LOUISVILLE RENAISSANCE ZONE CORPORATION
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Louisville Renaissance Zone Corporation
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisville Renaissance Zone Corporation (a non-profit corporation) (the "LRZC"), a component unit of Louisville Regional Airport Authority (the "Authority"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 10, 2013

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and equivalents	$ 1,818,345	$ 1,929,724
Land held for sale	358,588	-
Investments, plus accrued interest	2,900,616	-
Fees receivable	5,042,428	2,389,944
Total current assets	10,119,977	4,319,668
Long-term assets		
Fees receivable	7,500,000	-
Capital assets not being depreciated	10,252,366	9,379,272
Depreciable capital assets, net	10,389,859	11,080,954
Deferred loan costs	2,748,049	2,943,176
Total long-term assets	30,890,274	23,403,402
Total assets	$ 41,010,251	$ 27,723,070
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable – Authority	$ 3,283,423	$ 3,189,268
Accounts payable	46,835	183,030
Accrued interest	19,594	19,594
Loans payable – current	1,361,208	1,260,690
Total current liabilities	4,711,060	4,652,582
Long-term liabilities		
Loans payable	12,774,367	13,174,896
Total liabilities	17,485,427	17,827,478
Net assets – unrestricted	23,524,824	9,895,592
Total liabilities and net assets	$ 41,010,251	$ 27,723,070

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF ACTIVITIES
Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Land sales, net of costs	$ 514,514	$ 7,137,290
Lease revenue	1,003,725	693,086
TIF revenue	4,269,241	2,409,637
Total operating revenues	5,787,480	10,240,013
Operating expenses		
General and administrative	220,522	454,280
Depreciation	691,095	525,686
Total expenses	911,617	979,966
Operating income	4,875,863	9,260,047
Non-operating revenues (expenses)		
Interest revenue	3,903	375
Interest expense	(435,792)	(584,784)
Total non-operating revenues (expenses)	(431,889)	(584,409)
Change in net assets before extraordinary items	4,443,974	8,675,638
Extraordinary item - TIF revenue	9,185,258	-
Change in net assets	13,629,232	8,675,638
Net assets, beginning of year	9,895,592	1,219,954
Net assets, end of year	$ 23,524,824	$ 9,895,592

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Land sales, lease revenue, and TIF revenue	$ 4,922,109	$ 2,556,161
Cash paid to suppliers and others	(393,716)	(661,918)
Net cash provided by operating activities	4,528,393	1,894,243
Cash flows from financing activities		
Proceeds from loans payable	1,019,862	5,145,857
Payments on loans payable	(1,319,873)	(248,076)
Additions to capital assets	(1,296,538)	(5,656,315)
Net proceeds received from the Authority	87,540	260,381
Cash paid for interest	(234,050)	(383,000)
Net cash used for financing activities	(1,743,059)	(881,153)
Cash flows from investing activities		
Interest and dividend income	3,903	375
Purchase of investments	(7,399,122)	-
Proceeds from maturities of investments	4,498,506	-
Net cash provided by investing activities	(2,896,713)	375
Net change in cash and equivalents	(111,379)	1,013,465
Cash and equivalents, beginning of year	1,929,724	916,259
Cash and equivalents, end of year	$ 1,818,345	$ 1,929,724
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 4,875,863	$ 9,260,047
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	691,095	525,686
Sale of land to relieve debt	-	(7,137,290)
Changes in assets and liabilities:		
Fees receivable	(967,227)	(542,775)
Accounts payable	(173,195)	(211,425)
Land	101,857	-
Net cash provided by operating activities	$ 4,528,393	$ 1,894,243

Noncash capital and financing activities

LRZC financed the purchase of capital assets through accounts payable of approximately $37,000 and $161,000 in 2013 and 2012, 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"). Under this agreement, the LRZC is to acquire property and construct and maintain improvements to accomplish approved public purposes. To date, the LRZC has approval for an initial project totaling $41.7 million primarily for land acquisition and infrastructure improvements. Upon completion of the initial project, approval for additional projects may be requested based on TIF funding availability.

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, 2013 and 2012.
- 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, 2013 and 2012.

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. The balances of each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. All deposits exceeding the federal insurance coverage level are collateralized with securities held by LRZC's agent in LRZC's name.

Investments: Investment securities are recorded at fair value, which approximates amortized costs. Investments are made only in government-backed securities. All investments are held in the LRZC's name. It is management's intention to reinvest all maturing funds.

Land Held For Sale: As a public property corporation, land may be available for either lease or sale. The book value of land intended to be sold within one year is reclassified from Capital Assets to Land Available for Sale.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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, 2013 and 2012.

Fees Receivable: Receivables represent Tax Increment Financing (TIF) requests submitted to or earned from state and local governments. The LRZC has obtained information from the local government to calculate receivables from TIF revenue through December 31, 2009 and information from the state government to calculate receivables from TIF revenue through December 31, 2010. Additionally TIF receivables have been recorded for estimated TIF revenue earned through calendar year 2012 for which detailed information is not yet available to calculate. Amounts not expected to be collected within one year are reported as long-term receivable. Receivables are reported at fair value and are reduced by the estimated portion that is expected to be uncollectible. For the year ended June 30, 2013, management discounted the amount at an effective rate of approximately 15%. Interest is not normally charged on receivables. As of June 30, 2013, 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.

During Fiscal Year 2013, management determined it had obtained sufficient collection history to reasonably estimate TIF revenue earned through the most recent calendar year. TIF revenue included in operating revenue represents the estimated TIF revenue earned in the most recent calendar year as well as any differences between actual collections and prior estimates. TIF revenue reported as an extraordinary item represents the amount to record the catch-up of revenue for prior years that had not

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previously been recorded due to uncertainty of amounts or collections, which was deemed to be unusual in nature and an infrequent occurrence.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2013. Management has performed their analysis through October 10, 2013, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

NOTE 2 – INVESTMENTS

At June 30, 2013, the LRZC's investment balances were as follows:

Investment Type	Amortized Cost	Maturity	Rating
Fannie Mae	$ 2,499,874	8/15/2013	Aaa
Federal Home Loan Bank	400,077	8/13/2013	Aaa
Federal Government Money Market	665		Aaa
	$ 2,900,616		

Interest Rate Risk: As a means of managing its exposure to fair value losses arising from increasing interest rates, LRZC is currently limited to investing in U.S. Government obligations and agencies with a stated maturity of not more than one year; however, with CEO and CFO approval, maturity can be two years for the investment.

Credit Risk: LRZC only has investments in U.S. Treasuries or other debt securities backed by the U.S. Government.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the custodian, LRZC may not be able to recover the value of investments or collateral securities that are in the possession of the custodian.

Concentration of Credit Risk: Investments in U.S. Government Agencies are not limited. At June 30, 2013, approximately $2,900,616 was invested in U.S. Government agency obligations. Domestic bank obligations may not exceed 35% of invested assets per issuer or 50% of total invested assets for all issuers.

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NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,799,469	$ -	$ (460,444)	$ 8,339,025
Construction projects	579,803	1,333,538	-	1,913,341
Total capital assets not being depreciated	9,379,272	1,333,538	(460,444)	10,252,366
Other capital assets:				
Land improvements	9,083,022	-	-	9,083,022
Utility systems	3,114,054	-	-	3,114,054
Total other capital assets	12,197,076	-	-	12,197,076
Less accumulated depreciation	(1,116,122)	(691,095)	-	(1,807,217)
Other capital assets, net	11,080,954	(691,095)	-	10,389,859
Net capital assets	$ 20,460,226	$ 642,443	$ (460,444)	$ 20,642,225

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

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NOTE 4 – 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 the 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.

	2013	2012
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.	$ 6,165,266	$ 5,720,294
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 (see Note 5).	2,872,420	3,617,403
Total loans payable	14,135,575	14,435,586
Less current portion	1,361,208	1,260,690
Long-term portion	$ 12,774,367	$ 13,174,896

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NOTE 4 – LOANS PAYABLE (Continued)

Annual Loan Repayment Requirements: The annual loan repayment requirements to maturity, including principal and interest, as of June 30, 2013, are estimated as follows:

	Principal	Interest	Total
Year ended June 30,			
2014	$ 1,361,208	$ 169,010	$ 1,530,218
2015	1,469,692	120,005	1,589,697
2016	1,521,965	67,717	1,589,682
2017	1,275,109	14,377	1,289,486
2018	688,762	-	688,762
2019-2023	3,605,604	-	3,605,604
2024-2028	4,213,235	-	4,213,235
	$ 14,135,575	$ 371,109	$ 14,506,684

NOTE 5 – 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 lease was amended as of April 12, 2012 to include additional improvements. The approximate future minimum lease payments to be received in each of the years remaining under the original term are as follows:

Year ended June 30,	
2014	$ 1,097,410
2015	1,100,034
2016	1,102,710
2017	483,669
	$ 3,783,823

Lease revenue recognized during the year ended June 30, 2013 and 2012 was $1,003,725 and $693,806, respectfully. The net book value of the property subject to the lease was $3,800,000 and $4,100,000 at June 30, 2013 and 2012, respectively. The rent related to improvements is the primary source of repayment for the loan payable to be paid to Louisville Paving.

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NOTE 6 – RELATED PARTY TRANSACTIONS

In 2012, the LRZC purchased 6.6 acres of land with a fair market value of $415,000 from the Authority. The Authority retained avigation easements related to this land. No related party land transactions occurred during 2013.

The Authority provides management services to the LRZC. The amount due to the Authority was approximately $3,283,000 and $3,189,000 at June 30, 2013 and 2012, respectively.