED PARTY TRANSACTIONS (Continued)

The LRZC provides management services to the Renaissance South Business Park Owners Association, Inc. ("Association"). The Association was incorporated as a non-profit corporation to promote and serve the common good and general welfare of the Members of the Association and to construct, operate, maintain and repair any common structure, facility, way or ground within the Renaissance South Business Park. Current members of the Association include UPS and the LRZC. The LRZC had receivable balances of approximately $116,000 and $68,000 from the Association at June 30, 2012 and 2011, respectively.