LOUISVILLE REGIONAL AIRPORT AUTHORITY

ANNUAL REPORT

June 30, 2005 and 2004

LOUISVILLE REGIONAL AIRPORT AUTHORITY

CONTENTS

LOUISVILLE REGIONAL AIRPORT AUTHORITY

CONTENTS
(Continued)

MOORE STEPHENS POTTER LLP
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

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, 2005 and 2004 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, 2005 and 2004, 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 8 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 August 26, 2005 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. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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 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
August 26, 2005

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 statistical and financial activities for the fiscal year ended June 30, 2005.

Basic Financial Statements

Our financial statements are prepared as an enterprise fund using proprietary fund accounting that uses a similar 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, 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 change in net 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.

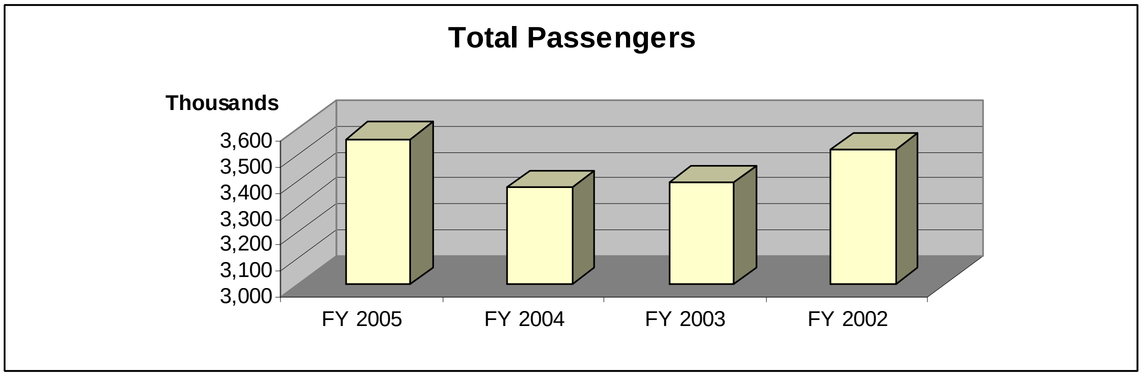
The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operations, capital and related financing, and investments. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance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

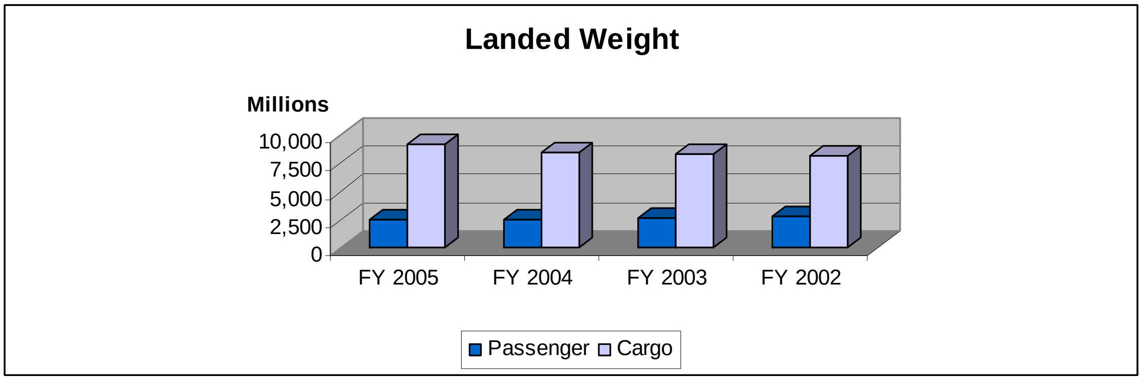
Statistical Information

The following chart reflects two key statistics of Louisville International Airport which are the number of passengers going through the terminal and the total weight of aircraft landing at the airport:

	FY 2005	FY 2004	FY 2003	FY 2002
Passengers				
Enplaned	1,787,116	1,694,003	1,699,616	1,762,822
Deplaned	1,776,746	1,683,829	1,697,682	1,758,348
Total	3,563,862	3,377,832	3,397,298	3,521,170
Landed Weight (pounds)				
Passenger	2,555,047,519	2,519,625,108	2,711,024,222	2,869,060,622
Cargo	9,206,011,229	8,512,253,463	8,383,004,124	8,206,743,000
Total	11,761,058,748	11,031,878,571	11,094,028,346	11,075,803,622

Louisville International's (SDF) status as a major worldwide cargo leader in terms of volume is best reflected by its current ranking of 5th in the USA and 10th worldwide. UPS continues to grow at SDF by expanding their operation to heavy cargo shipments which are expected to start operations in late fiscal year 2006. UPS' cargo volume at SDF for fiscal year 2005 was 3.8 billion pounds versus fiscal year 2004 of 3.7 billion – a 2.7% increase. Passenger traffic increased 5.5% over fiscal year 2004.





Financial Highlights
(Versus Budget and Prior Year)

- Total Revenues for fiscal year 2005 were 5.8% greater than fiscal year 2004 actual and 2.4% greater than budget. Cargo landing fees were greater than anticipated. Actual cargo landing fees were $12.6 million in fiscal year 2005 versus a budget of $12.0 and fiscal year 2004 actual of $11.5.
- Operating Expenses before Depreciation for fiscal year 2005 were 3.6% greater than budget and 11.9% greater than fiscal year 2004 actual.
- Operating Income before Depreciation was $28,367,756 which is $948,870 (3.5%) greater than budgeted and $130,588 (0.5%) greater than fiscal year 2004 actual.
- Net Loss before Capital Contributions was $7,137,202 which is $4,038,398 (36.1%) less than budget and $56,492 (0.8%) less than fiscal year 2004 actual.
- Net Assets increased from prior year by $25,374,663 to $361,403,476. This increase is due to Capital Contributions received of $32,511,865 which more than offsets a Loss before Capital Contributions of $7,137,202.

Financial Information

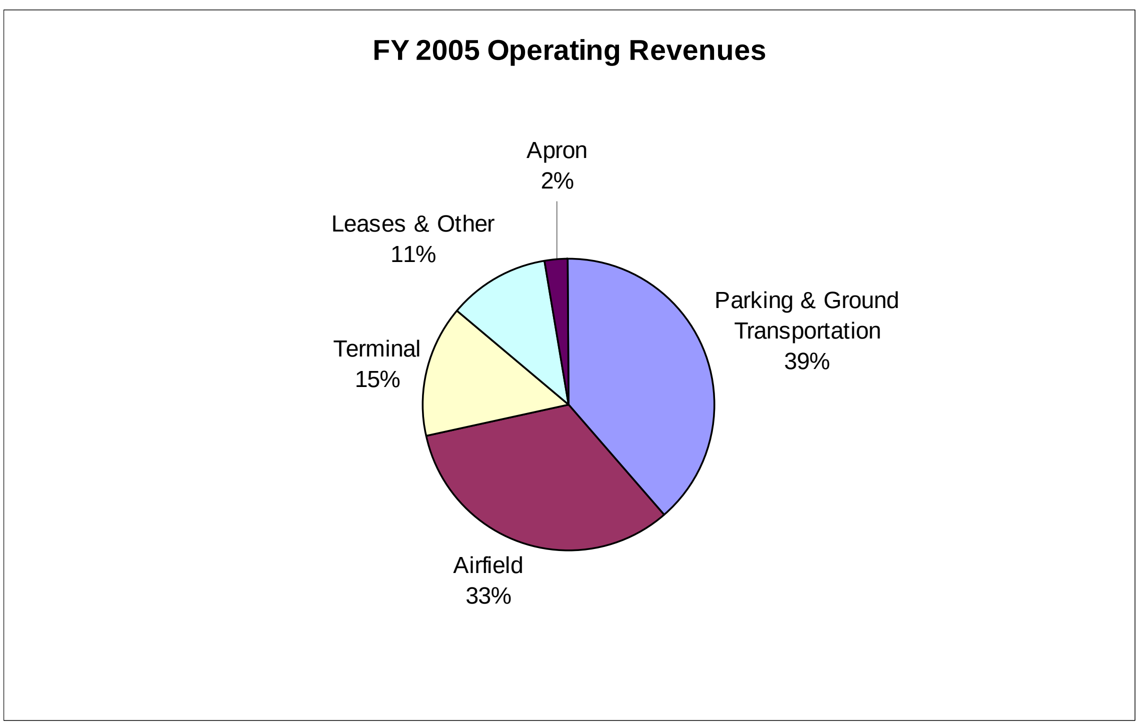
Statement of Net Assets. The following schedule presents a summary of net assets for the fiscal years ended June 30:

	2005	2004	2003
Assets:			
Unrestricted	$ 23,137,696	$ 39,486,778	$ 18,560,943
Restricted	86,629,902	83,669,241	106,508,707
Capital assets (includes in progress)	708,570,286	683,324,251	655,051,813
Other	16,869,231	17,747,038	18,562,897
Total assets	$ 835,207,115	$ 824,227,308	$ 798,684,360
Liabilities:			
Unrestricted	$ 4,524,726	$ 7,119,943	$ 1,741,982
Restricted	25,068,809	23,160,681	18,044,349
Long-term debt	407,355,000	421,685,000	434,675,000
Other	36,855,104	36,232,871	32,433,554
Total liabilities	$ 473,803,639	$ 488,198,495	$ 486,894,885
Net assets	$ 361,403,476	$ 336,028,813	$ 311,789,475

Revenue. The following schedule presents a summary of revenues for the fiscal years ended June 30:

	2005 Actual	2005 Budget	2004 Actual	2003 Actual
Operating Revenues				
Landing and Field Use	$16,824,551	$15,787,176	$15,607,052	$23,593,759
Apron Area	1,228,501	1,283,000	1,589,422	1,227,164
Landside Terminal	4,150,041	4,135,600	3,791,948	3,965,596
Airside Terminal	3,356,774	3,123,625	3,497,273	3,801,444
Leases	5,609,034	5,490,540	5,752,739	5,033,907
Parking & Ground Transportation	19,667,305	19,384,000	18,130,597	17,947,314
Other	217,598	93,900	132,615	189,616
Total Operating Revenues	51,053,804	49,297,841	48,501,646	55,758,800
Non Operating Revenues				
Passenger Facility Charge	4,841,197	4,925,000	4,630,820	4,548,046
Interest Income	2,706,650	3,005,000	2,253,055	4,353,435
Total Non Operating Revenues	7,547,847	7,930,000	6,883,875	8,901,481
Total Revenues	$58,601,651	$57,227,841	$55,385,521	$64,660,281

The major contributors to operating revenue's favorable increases to budget and fiscal year 2004 are landing fees as mentioned earlier. The Authority receives Capital Contributions from Federal and State Government grants. The funds received from capital contributions for fiscal year 2005 and 2004 were $32,511,865 and $31,433,032 respectively. The majority of grant funds are for the acquisition of noise impacted land under our Part 150 voluntary residential relocation program.

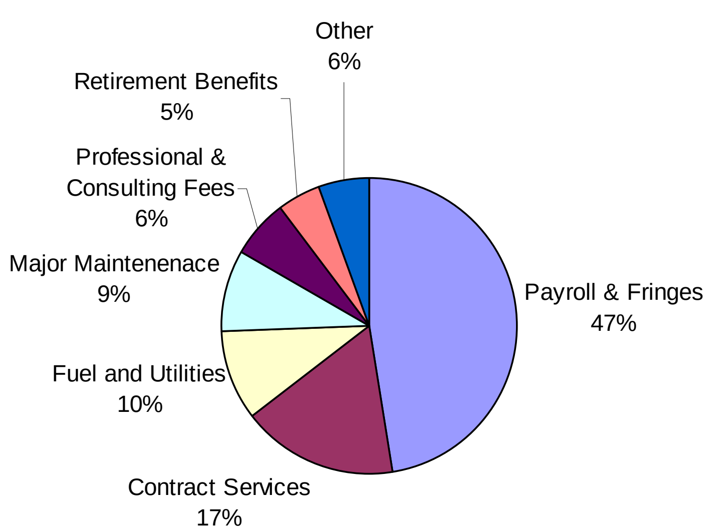


Expenses. The following schedule presents a summary of operating expenses before depreciation for the fiscal years ended June 30:

	2005 Actual	2005 Budget	2004 Actual	2003 Actual
Operating Expenses:				
Payroll & Fringe Benefits	$10,752,885	$10,626,239	$10,546,966	$ 9,525,622
Contract Services	3,867,619	3,983,025	3,555,281	3,259,705
Fuel and Utilities	2,274,100	1,992,500	2,103,554	2,016,175
Major Maintenance	2,014,504	2,272,550	1,121,257	654,732
Professional & Consulting Fees	1,403,317	1,011,000	839,620	1,032,563
Retirement Benefits	1,078,032	1,040,500	899,797	714,627
Other	1,295,591	953,141	1,198,003	1,497,991
Total Operating Expenses	$22,686,048	$21,878,955	$20,264,478	$18,701,415

Major contributors to increased spending versus prior year were increased costs of Retirement Benefits, Major Maintenance projects and Professional and Consulting Fees. Major Maintenance project spending for fiscal year 2005 totaled $2,014,504 versus fiscal year 2004 of $1,121,257. Examples of some of the significant projects in fiscal year 2005 included runway pavement repairs ($482,000), runway joint seal replacements ($260,000) and snow removal ($658,000).

FY 2005 Operating Expenses



Capital Assets. During fiscal year 2005, the Authority's capital spending and accruals totaled $41,852,067. Major projects were Noise Mitigation, Land Acquisition and Relocation Program - $23,741,359; Terminal Renovation Projects - $4,700,837; Runways & Apron - $4,580,491; In-Line Baggage Screening Building - $2,671,006; Hangar Construction - $2,108,526. Fixed Asset's purchased and Projects completed and capitalized during the year totaled $38,069,770.

Debt. Currently, the Authority has bonds outstanding of $421,685,000 of which $407,355,000 is considered long term. Future revenues of the Authority are pledged to pay debt service on all of the bonds. Major projects that have been funded by the debt are terminal construction and renovation, parking garage and lot construction, airfield expansions and upgrades, land acquisitions, and upgrades at Bowman Field. Major projects that were in process during fiscal year 2005 and funded by a portion of the debt include Terminal Renovation, West Runway Extension and Hangar Construction. 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, 2005 and 2004

	2005	2004
A S S E T S		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 13,057,807	$ 20,183,133
Investments	5,578,613	15,030,085
Fees and rentals receivable, net of allowance for uncollectible accounts of $400,000	3,875,000	3,594,580
Supplies and prepaid expenses	626,276	678,980
Total unrestricted current assets	23,137,696	39,486,778
Restricted assets		
Cash and cash equivalents	33,325,884	35,956,954
Total current assets	56,463,580	75,443,732
Noncurrent assets		
Unrestricted assets		
Capital assets not being depreciated	452,294,787	437,393,541
Depreciable capital assets, net	256,275,499	245,930,710
Deferred bond costs, net of accumulated amortization of $3,628,968 in 2005 and $2,710,709 in 2004	16,869,231	17,747,038
Total unrestricted noncurrent assets	725,439,517	701,071,289
Restricted assets		
Cash - PFC fund	2,583,714	2,947,806
Cash and cash equivalents	31,415,272	25,730,583
Investments	19,305,032	19,033,898
Total restricted noncurrent assets	53,304,018	47,712,287
Total noncurrent assets	778,743,535	748,783,576
Total assets	$ 835,207,115	$ 824,227,308

See accompanying notes.

	2005	2004
LIABILITIES		
Current liabilities (payable from unrestricted current assets)		
Accounts payable	$ 3,684,401	$ 6,058,100
Accrued expenses and other	820,811	849,420
Deferred income	19,514	212,423
Total current liabilities (unrestricted)	4,524,726	7,119,943
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	14,330,000	12,990,000
Accounts payable	1,694,773	958,447
Accrued interest	9,044,036	9,212,234
Total current liabilities (restricted)	25,068,809	23,160,681
Total current liabilities	29,593,535	30,280,624
Long-term debt		
Bonds payable	407,355,000	421,685,000
Other liabilities		
Deposit from Kentucky Air National Guard	0	3,033
Deposit from UPS Land Option	3,500,000	2,186,987
Unamortized bond premium, net	9,078,224	9,568,288
Deposit from Commonwealth of Kentucky	19,813,663	20,000,000
Deferred revenue	79,617	174,563
Other liabilities	83,600	0
Revolving coverage (payable from restricted assets)	4,300,000	4,300,000
Total other liabilities	36,855,104	36,232,871
Total liabilities	473,803,639	488,198,495
Commitments and contingencies		
NET ASSETS		
Invested in capital assets, net of related debt	349,519,173	319,200,005
Restricted for debt service	12,382,270	12,385,114
Restricted for capital projects	2,583,714	2,947,806
Unrestricted net assets (deficit)	(3,081,681)	1,495,888
Total net assets	$ 361,403,476	$ 336,028,813

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended June 30, 2005 and 2004

	2005	2004
Operating revenues		
Rentals and concessions	$ 34,229,253	$ 32,894,594
Landing and field use fees	16,824,551	15,607,052
Total operating revenues	51,053,804	48,501,646
Operating expenses		
Operations and maintenance	13,391,554	11,826,265
Administrative, general, planning and engineering	9,294,494	8,438,213
Operating expenses before depreciation and amortization	22,686,048	20,264,478
Depreciation and amortization	27,648,088	27,186,535
Total operating expenses	50,334,136	47,451,013
Operating income	719,668	1,050,633
Nonoperating revenues (expenses)		
Investment earnings, net	2,706,650	2,253,055
Interest expense	(14,843,404)	(14,562,491)
Passenger facility charges	4,841,197	4,630,820
Net loss on disposal of assets and other revenue (expense)	(561,313)	(565,711)
Net nonoperating expenses	(7,856,870)	(8,244,327)
Loss before capital contributions	(7,137,202)	(7,193,694)
Capital grants	32,511,865	31,433,032
Increase in net assets	25,374,663	24,239,338
Net assets, beginning of year	336,028,813	311,789,475
Net assets, end of year	$ 361,403,476	$ 336,028,813

See accompanying notes.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Receipts from customers and users	$ 50,518,227	49,915,119
Payments to suppliers	(16,040,264)	(9,858,604)
Payments to employees	(7,186,995)	(6,539,702)
Net cash provided by operating activities	27,290,968	33,516,813
Cash flows from capital and related financing activities		
Capital grants	32,511,865	33,310,798
Passenger facility charges	4,841,197	4,556,577
Acquisition and construction of capital assets	(49,939,940)	(57,878,580)
Proceeds from sale of assets	48,262	0
Principal paid on capital debt	(12,990,000)	(5,205,000)
Interest paid on capital debt, net of capitalized interest	(14,458,202)	(11,026,974)
Fees paid on bonds	(226,486)	(222,468)
Issuance costs of capital debt	(100,302)	(148,107)
Cash flows used for capital and related financing activities	(40,313,606)	(36,613,754)
Cash flows from investing activities		
Proceeds from maturities of investments	22,413,722	17,100,869
Purchase of investments	(16,995,807)	(19,595,196)
Investment income	3,168,924	1,943,346
Net cash provided used for investing activities	8,586,839	(550,981)
Net decrease in cash and cash equivalents	(4,435,799)	(3,647,922)
Cash and cash equivalents, beginning of year	84,818,476	88,466,398
Cash and cash equivalents, end of year	$ 80,382,677	$ 84,818,476
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 719,668	$ 1,050,633
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	27,648,088	27,186,535
Changes in assets and liabilities:		
Fees and rentals receivable	380,420	84,432
Deferred income	287,855	24,585
Supplies and prepaid expenses	(52,704)	(125)
Accounts payable	(1,637,368)	5,281,340
Accrued expenses and other	(54,991)	(110,587)
Net cash provided by operating activities	$ 27,290,968	$ 33,516,813

Noncash capital and financing activities:

The Authority has retainage and accounts payable related to construction in progress of $3,322,941 and $5,621,405 as of June 30, 2005 and 2004, respectively. These noncash transactions have been excluded from the above statements.

See accompanying notes.

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 $528,000 for fiscal year 2005 and $594,000 for fiscal year 2004.

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 Commonwealth of Kentucky 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.

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 has elected to apply all applicable GASB pronouncements as well as Financial Accounting and Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has further elected not to apply FASB pronouncements issued after November 30, 1989, in accordance with GASB Statement No. 20.

Cash and Cash Equivalents:

For purposes of these financial statements, the Authority considers all highly liquid investments (including restricted assets and accrued interest) 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. As of June 30, 2005 and 2004, the allowance for uncollectible accounts was $400,000.

Investments:

Investment securities are recorded at amortized cost and are not materially different from fair market value. Investments are made only in government-backed securities. All investments are held in the Airport's name. It is management's intention to reinvest all maturing funds.

Capital Assets:

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 $5,344,527 and $5,473,015 during 2005 and 2004, respectively.

The Authority's depreciation policy requires that the airport capitalize all qualifying assets with costs in excess of $5,000 and an expected useful life of three years or greater.

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

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
Computer Equipment and Software	3 years

Nondepreciable capital assets include land, construction in progress and certain land acquisition costs.

Advertising:

Advertising costs are considered administration expenses in the year incurred and totaled $525,334 and $316,823 in 2005 and 2004, respectively.

Deferred Bond Costs:

Amortization of bond issue costs and bond discounts is computed on the straight-line method (which approximates the effective-interest method) over the lives of the related bonds.

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.

Changes in Accounting Principles:

In 2004, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosing interest rate risk, credit risk and concentration of credit risk. Adoption of GASB Statement No. 40 had no effect on the net assets and change in net assets in the prior or current year.

NOTE 2 – CASH AND CASH EQUIVALENTS

All of the Authority's deposits are either insured or collateralized. All deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the Authority’s name. The Authority's policy regarding custodial credit risk for deposits is for all overnight repurchase agreements to be fully collateralized by U.S. government securities held by the Authority or by the Authority's agent in the Authority's name.

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The Authority had deposits with financial institutions of $ 15,638,452 and $23,127,870 at June 30, 2005 and 2004, respectively, which are fully covered by federal depository insurance. Also included in cash and equivalents at June 30, 2005 and 2004 are overnight repurchase agreements of $64,741,156 and $61,687,537, respectively. The Authority also had cash on hand of $3,069 as of June 30, 2005 and 2004.

NOTE 3 – INVESTMENTS

At June 30, 2005, the Authority's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
Fannie Mae	$ 5,529,737	Weighted average 3.73 years	AAA
Federal Farm Credit Banks	3,902,042	Weighted average 0.63 years	AAA
Federal Home Loan Bank	5,332,256	Weighted average 3.06 years	AAA
Freddie Mac	7,760,622	Weighted average 0.46 years	AAA
Tennessee Valley Authority	709,308	7.71 years	AAA
U.S. Treasury Bonds	1,649,680	Weighted average 0.88 years	AAA
	$ 24,883,645		

Investment balances are presented on the balance sheet under the following captions for the year ended June 30, 2005:

Unrestricted investments	$ 5,578,613
Restricted investments	19,305,032
Total investments	$ 24,883,645

Interest Rate Risk. As a means of managing its exposure to fair value losses arising from increasing interest rates, the Authority is currently limited to investing unrestricted funds in U.S. Government obligations and agencies with a stated maturity of not more than one year, however, with board approval maturity can be two years for the investment. Restricted investments, however, relate entirely to the scheduled repayment of bonds issued by the authority. These investments mature such that proceeds from investments will become available in order to pay debt service.

Credit Risk. The Authority only has investments in U.S. Treasuries or other debt securities backed by the US Government.

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

NOTE 3 – INVESTMENTS (CONTINUED)

Concentration of Credit Risk. The Authority places no limit on the amount the Authority may invest in U.S. Government obligations, however, unrestricted funds invested in U.S. Government Agencies are limited to 50% of invested assets. At June 30, 2005 $23,233,695 was invested in U.S. Government agency obligations. Domestic bank obligations may not exceed 35% of invested assets per issuer.

NOTE 4 – RESTRICTED ASSETS

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

June 30, 2005:	Cash and Cash Equivalents	Investments	Interest Receivable	Total
Bond Funds	$ 64,437,843	$ 10,394,673	$ 197,700	$ 75,030,216
Revolving Debt Coverage	0	8,910,359	105,613	9,015,972
PFC Fund	2,583,714	0	0	2,583,714
	$ 67,021,557	$ 19,305,032	$ 303,313	$ 86,629,902

June 30, 2004:	Cash and Cash Equivalents	Investments	Interest Receivable	Total
Bond Funds	$ 61,380,350	$ 10,217,240	$ 201,200	$ 71,798,790
Revolving Debt Coverage	0	8,916,658	5,987	8,922,645
PFC Fund	2,947,806	0	0	2,947,806
	$ 64,328,156	$ 19,133,898	$ 207,187	$ 83,669,241

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, 2005 and 2004. 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, 2005 and 2004, this reimbursement amount was approximately $4,300,000 for both years.

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 450 replacement lots at an estimated cost of $23 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. At June 30, 2005 capital projects in progress include approximately $208,600,000 related to the Part 150 Land Acquisition Program. This includes costs of residences acquired, replacement housing payments, demolition and other related costs.

For land purchased under this program, the FAA requires land no longer needed for noise compatibility purposes be sold at fair market value and at the earliest practicable time. The portion of the sale proceeds which is proportionate to the FAA's share of land acquisition costs will either, (1) be returned to the FAA, or (2) be reinvested in an approved noise compatibility project as approved by the FAA. At the time of such sales, significant losses, asset reallocations or gains, may occur. Since those amounts are not determinable at this time no loss, asset reallocation or gain has been recorded.

Deposit from Commonwealth of Kentucky:

In September 1994, the Authority and the Commonwealth of Kentucky (the Commonwealth) entered into a "Memorandum of Understanding" (M.O.U.) in which the Commonwealth agreed to relieve the Authority from its future obligations (principal and interest) pertaining to the 1982 and 1988 Commonwealth of Kentucky Economic Development Bonds (Bonds) in exchange for the construction and transfer of property and other assets as specified in the M.O.U. The Bonds with a recorded amount of $9,820,125 were retired in the year ending June 30, 2000. The full release is estimated at approximately $10,200,000 which is the present value of the required bond payments over the remaining term of the bonds at the historical discount rate.

During Fiscal 1999, the Authority received an additional $20,000,000 from 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.

NOTE 5 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Deposit from Commonwealth of Kentucky (Continued):

On September 3, 2003, the Authority entered into a deed which transferred property to the Commonwealth at a value of $10,386,337. The deed was filed with the County Clerk of Jefferson County, Kentucky on December 30, 2004. The entire amount of this transfer reduced the related liability.

The Authority expects to transfer additional property in the future, as specified by the Commonwealth of Kentucky, in order to satisfy the remaining obligations.

Litigation:

The Authority may from time to time commence condemnation proceedings against the owners of properties necessary for Airport operations which it is not able to acquire by means of voluntary acquisition. One such action, filed in 1991, involved property necessary for the construction of the west runway. In May 1993, the Authority entered into an Agreed Order of Settlement concerning that property in which it agreed to advance $20 million to be credited against the total of: (1) the value of the real property and improvements as these would be determined by a jury; and (2) any benefits available to the property's owner under federal relocation law as determined by the Authority and confirmed by the judge. As part of this agreement, the property owner agreed to concede the Authority's right to take the property and agreed to a give the Authority possession of the property on a schedule which allowed timely completion of the west runway. In October 2003, a Jefferson Circuit Court jury found that the value of the real estate and associated improvements was $21,325,000. On March 29, 2005, a Judgment was entered confirming that amount and finding that the owner was entitled to $6,285,775 in relocation benefits leaving an unpaid amount of $7,610,775 plus interest as calculated pursuant to the Agreed Order. The Authority's motion for judgment notwithstanding the verdict is currently pending. As of June 30, 2005, the total due if this judgment is upheld on appeal is approximately $12,000,000, with interest accruing at $1,250 per day based on a rate established in the Agreed Order. Because this matter is still in litigation, any additional amount the Authority might be required to pay is still uncertain, and could range from zero to an amount in excess of the $12,000,000.

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".

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

The Authority has a $10,000,000 line of credit available through June 30, 2006, 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, 2005 and 2004.

NOTE 7 – BONDS PAYABLE

Bonds payable consists of the following at June 30:

	2005	2004
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	$ 46,210,000	$47,390,000
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	34,520,000	36,240,000
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	9,840,000	10,110,000
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	90,800,000	93,800,000

NOTE 7 – BONDS PAYABLE (CONTINUED)

	2005	2004
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	10,640,000	11,155,000
2002 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (2.5% at June 30, 2005) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	45,900,000	46,800,000
2002 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (2.3% at June 30, 2005) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	36,750,000	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	13,455,000	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	7,500,000	7,745,000

NOTE 7 – BONDS PAYABLE (CONTINUED)

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	126,070,000	129,305,000
Total debt	421,685,000	434,675,000
Less current portion	14,330,000	12,990,000
	$ 407,355,000	$421,685,000

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds	$434,675,000	$ 0	$(12,990,000)	$421,685,000	$ 14,330,000

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

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

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, 2005, are as follows:

Year Ended	Revenue Bonds		
June 30	Principal	Interest	Total
2006	$ 14,330,000	$ 21,194,515	$ 35,524,515
2007	15,025,000	20,504,080	35,529,080
2008	15,780,000	19,760,455	35,540,455
2009	16,510,000	18,995,093	35,505,093
2010	17,310,000	18,200,935	35,510,935
2011-2015	98,315,000	76,965,228	175,280,228
2016-2020	98,945,000	49,643,765	148,588,765
2021-2025	85,530,000	25,799,575	111,329,575
2026-2030	38,995,000	9,734,354	48,729,354
2031-2032	20,945,000	1,685,363	22,630,363
Total	$421,685,000	$262,483,363	$ 684,168,363

NOTE 8 – OUTSTANDING LETTERS OF CREDIT

At June 30, 2005, the Authority had $387,000 of available letters of credit related to ongoing owner controlled insurance program claims incurred during the Louisville Airport Improvement Program. The outstanding balance was $0 at both June 30, 2005 and 2004.

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 457 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 457 Plan for the years ended June 30, 2005 and 2004 totaled approximately $39,205 and $67,712, 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 $6,984,516 and $6,807,206, out of a total payroll of approximately $8,261,344 and $8,101,050, for the years ended June 30, 2005 and 2004, 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, between 2.0% and 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.

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

NOTE 11 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

contribute 8.48% and 7.34% of the covered employees' salaries for non-hazardous positions, and 22.08% and 18.51% for a hazardous position for 2005 and 2004, respectively. The contribution requirement for the year ended June 30, 2005 was $1,236,253, consisting of $838,091 from the Authority and $398,162 from employees. 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.

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, 2004. 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).

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 $220,846, consisting of $59,093 from the Authority and $161,753 from employees were made for the year ending June 30, 2005. 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.

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 retired 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 $171,335 for 39 employees and $170,213 for 42 employees during 2005 and 2004, 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 each of the years ended June 30, 2005 and 2004, which comprised approximately 24% and 23% of its operating revenue for each respective year. At June 30, 2005 and 2004, amounts due from this customer included in accounts receivable were $117,709 and $1,264 respectively.

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.

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:

	June 30, 2005		June 30, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	$ 80,382,678	$ 80,382,678	$ 84,818,476	$ 84,818,476
Investments	$ 24,883,645	$ 24,883,645	$ 34,063,983	$ 34,063,983
Bonds Payable	$ 421,685,000	$436,627,652	$434,675,000	$420,454,394

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, 2005, are as follows:

Year ending June 30:	
2006	$ 6,109,569
2007	5,561,489
2008	4,905,174
2009	4,361,744
2010	4,304,618
Thereafter	23,999,276
	$ 49,241,870

The Airport also leases property through contingent rentals. Revenues from these contingent rentals arise primarily from a percentage of the lessees' gross revenues in excess of minimum guarantees. Several lease agreements provide a minimum lease concession. Contingent rentals for the years ended June 30, 2005 and 2004 were $2,046,645 and $1,963,792, respectively.

NOTE 16 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 202,315,988	$ 0	$ (1,929,484)	$ 200,386,504
Capital projects in progress:				
Construction projects	58,576,474	9,231,724	(24,508,174)	43,300,024
Land acquisition program	176,501,079	32,107,180	0	208,608,259
Total capital assets not being depreciated	437,393,541	41,338,904	(26,437,658)	452,294,787
Other capital assets:				
Land improvements	317,344,850	6,078,151	0	323,423,001
Buildings	144,217,641	27,278,374	0	171,496,015
Utility systems	34,992,442	884,174	0	35,876,616
Equipment (excluding automotive)	6,080,772	1,422,201	0	7,502,973
Vehicle and automotive equipment	7,539,479	417,660	(470,866)	7,486,273
Furniture and fixtures	5,905,980	1,194,492	0	7,100,472
Total other capital assets at historical cost	516,081,164	37,275,052	(470,866)	552,885,350
Less accumulated depreciation for:				
Land improvements	164,987,487	15,311,259	0	180,298,746
Buildings	64,955,494	8,142,110	0	73,097,604
Utility systems	23,543,390	2,342,692	0	25,886,082
Equipment (excluding automotive)	5,300,700	205,134	0	5,505,834
Vehicle and automotive equipment	6,311,165	448,932	(470,866)	6,289,231
Furniture and fixtures	5,052,218	480,136	0	5,532,354
Total accumulated depreciation	270,150,454	26,930,263	(470,866)	296,609,851
Other capital assets, net	245,930,710	10,344,789	0	256,275,499
Net capital assets	$ 683,324,251	$ 51,683,693	$ (26,437,658)	$ 708,570,286

NOTE 16 - CAPITAL ASSETS (CONTINUED)

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
Capital projects in progress:				
Construction projects	35,316,205	34,524,747	(11,264,478)	58,576,474
Land acquisition program	156,075,069	20,426,010	0	176,501,079
Total capital assets not being depreciated	389,447,534	59,210,485	(11,264,478)	437,393,541
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)	6,025,570	55,202	0	6,080,772
Vehicle and automotive equipment	7,512,585	26,894	0	7,539,479
Furniture and fixtures	4,767,029	1,138,951	0	5,905,980
Total other capital assets at historical cost	509,354,436	6,726,728	0	516,081,164
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	2,327,241	0	23,543,390
Equipment (excluding automotive)	5,108,334	192,366	0	5,300,700
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	243,681,743	26,468,711	0	270,150,454
Other capital assets, net	265,672,693	19,741,984	0	245,930,710
Net capital assets	$ 655,120,227	$ 78,952,469	$ (11,264,478)	$ 683,324,251

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	87,998,940
	$106,998,940

During the year ended June 30, 2005 and 2004, amounts of $4,841,197 and $4,630,820, respectively were received in passenger facility charges.

NOTE 18 – RECLASSIFICATION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Certain accounts on the financial statements as of June 30, 2004 and for the year then ended have been reclassified to be consistent with the classifications adopted for the financial statements as of June 30, 2005 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.

NOTE 19 – SUBSEQUENT EVENTS

On July 22, 2005 the Authority issued 2005 Series A bonds. The 2005 bonds will provide funds, along with other available funds of the authority: (i) to refund $34,970,000 in principal amount of its outstanding Airport System Revenue Bonds, 1995 Series A, which funded the construction of a major parking structure at the airport, (ii) to fund in part additional capital improvements at the Airport in the approximate amount of $13,954,000, which includes an allowance for capitalized interest (and without consideration of any earnings on the funds until expended), and (iii) to pay costs of issuance of the 2005 Bonds, including the purchase of Bond Insurance and surety bond for the debt service reserve fund with respect to the 2005 Bonds.

On September 14, 2005 Delta Air Lines, Inc. and Northwest Airlines Corporation filed under the guidance of Chapter 11 of the federal bankruptcy law. Delta and Northwest represent the nation’s third and fourth largest airlines. In fiscal year 2005 Delta and Northwest contributed 5.1% and 11.2%, respectively to the total landed weights, as well as 24.8% and 11.2% of the enplaned passengers for the Louisville Regional Airport Authority. Both airlines continue to serve the airport during their bankruptcy proceedings.

NOTE 20 – NEW ACCOUNTING STANDARD

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Under this pronouncement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Under this statement, a capital asset generally should be considered impaired if both (a) the decline in service utility of the asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

The authority currently expects to apply this standard in its year ending June 30, 2006. The Authority is currently evaluating the effects, if any, that Statement No. 42 will have on its financial position and changes therein.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year ended June 30, 2005 with comparative totals for 2004

	2005			
	Standiford Field	Bowman Field	Total	2004 Total
Operating revenues				
Landing and field use fees	$ 16,798,790	$ 25,761	$ 16,824,551	$ 15,607,052
Terminal area	7,441,153	65,663	7,506,816	7,289,223
Apron area	1,228,502	0	1,228,502	1,589,422
Ground transportation	19,667,306	0	19,667,306	18,130,589
Aviation related facility leases	3,119,168	1,192,607	4,311,775	4,265,249
Land leases and other	1,094,344	202,916	1,297,260	1,487,490
Airport services	194,419	13,602	208,021	176,733
Other revenue	1,292	8,281	9,573	(44,112)
Total operating revenues	49,544,974	1,508,830	51,053,804	48,501,646
Operating expenses				
Operations and maintenance:				
Salaries, wages	6,660,455	426,517	7,086,972	6,614,938
Contracts	3,392,661	142,979	3,535,640	3,500,772
Utilities and fuel supplies	2,005,567	268,534	2,274,101	2,103,554
Major maintenance	1,976,096	38,408	2,014,504	1,108,925
Other	(34,644)	68,088	33,444	20,567
Costs recovered from tenants	(1,525,605)	(27,502)	(1,553,107)	(1,522,491)
Total operations and maintenance	12,474,530	917,024	13,391,554	11,826,265
Administrative, general, planning and engineering	8,646,209	648,285	9,294,494	8,438,213
Operating expenses before depreciation and amortization	21,120,739	1,565,309	22,686,048	20,264,478
Depreciation and amortization	26,956,410	691,678	27,648,088	27,186,535
Total operating expenses	48,077,149	2,256,987	50,334,136	47,451,013
Operating income (loss)	1,467,825	(748,157)	719,668	1,050,633
Nonoperating revenues (expenses) and capital contributions				
Investment earnings, net	2,706,650	0	2,706,650	2,253,055
Interest expense	(14,843,404)	0	(14,843,404)	(14,562,491)
Passenger facility charge	4,841,197	0	4,841,197	4,630,820
Net loss on disposal of assets and other revenue	(495,550)	(65,763)	(561,313)	(565,711)
Construction and equipment grants	31,177,424	1,334,441	32,511,865	31,433,032
	23,386,317	1,268,678	24,654,995	23,188,705
Increase in net assets	$ 24,854,142	$ 520,521	$ 25,374,663	$ 24,239,338

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT
June 30, 2005

	Cost					Accumulated Depreciation				
	Balance July 1, 2004	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2005	Balance July 1, 2004	Provisions	Retirements/ Adjustments	Balance June 30, 2005	Net Balance June 30, 2005
Louisville International Airport at Standiford Field:										
Land	$ 201,573,622	$ 0	$ 0	$ (1,929,484)	$ 199,644,138	$ 0	$ 0	$ 0	$ 0	$ 199,644,138
Land improvements - runways, taxiways and aprons	272,083,164	0	0	3,400,058	275,483,222	133,470,734	13,209,039	0	146,679,773	128,803,449
Land improvements - ground transportation and other	35,594,430	0	0	1,338,893	36,933,323	25,733,236	1,761,447	0	27,494,683	9,438,640
Buildings	134,372,573	0	0	26,121,625	160,494,198	58,991,847	7,779,503	0	66,771,350	93,722,848
Utility systems	34,867,904	12,997	0	871,177	35,752,078	23,435,732	2,333,124	0	25,768,856	9,983,222
Equipment (excluding automotive)	5,919,850	82,506	0	1,339,696	7,342,052	5,209,416	187,012	0	5,396,428	1,945,624
Vehicle and automotive equipment	6,824,736	379,313	(467,117)	0	6,736,932	5,649,771	417,339	(467,117)	5,599,993	1,136,939
Furniture and fixtures	5,905,980	0	0	1,194,493	7,100,473	5,052,218	480,136	0	5,532,354	1,568,119
Capital projects in progress	232,738,864	40,107,744	0	(21,946,423)	250,900,185	0	0	0	0	250,900,185
Total Louisville International Airport at Standiford Field	$ 929,881,123	$ 40,582,560	$ (467,117)	$ 10,390,035	$ 980,386,601	$ 257,542,954	$ 26,167,600	$ (467,117)	$ 283,243,437	$ 697,143,164

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT (CONTINUED)

June 30, 2005

	Cost					Accumulated Depreciation				
	Balance July 1, 2004	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2005	Balance July 1, 2004	Provisions	Retirements/ Adjustments	Balance June 30, 2005	Net Balance June 30, 2005
Bowman Field:										
Land	$ 742,367	$ 0	$ 0	$ 0	$ 742,367	$ 0	$ 0	$ 0	$ 0	$ 742,367
Land improvements - runways, taxiways and aprons	9,573,655	0	0	1,290,708	10,864,363	5,691,802	334,134	0	6,025,936	4,838,427
Land improvements - ground transportation and other	93,602	0	0	48,491	142,093	91,715	6,638	0	98,353	43,740
Buildings	9,845,068	0	0	1,156,750	11,001,818	5,963,647	362,607	0	6,326,254	4,675,564
Utility systems	124,536	0	0	0	124,536	107,658	9,568	0	117,226	7,310
Equipment (excluding automotive)	160,920	0	0	0	160,920	91,284	18,122	0	109,406	51,514
Vehicle and automotive equipment	714,743	38,346	(3,750)	0	749,339	661,394	31,593	(3,748)	689,239	60,100
Capital projects in progress	2,338,691	1,231,160	0	(2,561,751)	1,008,100	0	0	0	0	1,008,100
Total Bowman Field	23,593,582	1,269,506	(3,750)	(65,802)	24,793,536	12,607,500	762,662	(3,748)	13,366,414	11,427,122
Total Louisville International Airport at Standiford Field and Bowman Field	$ 953,474,705	$ 41,852,066	$ (470,867)	$ 10,324,233	$ 1,005,180,137	$ 270,150,454	$ 26,930,262	$ (470,865)	$ 296,609,851	$ 708,570,286

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF INSURANCE COVERAGE

June 30, 2005

	Expiration Date	Amount of Coverage
XL Speciality:		
General airport liability	07/31/05	$ 25,000,000
XL Speciality / Lloyds of London:		
Excess coverage	07/31/05	225,000,000
FM Global:		
All risk property	07/31/05	500,000,000
Hartford Fire Insurance Company:		
Property damage, bodily injury and medical payments, comprehensive fire, lightning and theft on motor vehicles	07/31/05	1,000,000
Fidelity and Deposit:		
Fidelity and crime covering board members and all employees		
Employee dishonesty	07/31/05	500,000
Forgery/alteration	07/31/05	100,000
Theft	07/31/05	100,000
Federal Insurance Company:		
Pension trust liability covering fiduciaries of the Authority retirement plans	07/31/05	2,000,000
Coregis Insurance Company:		
Public officials liability covering board members and all employees	07/31/05	10,000,000
Hartford Fire Insurance Company:		
All risk unlicensed equipment floater	07/31/05	7,425,000
KEMI:		
Worker's compensation and employers liability	07/31/05	1,000,000
Chubb Insurance Group:		
Blanket travel accident	04/17/08	125,000
American Sentinel:		
Accidental policy covering airport volunteers	01/01/06	15,000

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES

Year ended June 30, 2005

	1995 Series A Bond Funds
	Debt Service Fund
Fund balances, July 1, 2004	$ 2,482,965
Additions:	
Deposits	0
Investment earnings	17,623
Deductions:	
Capital expenditures	0
Bond principal and interest payments	(3,756,991)
Transfers (to) from other funds	3,770,443
Fund balances, June 30, 2005	$ 2,514,040

LOUSIVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	1997 Series A Bond Funds
	Debt Service Fund
Fund balances, July 1, 2004	$ 2,855,418
Additions:	
Deposits	0
Investment earnings	20,819
Deductions:	
Capital expenditures	0
Other expenditures	0
Bond principal and interest payments	(3,940,955)
Transfers (to) from other funds	3,970,255
Fund balances, June 30, 2005	$ 2,905,537

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	1998 Series A Bond Funds
	Debt Service Fund
Fund balances, July 1, 2004	$ 518,138
Additions:	
Deposits	0
Investment earnings	3,688
Deductions:	
Capital expenditures	0
Other expenditures	0
Bond principal and interest payments	(760,403)
Transfers (to) from other funds	760,841
Fund balances, June 30, 2005	$ 522,264

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2001 Series A Bond Funds	
	Construction Fund	Debt Service Fund
Fund balances, July 1, 2004	$ 64	$ 5,534,908
Additions:		
Deposits	0	0
Investment earnings	0	39,501
Deductions:		
Capital expenditures	0	0
Other expenditures	0	0
Bond principal and interest payments	0	(7,994,931)
Transfers (to) from other funds	(59)	8,025,487
Fund balances, June 30, 2005	$ 5	$ 5,604,965

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2001 Series B Bond Funds	
	Construction Fund	Debt Service Fund
Fund balances, July 1, 2004	$ 4,485,294	$ 785,873
Additions:		
Deposits	0	0
Investment earnings	38,014	5,745
Deductions:		
Capital expenditures	(2,201,484)	0
Other expenditures	0	0
Bond principal and interest payments	0	(1,046,438)
Transfers (to) from other funds	0	1,050,387
Fund balances, June 30, 2005	$ 2,321,824	$ 795,567

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2002 Series A Bond Funds	
	Debt Service Fund	Cost of Issuance Fund
Fund balances, July 1, 2004	$ 900,000	$ 13
Additions:		
Deposits	0	0
Investment earnings	9,277	0
Deductions:		
Capital expenditures	0	0
Other expenditures	(111,600)	0
Bond principal and interest payments	(1,707,818)	0
Transfers (to) from other funds	1,957,858	0
Fund balances, June 30, 2005	$ 1,047,717	$ 13

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2002 Series B Bond Funds	
	Debt Service Fund	Cost of Issuance Fund
Fund balances, July 1, 2004	$ 750,946	$ 10
Additions:		
Deposits	0	0
Investment earnings	7,657	0
Deductions:		
Capital expenditures	0	0
Other expenditures	(98,420)	0
Bond principal and interest payments	(1,386,115)	0
Transfers (to) from other funds	1,542,041	0
Fund balances, June 30, 2005	$ 816,109	$ 10

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2003 Series A Bond Funds	
	Debt Service Fund	Cost of Issuance Fund
Fund balances, July 1, 2004	$ 1,485,131	$ 12,560
Additions:		
Deposits	0	0
Investment earnings	11,491	188
Deductions:		
Capital expenditures	0	0
Other expenditures	0	0
Bond principal and interest payments	(1,729,948)	0
Transfers (to) from other funds	1,783,142	0
Fund balances, June 30, 2005	$ 1,549,816	$ 12,748

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2003 Series B Bond Funds
	Debt Service Fund
Fund balances, July 1, 2004	$ 399,576
Additions:	
Deposits	0
Investment earnings	3,102
Deductions:	
Capital expenditures	0
Other expenditures	0
Bond principal and interest payments	(551,703)
Transfers (to) from other funds	581,150
Fund balances, June 30, 2005	$ 432,125

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	2003 Series C Bond Funds	
	Construction Fund	Debt Service Fund
Fund balances, July 1, 2004	$ 9,622,616	$ 6,123,442
Additions:		
Deposits	0	0
Investment earnings	135,251	50,927
Deductions:		
Capital expenditures	(1,419,634)	0
Other expenditures	0	0
Bond principal and interest payments	0	(9,717,223)
Transfers (to) from other funds	(368,844)	9,958,102
Fund balances, June 30, 2005	$ 7,969,389	$ 6,415,248

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

	Gross Revenue Debt Service Fund
Fund balances, July 1, 2004	$ 0
Additions:	
Deposits	0
Investment earnings	4,967
Deductions:	
Capital expenditures	0
Other expenditures	0
Bond principal and interest payments	30,230,694
Transfers to other funds	(29,817,154)
Fund balances, June 30, 2005	$ 418,507

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES (CONTINUED)

Year ended June 30, 2005

		Aggregate Debt Service Reserve Fund
Fund balances, July 1, 2004	$	35,540,635
Additions:		
Deposits		0
Investment earnings		847,057
Deductions:		
Capital expenditures		0
Other expenditures		0
Bond principal and interest payments		0
Transfers from other funds		(381,058)
Fund balances, June 30, 2005	$	36,006,634

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, 2005, and have issued our report thereon dated August 26, 2005. 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.

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.

Compliance and Other Matters

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*.

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
August 26, 2005

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, 2005. 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, 2005.

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.

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
August 26, 2005

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2005

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, 2005	Accumulated Expenditures
U.S. Department of Transportation						
Direct Program:						
Airport Improvement Program:						
Louisville International Airport at Standiford Field:						
	20.106	3-21-0031-67	Modify Terminal Building, Regional Jet Gate Construction and Security Checkpoint Expansion	2,649,359	0	2,384,423
	20.106	3-21-0031-68	Runway Safety Enhancements	267,206	26,399	266,884
	20.106	3-21-0031-69	Security Enhancements	11,250,000	1,368,621	1,368,621
	20.106	3-21-0031-72	Extend Runway (Phase II) West Runway Overrun	5,077,331	1,818,528	1,818,528
	20.106	3-21-0031-73	Rehabilitate Apron	1,321,170	1,170,227	1,170,227
	20.106	3-21-0031-74	Acquire Snow Removal Equipment	605,158	176,959	176,959
	20.106	3-21-0031-75	Acquire Land for Noise Compatibility	15,000,000	15,000,000	15,000,000
Bowman Field:						
	20.106	3-21-0032-11	Rehabiliate Taxiways, Lighting, and Guidance Signs	778,028	0	778,028
	20.106	3-21-0032-12	Rehabiliate Taxiways	1,285,742	699,159	1,161,637
	20.106	3-21-0032-13	Rehabilitate Taxiways	1,188,510	432,082	432,082
Total Louisville International Airport at Standiford Field and Bowman Field				$ 39,422,504	$ 20,691,975	$ 24,557,389

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

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, 2005

Summary of auditor's results

We have issued an unqualified opinion, dated August 26, 2005, on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2005.

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 August 26, 2005, 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, 2005, 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 $500,000.

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 QUESTIONED COSTS AND THEIR RESOLUTION

Year ended June 30, 2005

No findings that are required to be reported in accordance with *Government Auditing Standards* were reported for the year ended June 30, 2004.

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, 2005. 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, 2005.

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.

<u>Schedule of Expenditures of Passenger Facility Charges</u>

We have audited the financial statements of the Authority as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. 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.

Moore Stephens Potter, LLP

MOORE STEPHENS POTTER, LLP
August 26, 2005

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SUPPLEMENTARY SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED

As of June 30, 2005

Federal Grantor/Pass-Through Grantor/Program	Record of Decision	Impose Authority	Use Authority	PFC Collected	Interest Earned	Expenditures
U.S. Department of Transportation						
Passenger Facility Charge Program	97-01-C-00-SDF	$ 40,000,000	$ 40,000,000	$ 40,000,000	$ 167,920	$ 27,817,519
	97-01-C-01-SDF	50,600,000	50,600,000	783,586	8,056	0
	01-02-C-00-SDF	10,732,140	10,732,140	0	0	9,558,441
	03-03-C-00-SDF	5,666,800	5,666,800	0	0	1,000,000
Totals		$ 106,998,940	$ 106,998,940	$ 40,783,586	$ 175,976	$ 38,375,960

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2005

Summary of auditor's results

We have issued an unqualified opinion, dated August 26, 2005, on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2005.

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 August 26, 2005, 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, 2005

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, 2004.