LOUISVILLE RENAISSANCE ZONE CORPORATION
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 9, 2014

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets		
Cash and equivalents	$ 7,797,036	$ 1,818,345
Land held for sale	1,605,855	358,588
Investments, plus accrued interest	-	2,900,616
Fees receivable, net	4,617,817	5,042,428
Prepaid expenses	168,731	-
Total current assets	14,189,439	10,119,977
Long-term assets		
Fees receivable	6,900,000	7,500,000
Capital assets not being depreciated	11,991,224	10,252,366
Depreciable capital assets, net	10,924,900	10,389,859
Deferred loan costs	2,552,921	2,748,049
Total long-term assets	32,369,045	30,890,274
Total assets	$ 46,558,484	$ 41,010,251
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable – Authority	$ 78,846	$ 3,283,423
Accounts payable	741,339	46,835
Deferred income	500,000	-
Accrued interest	19,594	19,594
Loans payable – current	1,469,692	1,361,208
Total current liabilities	2,809,471	4,711,060
Long-term liabilities		
Loans payable	11,304,676	12,774,367
Total liabilities	14,114,147	17,485,427
Net assets – unrestricted	32,444,337	23,524,824
Total liabilities and net assets	$ 46,558,484	$ 41,010,251

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF ACTIVITIES
Years ended June 30, 2014 and 2013

	2014	2013
Operating revenues		
TIF revenue	$ 7,146,868	$ 4,269,241
Lease revenue	1,426,182	1,003,725
Land sales, net of costs	1,872,087	514,514
Total operating revenues	10,445,137	5,787,480
Operating expenses		
General and administrative	474,673	220,522
Depreciation	700,794	691,095
Total expenses	1,175,467	911,617
Operating income	9,269,670	4,875,863
Non-operating revenues (expenses)		
Interest revenue	1,669	3,903
Interest expense	(351,826)	(435,792)
Total non-operating revenues (expenses)	(350,157)	(431,889)
Change in net assets before extraordinary items	8,919,513	4,443,974
Extraordinary item - TIF revenue	-	9,185,258
Change in net assets	8,919,513	13,629,232
Net assets, beginning of year	23,524,824	9,895,592
Net assets, end of year	$ 32,444,337	$ 23,524,824

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Land sales, lease revenue, and TIF revenue	$ 11,828,336	$ 4,922,109
Cash paid to suppliers and others	(70,315)	(393,716)
Net cash provided by operating activities	11,758,021	4,528,393
Cash flows from financing activities		
Proceeds from loans payable	-	1,019,862
Payments on loans payable	(1,361,207)	(1,319,873)
Additions to capital assets	(3,959,133)	(1,296,538)
Net borrowings from (repayment to) the Authority	(3,208,145)	87,540
Cash paid for interest	(153,130)	(234,050)
Net cash used for financing activities	(8,681,615)	(1,743,059)
Cash flows from investing activities		
Interest and dividend income	1,669	3,903
Purchase of investments	(5,293,003)	(7,399,122)
Proceeds from maturities of investments	8,193,619	4,498,506
Net cash provided by (used for) investing activities	2,902,285	(2,896,713)
Net change in cash and equivalents	5,978,691	(111,379)
Cash and equivalents, beginning of year	1,818,345	1,929,724
Cash and equivalents, end of year	$ 7,797,036	$ 1,818,345
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 9,269,670	$ 4,875,863
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	700,794	691,095
Changes in assets and liabilities:		
Fees receivable	1,024,611	(967,227)
Prepaid expenses	(168,731)	-
Accounts payable	73,089	(173,195)
Deferred income	500,000	-
Land	358,588	101,857
Net cash provided by operating activities	$ 11,758,021	$ 4,528,393

Noncash capital and financing activities

LRZC financed the purchase of capital assets through accounts payable of approximately $621,000 and $37,000 in 2014 and 2013, respectively.

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, 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, 2014 and 2013.
- 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, 2014 and 2013.

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, the 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 the LRZC's agent in the LRZC's name.

Investments: Investment securities are recorded at amortized costs, which approximates fair value. 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.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Held for Sale.

The LRZC received $500,000 in earnest money in 2014 related to a land sale that is expected to close in fiscal year 2015. Once the sale closes, this amount will be recorded as land sale revenue. At June 30, 2014, the $500,000 is reflected as deferred income on the statement of financial position.

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. The LRZC has a capitalization threshold of $50,000 for all capital assets.

Income Taxes: The 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, 2014 and 2013.

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, 2010 and information from the state government to calculate receivables from TIF revenue through December 31, 2011. Additionally TIF receivables have been recorded for estimated TIF revenue earned through calendar year 2013 for which detailed information is not yet available to calculate. Amounts not expected to be collected within one year are reported as long-term receivables. 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, 2014, management has estimated all amounts to be fully collectible.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues: The 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.

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 for 2013 represents the amount to record the catch-up of revenue for prior years that had not previously been recorded due to uncertainty of amounts or collections, which was deemed to be unusual in nature and an infrequent occurrence.

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, 2014 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2014. Management has performed their analysis through October 9, 2014, 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, 2014, the LRZC held no 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: At June 30, 2013, the LRZC only had 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, the LRZC may not be able to recover the value of investments or collateral securities that are in the possession of the custodian.

(Continued)

NOTE 2 – INVESTMENTS (Continued)

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.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,339,025	$ 1,127,569	$ (1,605,855)	$ 7,860,739
Construction projects	1,913,341	2,217,144	-	4,130,485
Total capital assets not being depreciated	10,252,366	3,344,713	(1,605,855)	11,991,224
Other capital assets:				
Land improvements	9,083,022	1,235,835	-	10,318,857
Utility systems	3,114,054	-	-	3,114,054
Total other capital assets	12,197,076	1,235,835	-	13,432,911
Less accumulated depreciation	(1,807,217)	(700,794)	-	(2,508,011)
Other capital assets, net	10,389,859	535,041	-	10,924,900
Net capital assets	$ 20,642,225	$ 3,879,754	$ (1,605,855)	$ 22,916,124

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

(Continued)

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, which has since been paid in full, 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.

Repayment of the loans from UPS 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. Additionally, the loans from UPS may be subject to advance repayment obligations under certain circumstances. The Statements of Financial Position reflect the value of land purchased, construction costs incurred and other liabilities to date.

Loans payable consist of the following at June 30:

	2014	2013
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.	$ 5,476,605	$ 6,165,266
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.	5,097,890	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).	2,199,873	2,872,420
Total loans payable	12,774,368	14,135,575
Less current portion	1,469,692	1,361,208
Long-term portion	$ 11,304,676	$ 12,774,367

(Continued)

NOTE 4 – LOANS PAYABLE (Continued)

Annual Loan Repayment Requirements: The annual loan repayment requirements to maturity, including principal and interest, as of June 30, 2014, are estimated as follows:

	Principal	Interest	Total
Year ended June 30,			
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	688,673	-	688,673
2020-2024	3,759,578	-	3,759,578
2025-2028	3,370,589	-	3,370,589
	$ 12,774,368	$ 202,099	$ 12,976,467

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 in July 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 in April 2012 and again in April 2013 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,	
2015	$ 1,576,901
2016	1,580,274
2017	693,236
	$ 3,850,411

Lease revenue recognized during the year ended June 30, 2014 and 2013 was $1,426,182 and $1,003,725, respectfully. The net book value of the property subject to the lease was $3,500,000 and $3,800,000 at June 30, 2014 and 2013, respectively. The rent related to improvements is the primary source of repayment for the loan payable to be paid to Louisville Paving.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Authority provides management and construction oversight services to LRZC and has previously provided advances to cover routine operating costs. During 2014, the LRZC paid the Authority previously owed amounts. The amount due to the Authority was approximately $79,000 and $3,283,000 at June 30, 2014 and 2013, respectively.