

Financial Statements

**LOUISVILLE REGIONAL AIRPORT  
AUTHORITY**

ANNUAL REPORT

June 30, 2006 and 2005

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

June 30, 2006 and 2005

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June 30, 2006 and 2005

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Louisville Regional Airport Authority (the Authority) as of and for the year ended June 30, 2006 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 audit. The financial statements of the Authority as of and for the year ended June 30, 2005, were audited by other auditors whose report dated August 26, 2005 expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides 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, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 considered in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America. 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.

Our audit was 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 audit 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.



Louisville, Kentucky  
September 8, 2006

## **LOUISVILLE REGIONAL AIRPORT AUTHORITY**

### **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, 2006.

#### **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 and extraordinary items 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.

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

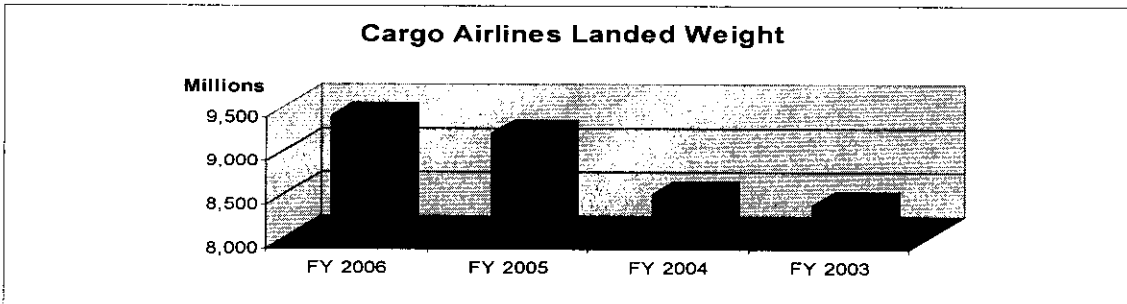
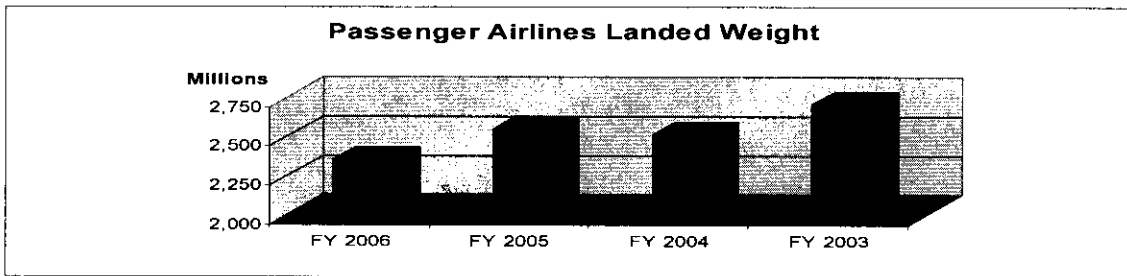
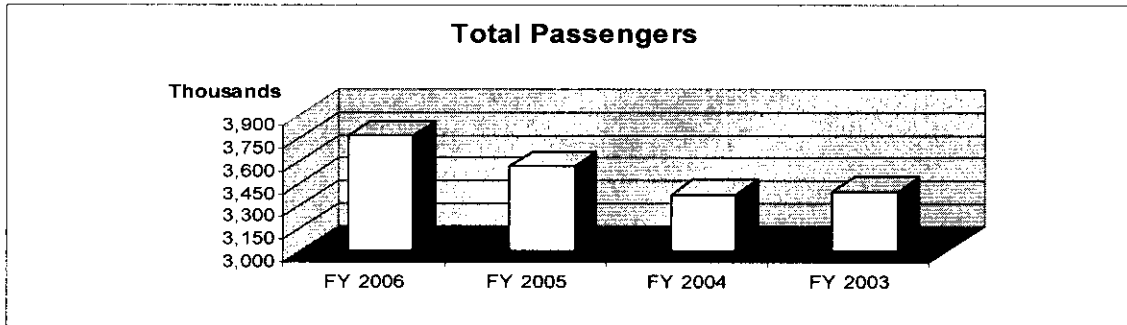
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**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 2006	FY 2005	FY 2004	FY 2003
<b>Passengers</b>				
Enplaned	1,883,500	1,787,116	1,694,003	1,699,616
Deplaned	1,877,186	1,776,746	1,683,829	1,697,682
<b>Total</b>	<b>3,760,686</b>	<b>3,563,862</b>	<b>3,377,832</b>	<b>3,397,298</b>
<b>Landed Weight</b>				
Passenger	2,359,068,586	2,555,047,519	2,519,625,108	2,711,024,222
Cargo	9,407,376,224	9,206,011,229	8,512,253,463	8,383,004,124
<b>Total</b>	<b>11,766,444,810</b>	<b>11,761,058,748</b>	<b>11,031,878,571</b>	<b>11,094,028,346</b>

Louisville International's (SDF) status as a major worldwide cargo leader in terms of volume is best reflected by its current ranking of 4<sup>th</sup> in the USA and 11<sup>th</sup> worldwide. UPS has concluded their move of a heavy freight operation to SDF and has announced that they will be doing a \$1.0+ billion expansion to the UPS Worldport™ facilities. UPS' cargo volume at SDF for fiscal year 2006 was 4.1 billion versus fiscal year 2005 of 3.8 billion pounds – a 9.1% increase. Passenger traffic increased 5.5% over fiscal year 2005.



## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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

- Total Revenues for fiscal year 2006 were 13.6% greater than fiscal year 2005 actual and 9.1% greater than budget. Major contributors to this increase were:
  - Interest Income was \$2.0 million greater than prior year and \$1.8 million greater than budget due to higher cash balances and higher interest rates versus prior year and budgeted estimates.
  - Parking revenues increased \$1.7 million over prior year and \$1.0 million over budget due to increases in the number of passengers and the duration of stay.
  - PFC's were \$1.4 million greater than prior year and \$1.0 million greater than budget. This was due to increases in passenger traffic and the increase to a \$4.50 PFC effective March 1, 2006.
  - Apron and Airside Terminal Areas were approximately \$753,000 over prior year and \$517,000 over budget due to the institution of a Per Turn Fee for the use of non-leased gates effective July 1, 2005. Two airlines did not execute signatory agreements until late in FY 2006 thus they incurred this fee.
- Operating Expenses before Depreciation for fiscal year 2006 were 2.8% less than budget and 6.6% greater than fiscal year 2005 actual.
- Operating Income before Depreciation was \$31,646,954 which is \$3,451,203 (12.2%) greater than budgeted and \$3,279,198 (11.6%) greater than fiscal year 2005 actual.
- Net Loss before Capital Contributions was \$51,957,674 which is \$42,254,942 (435.5%) greater than budget and \$44,820,472 (628.0%) greater than fiscal year 2005 actual. The major contributor to the variance to prior year and budget was due to an adjustment to the value of land acquired through our Part 150 program which is explained later under Capital Assets.
- Net Assets increased from prior year by \$4,938,512 to \$366,341,988.

#### Financial Information

##### Statement of Net Assets

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

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Assets:			
Unrestricted	\$45,155,391	\$23,137,696	\$39,486,778
Restricted	90,951,914	86,629,902	83,669,241
Capital Assets (Includes In Progress)	689,332,886	708,570,286	683,324,251
Other	17,606,909	16,869,231	17,747,038
Total Assets	<u>\$843,047,100</u>	<u>\$835,207,115</u>	<u>\$824,227,308</u>
Liabilities:			
Unrestricted	\$5,514,390	\$4,524,726	\$7,119,943
Restricted	27,564,258	25,068,809	23,160,681
Long-Term Debt	405,230,000	407,355,000	421,685,000
Other	38,396,464	36,855,104	36,232,871
Total Liabilities	<u>\$476,705,112</u>	<u>\$473,803,639</u>	<u>\$488,198,495</u>
Net Assets	<u>\$366,341,988</u>	<u>\$361,403,476</u>	<u>\$336,028,813</u>



**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

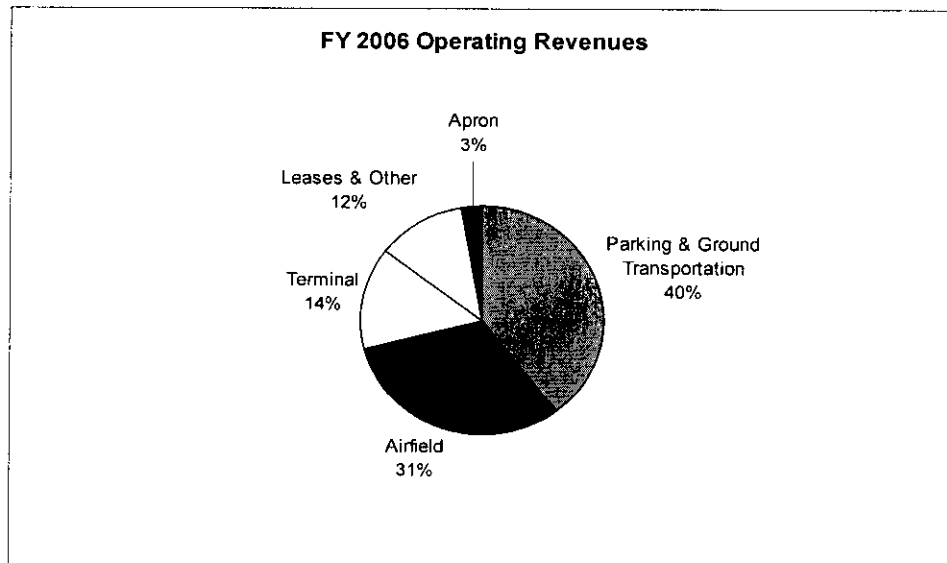
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Revenue**

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

	2006		2005	2004
	Actual	Budget	Actual	Actual
<b>Operating Revenues</b>				
Landing and Field Use	\$17,452,994	\$17,704,226	\$16,824,551	\$15,607,052
Apron Area	1,582,207	1,750,954	1,228,501	1,589,422
Landside Terminal	4,327,171	4,450,364	4,150,041	3,791,948
Airside Terminal	3,756,536	3,071,071	3,356,774	3,497,273
Leases	6,403,492	5,305,507	5,609,034	5,752,739
Parking & Ground Transportation	22,057,611	20,610,000	19,667,305	18,130,597
Other	238,208	176,000	217,598	132,615
<b>Total Operating Revenues</b>	<b>55,818,219</b>	<b>53,068,122</b>	<b>51,053,804</b>	<b>48,501,646</b>
<b>Non Operating Revenues</b>				
Passenger Facility Charge	6,019,344	4,985,000	4,841,197	4,630,820
Interest Income	4,728,473	2,932,700	2,706,650	2,253,055
<b>Total Non Operating Revenues</b>	<b>10,747,817</b>	<b>7,917,700</b>	<b>7,547,847</b>	<b>6,883,875</b>
<b>Total Revenues</b>	<b>\$66,566,036</b>	<b>\$60,985,822</b>	<b>\$58,601,651</b>	<b>\$55,385,521</b>

The major contributors to total revenues' favorable increases to budget and fiscal year 2005 have been explained earlier under Financial Highlights. The Authority receives Capital Contributions from Federal & State Government grants and private donations. Capital Contributions received or accrued for fiscal year 2006 and 2005 were \$56,896,185 and \$32,511,865, respectively. The major increase over FY 2005 was a \$22.4 million tract of land donated by the James Graham Brown Foundation. The land had been conveyed to the Authority without value beginning in 1997. In June 2006, the Certificate, Authorization and Agreement, was executed assigning a total value to the land of \$22,364,925.

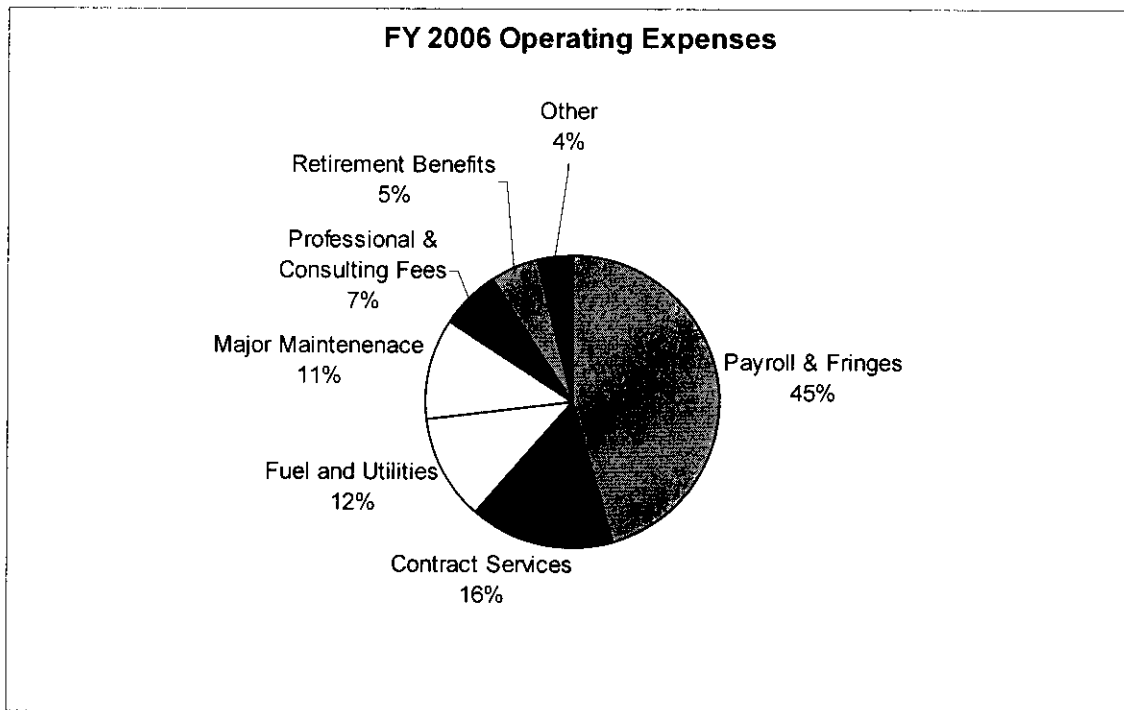


## Expenses

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

	2006		2005	2004
	Actual	Budget	Actual	Actual
<b>Operating Expenses:</b>				
Payroll & Fringe Benefits	\$11,016,327	\$11,062,378	\$10,752,885	\$10,546,966
Contract Services	3,833,874	3,782,508	3,867,619	3,555,281
Fuel and Utilities	2,819,679	2,320,300	2,274,100	2,103,554
Major Maintenance	2,700,029	3,640,129	2,014,504	1,121,257
Professional & Consulting Fees	1,595,892	1,417,900	1,403,317	839,620
Retirement	1,283,110	1,293,200	1,078,032	899,797
Other	922,354	1,355,956	1,295,591	1,198,003
<b>Total Operating Expenses</b>	<b>\$24,171,265</b>	<b>\$24,872,371</b>	<b>\$22,686,048</b>	<b>\$20,264,478</b>

Major contributors to increased spending versus prior year were increased costs of Major Maintenance, Utilities, and Retirement Benefits. Some examples of significant Major Maintenance projects in fiscal year 2006 include airfield lighting & pavement maintenance (\$1,396,000), terminal repairs (\$287,000) and snow removal (\$246,000). Utilities were higher due to increase in utility rates. Retirement costs were higher due primarily to an increase in the employer contribution rate as required by state statute.



## Capital Assets

During fiscal year 2006, the Authority's capital spending and accruals totaled \$85,304,282. Major projects were Noise Mitigation, Land Acquisition and Relocation Program - \$16,843,448; Runways & Taxiways - \$12,381,115; In-Line Baggage Screening Building - \$10,850,035; Hangar Construction - \$6,106,156. Fixed Asset's acquired and Projects completed and capitalized during the year totaled \$51,633,027. Included in that total is \$22,364,925 estimated value for land donated to the Authority in prior years for which a value had not been previously determined. Major capital asset dispositions during fiscal year 2006 included the sale of land and buildings with a net book value of \$7,570,761 which resulted in a gain of \$3,004,518. Also, costs incurred to date totaling \$5,011,047 related to the hotel project were written off since that project has been postponed indefinitely.

Additionally, the carrying value of a portion of the land previously acquired under the FAA approved Part 150 Noise Mitigation, Land Acquisition and Relocation Program was adjusted down by \$63,757,296 to its net realizable value. As explained in Note E, under this program, the Authority bought residential parcels, relocated the families and demolished the homes which were considered incompatible within close proximity to the airport. This property is being resold for commercial or industrial uses. The purchase of this land entitles the Authority to attach avigation easements, airport servitudes and other deed restrictions on the property which severely restrict the use and consequently the value of the property. As such, Avigation Easements associated with the property were recorded and valued at \$12,751,459 which offset the net realizable value adjustment and resulted in a net loss of \$51,005,837.

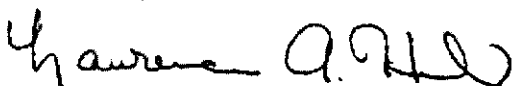
## Debt

Currently, the Authority has bonds outstanding of \$420,255,000 of which \$405,230,000 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 2006 and funded by a portion of the debt include In-Line Baggage Screening Facility, West Runway Extensions and Hangar Construction. A summary of changes in long-term debt and annual debt service requirements is found in Note F 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	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>Current assets, unrestricted</b>		
Cash and equivalents	\$ 12,828,685	\$ 13,057,807
Investments, at amortized cost plus accrued interest	26,938,093	5,578,613
Fees and rentals receivable	4,756,881	3,875,000
Supplies and prepaid expenses	<u>631,732</u>	<u>626,276</u>
<b>Total unrestricted current assets</b>	45,155,391	23,137,696
<b>Current assets, restricted</b>		
Cash and equivalents	36,078,497	33,325,884
Grants receivable	<u>2,351,736</u>	<u>-</u>
<b>Total restricted current assets</b>	<u>38,430,233</u>	<u>33,325,884</u>
<b>Total current assets</b>	83,585,624	56,463,580
<b>Noncurrent assets, unrestricted</b>		
Capital assets not being depreciated	452,672,429	452,294,787
Depreciable capital assets, net	236,660,457	256,275,499
Deferred bond cost, net of accumulated amortization of \$4,081,113 in 2006 and \$3,628,968 in 2005	<u>17,606,909</u>	<u>16,869,231</u>
<b>Total unrestricted noncurrent assets</b>	706,939,795	725,439,517
<b>Noncurrent assets, restricted</b>		
Cash – PFC Fund	3,025,444	2,583,714
Cash and cash equivalents	4,934,998	31,415,272
Investments, at amortized cost plus accrued interest	<u>44,561,239</u>	<u>19,305,032</u>
<b>Total restricted noncurrent assets</b>	<u>52,521,681</u>	<u>53,304,018</u>
<b>Total noncurrent assets</b>	<u>759,461,476</u>	<u>778,743,535</u>
<b>Total assets</b>	<u>\$ 843,047,100</u>	<u>\$ 835,207,115</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET ASSETS -- CONTINUED

	June 30	
	<u>2006</u>	<u>2005</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b> (payable from unrestricted current assets)		
Accounts payable	\$ 3,932,474	\$ 3,684,401
Accrued expenses and other	857,274	820,811
Deferred income	<u>724,642</u>	<u>19,514</u>
<b>Total unrestricted current liabilities</b>	5,514,390	4,524,726
<b>Current liabilities</b> (payable from restricted assets)		
Current portion of bonds payable	15,025,000	14,330,000
Accounts payable	3,618,685	1,694,773
Accrued interest	<u>8,920,573</u>	<u>9,044,036</u>
<b>Total restricted current liabilities</b>	27,564,258	25,068,809
<b>Total current liabilities</b>	<u>33,078,648</u>	<u>29,593,535</u>
<b>Long-term debt</b>		
Bonds payable	<u>405,230,000</u>	<u>407,355,000</u>
<b>Other liabilities</b>		
Deposit from UPS Land Option	3,500,000	3,500,000
Unamortized bond premium, net	10,627,098	9,078,224
Deposit from Commonwealth of Kentucky	19,813,663	19,813,663
Deferred revenue	72,103	79,617
Other liabilities	83,600	83,600
Revolving coverage (payable from restricted assets)	<u>4,300,000</u>	<u>4,300,000</u>
<b>Total other liabilities</b>	38,396,464	36,855,104
<b>Total liabilities</b>	476,705,112	473,803,639
Commitments and contingencies		
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	342,529,411	349,519,173
Restricted for debt service	14,474,945	12,382,270
Restricted for capital projects	3,025,444	2,583,714
Unrestricted net assets (deficit)	<u>6,312,188</u>	<u>(3,081,681)</u>
<b>Total net assets</b>	<u>\$ 366,341,988</u>	<u>\$ 361,403,476</u>

See accompanying independent auditor's report  
and notes to financial statements

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
<b>Operating revenues</b>		
Rentals and concessions	\$ 38,094,109	\$ 34,229,253
Landing and field use fees	<u>17,724,110</u>	<u>16,824,551</u>
Total operating revenues	55,818,219	51,053,804
<b>Operating expenses</b>		
Operations and maintenance	14,674,622	13,391,554
Administrative, general, planning and engineering	<u>9,496,643</u>	<u>9,294,494</u>
Operating expenses before depreciation and amortization	24,171,265	22,686,048
Depreciation and amortization	<u>28,646,631</u>	<u>27,648,088</u>
Total operating expenses	<u>52,817,896</u>	<u>50,334,136</u>
<b>Operating income</b>	<u>3,000,323</u>	<u>719,668</u>
<b>Non-operating revenues (expenses)</b>		
Investment earnings, net	4,728,473	2,706,650
Interest expense	(14,107,177)	(14,843,404)
Passenger facility charges	6,019,344	4,841,197
Settlement of lawsuit	1,589,194	-
Net loss on disposal of assets and other revenue (expense)	<u>(2,181,994)</u>	<u>(561,313)</u>
Net non-operating expenses before asset realization adjustment	<u>(3,952,160)</u>	<u>(7,856,870)</u>
Loss before asset realization adjustment and capital contributions	(951,837)	(7,137,202)
Net loss on asset realization adjustment	<u>(51,005,837)</u>	<u>-</u>
Loss before capital contributions	(51,957,674)	(7,137,202)
<b>Capital contributions</b>	<u>56,896,186</u>	<u>32,511,865</u>
Increase in net assets	4,938,512	25,374,663
Net assets, beginning of year	<u>361,403,476</u>	<u>336,028,813</u>
Net assets, end of year	<u>\$ 366,341,988</u>	<u>\$ 361,403,476</u>

See accompanying independent auditor's report and notes to financial statements

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 57,223,146	\$ 50,518,227
Payments to suppliers	(16,886,080)	(16,040,264)
Payments to employees	<u>(7,006,105)</u>	<u>(7,186,995)</u>
<b>Net cash provided by operating activities</b>	<u>33,330,961</u>	<u>27,290,968</u>
<b>Cash flows from capital and related financing activities</b>		
Capital contributions	34,103,437	32,511,865
Passenger facility charges	6,019,344	4,841,197
Acquisition and construction of capital assets	(50,299,999)	(49,939,940)
Proceeds from sale of assets	11,086,868	48,262
Proceeds from issuance of debt	47,870,000	-
Principal paid on capital debt	(49,300,000)	(12,990,000)
Interest paid on capital debt, net of capitalized interest	(14,230,640)	(14,458,202)
Fees paid on bonds	(211,737)	(226,486)
Issuance costs of capital debt	<u>(1,189,823)</u>	<u>(100,302)</u>
<b>Cash flows used for capital and related financing activities</b>	<u>(16,152,550)</u>	<u>(40,313,606)</u>
<b>Cash flows from investing activities</b>		
Proceeds from maturities of investments	49,382,693	22,413,722
Purchase of investments	(65,856,445)	(16,995,807)
Investment income	<u>5,922,223</u>	<u>3,168,924</u>
<b>Net cash (used) provided for investing activities</b>	<u>(10,551,529)</u>	<u>8,586,839</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	6,626,882	(4,435,799)
<b>Cash and cash equivalents, beginning of year</b>	<u>80,382,677</u>	<u>84,818,476</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 87,009,559</u>	<u>\$ 80,382,677</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 3,000,323	\$ 719,668
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	28,646,631	27,648,088
Settlement of lawsuit	1,589,194	-
Changes in assets and liabilities:		
Fees and rental receivable	(881,881)	380,420
Deferred income	697,614	287,855
Supplies and prepaid expenses	(5,456)	(52,704)
Accounts payable	248,073	(1,637,368)
Accrued expenses and other	<u>36,463</u>	<u>(54,991)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 33,330,961</u>	<u>\$ 27,290,968</u>

**Noncash Investing, Capital and Financing Activities:**

The Authority has retainage and accounts payable related to construction in progress of approximately \$5,894,000 and \$3,323,000 as of June 30, 2006 and 2005, respectively. During 2006, The Authority recorded donated land valued at approximately \$22,365,000. The Authority has written down approximately \$51,006,000 of land assets (See Note L) and recorded an additional loss on sale of assets of \$1,971,000. These noncash transactions have been excluded from the above statements.

See accompanying independent auditor's report and notes to financial statements

## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

#### NOTE A--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 Louisville International Airport 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 landed weight of the aircraft. The scheduled airline fee structure is assessed pursuant to use agreements between the Authority and the signatory airlines. The Authority entered into a Landing Fee Surcharge Agreement beginning July 1, 2003 with one of its commercial tenants to provide financial support for a terminal renovation project. The revenue generated from this agreement was approximately \$532,000 and \$528,000 for fiscal year 2006 and 2005, respectively.

Construction and Equipment Grants: Certain expenditures for airport capital improvements are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Authority (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.

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 Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting and Standards Board (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.

Continued



**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED**

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, 2006 and 2005, 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 Authority's name. It is management's intention to reinvest all maturing funds.

Capital Assets: The Authority's 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 \$4,674,000 and \$5,345,000 during 2006 and 2005, respectively.

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

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 (including easements), construction in progress and certain land acquisition costs.

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.

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE B--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.

The Authority had deposits with financial institutions of \$15,750,554 and \$15,638,452 at June 30, 2006 and 2005, respectively, which are fully covered by federal depository insurance. Also included in cash and equivalents at June 30, 2006 and 2005, are overnight repurchase agreements of \$67,629,713 and \$64,741,156, respectively. The Authority also had cash on hand of \$3,575 as of June 30, 2006 and \$3,070 as of 2005.

**NOTE C--INVESTMENTS**

At June 30, 2006, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 37,150,365	Weighted average 0.73 years	AAA
Federal Farm Credit Banks	8,759,834	Weighted average 1.85 years	AAA
Federal Home Loan Bank	7,452,872	Weighted average 2.11 years	AAA
Federal Home Loan Mortgage Corp.	12,371,943	Weighted average 0.50 years	AAA
Freddie Mac	5,056,217	Weighted average 0.20 years	AAA
Tennessee Valley Authority	<u>708,101</u>	6.75 years	AAA
	<u>\$ 71,499,332</u>		

Investment balances are presented on the balance sheet under the following captions for the year ended June 30, 2006:

Unrestricted investments	\$ 26,938,093
Restricted investments	<u>44,561,239</u>
Total investments	<u>\$ 71,499,332</u>

*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 U.S. Government.

Continued

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE C--INVESTMENTS--CONTINUED**

*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.

*Concentration of Credit Risk.* Unrestricted funds invested in U.S. Government Agencies are limited to 50% of invested assets. At June 30, 2006, \$71,499,332 was invested in U.S. Government agency obligations. Domestic bank obligations may not exceed 35% of invested assets per issuer.

**NOTE D--RESTRICTED ASSETS**

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

	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Interest Receivable</u>	<u>Grants Receivable</u>	<u>Total</u>
<u>June 30, 2006</u>					
Bond Funds	\$40,335,761	\$35,641,935	\$ 596,600	\$ 2,351,736	\$78,926,032
Revolving Debt Coverage	-	8,919,304	81,133	-	9,000,437
PFC Fund	<u>3,025,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,025,445</u>
	<u>\$43,361,206</u>	<u>\$44,561,239</u>	<u>\$ 677,733</u>	<u>\$ 2,351,736</u>	<u>\$90,951,914</u>

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

The Authority's Airport System Revenue Bond Resolution adopted by the Authority's Board in 1983 required that the Authority collect revenues equal to at least 125% of the aggregate debt service for the fiscal year. During 1995, the Authority amended the 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 at June 30, 2006 and 2005, respectively. Upon maturity of the debt service, the portion of these assets which were funded by the airlines will be credited to the appropriate airline cost centers. As of June 30, 2006 and 2005, this reimbursement amount was approximately \$4,300,000.

## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2006 and 2005

#### NOTE E--COMMITMENTS AND CONTINGENCIES

Part 150 Land Acquisition Program: The Authority is acquiring certain residential properties surrounding the Louisville International Airport that are adversely impacted by noise. To accomplish this acquisition, the Authority has instituted a FAA approved Part 150 voluntary acquisition and 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. Once vacated, all residential and ancillary structures are demolished or moved from the noise-impacted area.

To assist residents in finding replacement housing, the Authority, in conjunction with the FAA, has developed an Innovative Housing Program at Heritage Creek. 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 was initially funded partially 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, approximately 2,200 residential properties will have been acquired at an estimated cost of \$275 million. At June 30, 2006, capital projects in progress include approximately \$156,994,000 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 stripped of its residential development rights and sold at fair market value 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 on impairment, asset reallocations or gains, may occur.

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.

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.

Continued

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE E--COMMITMENTS AND CONTINGENCIES--CONTINUED**

Litigation: The Authority may from time to time commence condemnation proceedings against the owner 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 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, 2006, the total due if this judgment is upheld on appeal is approximately \$12,500,000, 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 \$12,500,000.

Settlement of Lawsuit: In December 2005, the Authority entered into a settlement agreement with a third party related to an outstanding matter. The agreement resulted in the Authority receiving a total payment of \$2,069,300 representing a repayment of accounts receivable (\$414,507), reimbursement of legal costs (\$65,539) and settlement (\$1,589,194).

**NOTE F--DEBT**

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. There was a \$0 balance at June 30, 2006 and 2005.

Bonds payable:

Bonds payable consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
1995 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.3% to 5.625% through July 1, 2025, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	\$ 10,000,000	\$ 46,210,000
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	32,700,000	34,520,000
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	9,560,000	9,840,000

Continued

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE F--DEBT--CONTINUED**

Bonds payable consists of the following at June 30: - Continued

	<u>2006</u>	<u>2005</u>
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	87,655,000	90,800,000
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	10,105,000	10,640,000
2002 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (3.85% at June 30, 2006) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	44,975,000	45,900,000
2002 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (3.42% at June 30, 2006) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	36,025,000	36,750,000
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	12,150,000	13,455,000
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	7,220,000	7,500,000
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	121,995,000	126,070,000

Continued

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE F--DEBT--CONTINUED**

Bonds payable consists of the following at June 30: - Continued

	<u>2006</u>	<u>2005</u>
2005 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.38% to 5.00% through July 1, 2026 secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	47,870,000	-
Total debt	420,255,000	421,685,000
Less current portion	15,025,000	14,330,000
	<u>\$ 405,230,000</u>	<u>\$ 407,355,000</u>

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds	\$421,685,000	\$47,870,000	(\$49,300,000)	\$420,255,000	\$15,025,000

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds	\$434,675,000	\$ -	(\$12,990,000)	\$421,685,000	\$14,330,000

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2006, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,025,000	\$ 20,734,771	\$ 35,759,771
2008	15,780,000	20,119,780	35,899,780
2009	16,510,000	19,354,418	35,864,418
2010	17,310,000	18,560,260	35,870,260
2011	18,145,000	17,748,503	35,893,503
2012 - 2016	94,525,000	74,053,705	168,578,705
2017 - 2021	96,900,000	48,640,838	145,540,838
2022 - 2026	90,385,000	24,214,790	114,599,790
2027 - 2031	42,625,000	8,201,675	50,826,675
2032 - 2033	13,050,000	758,600	13,808,600
	<u>\$ 420,255,000</u>	<u>\$ 252,387,340</u>	<u>\$ 672,642,340</u>

Outstanding Letters of Credit: At June 30, 2006 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 June 30, 2006 and 2005.

## **LOUISVILLE REGIONAL AIRPORT AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

#### **NOTE G--SPECIAL FACILITY REVENUE BONDS**

Special Facility Revenue Bonds totaling \$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. The Authority anticipates issuing Special Facility Bonds for the UPS heavy freight facility in November 2006.

#### **NOTE H--DEFERRED COMPENSATION PLAN**

The Authority offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457 and 401(k). The Plans are administered by ICMA Retirement Corporation and Kentucky Retirement Systems, are available to all Authority employees, and allow 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, 2006 and 2005 totaled approximately \$27,000 and \$39,000, respectively and contributions to the 401(k) plan for the same years were approximately \$213,000 and \$162,000, respectively.

#### **NOTE I--DEFINED BENEFIT PENSION PLANS**

Effective May 1, 2001, all then 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 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 \$7,571,535 and \$6,984,516, out of a total payroll of approximately \$8,400,000 and \$8,261,000 for the years ended June 30, 2006 and 2005, 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 begin to 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 health, death and disability benefits. Benefits are established by state statute.

Continued



## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2006 and 2005

#### NOTE I--DEFINED BENEFIT PENSION PLANS - CONTINUED

Covered employees are required by state statute to contribute 5% of their salary to the CERS for a non-hazardous position and 8% for a hazardous position. The Authority was required by the same statute to contribute 10.98% and 8.48% of the covered employees' salaries for non-hazardous positions, and 25.01% and 22.08% for a hazardous position for 2006 and 2005, respectively. The contribution requirements for the year ended June 30, 2006 was \$1,510,371, consisting of \$1,078,062 from the Authority and \$432,309 from employees. 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.

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, 2005. The Commonwealth of Kentucky's Comprehensive Annual Financial Reports should be referred to for additional disclosures related to the County Employees Retirement System ([www.kyret.com](http://www.kyret.com)).

In addition to the above defined benefit pension plan, effective May 1, 2001, all Authority employees could elect to have the amounts listed as "single/lump sum value" rolled over from the prior 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. The Authority made contributions of \$75,350 and \$59,093 for the year ending June 30, 2006 and June 30, 2005, respectively.

#### NOTE J--OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits and deferred compensation plans described in Notes H and I, the Authority offered 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 \$120,000 for 38 employees and \$171,000 for 39 employees during 2006 and 2005, respectively. The plan may be terminated at the election of the board without notice.

## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2006 and 2005

#### NOTE K--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 Equivalents: The fair value approximates the carrying cost because of the short maturity of these instruments.

Investments: The fair values are estimated 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, 2006		June 30, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	\$ 87,009,559	\$ 87,009,559	\$ 80,382,678	\$ 80,382,678
Investments	41,357,397	41,357,397	24,883,645	24,883,645
Bonds payable	420,255,000	417,908,757	421,685,000	436,627,652

#### NOTE L--ASSET REALIZATION ADJUSTMENT

The Authority, at various times, has acquired residential and commercial property adjacent to the airport primarily for the purposes of expansion and noise mitigation in accordance with FAA regulations. The cost associated with these acquisitions includes, among other items, relocation costs, replacement housing payments, demolition expenses and other expenses mandated by federal relocation law. As a result, the Authority's expenditures with respect to these properties have exceeded its fair value for commercial or other airport related uses. Based on independent appraisals and/or pending sales offers, the Authority has written down assets (vacant property) with a carrying amount of \$80.9 million to a fair value of \$17.1 million at June 30, 2006. Avigation easements associated with this property were recorded valued at \$12.8 million. The resulting net loss of \$51 million has been recorded as "Asset Realization Adjustment," in the accompanying statement of revenues and expenses for the year ended June 30, 2006. It is anticipated that the Authority will incur similar write downs in the future, the amount of which cannot be quantified at present.

## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2006 and 2005

#### NOTE M--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, 2006, are as follows:

Year Ended <u>June 30</u>	
2007	\$ 4,752,333
2008	4,762,062
2009	4,726,975
2010	4,990,722
2011	4,348,935
Thereafter	<u>28,598,159</u>
	<u>\$ 52,179,186</u>

The Authority 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, 2006 and 2005 were \$2,883,077 and \$2,046,645, respectively.

#### NOTE N--RELATED PARTY TRANSACTIONS

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. This area can be developed for commercial or industrial uses. The LRZC entered into an Interlocal Cooperation Agreement with the Louisville Metro Government and the Commonwealth of Kentucky whereby funding will be provided by Tax Incremental Financing (TIF). The Authority's 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 the potential need for consolidating statements. As of June 30, 2006 there were no material amounts to consolidate. Therefore, the statements presented do not include any LRZC activities. The LRZC does expect that during FY 2007 there will be significant activities in the area just north of I-265 which will cause consolidated statements for fiscal year 2007. As of the date of these statements there have been no executed agreements or material transactions.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2006 and 2005

NOTE O--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 200,386,504	\$37,126,665	\$ (1,764,038)	\$ 235,749,131
Capital projects in progress:				
Construction projects	43,300,024	36,613,369	(19,983,980)	59,929,413
Land acquisition program	<u>208,608,259</u>	<u>12,142,922</u>	<u>(63,757,296)</u>	<u>156,993,885</u>
Total capital assets not being depreciated	<u>452,294,787</u>	<u>85,882,956</u>	<u>(85,505,314)</u>	<u>452,672,429</u>
Other capital assets:				
Land improvements	323,423,001	3,472,500	(15,830,134)	311,065,367
Buildings	171,496,015	8,089,527	(7,575,218)	172,010,324
Utility systems	35,876,616	531,840	-	36,408,456
Equipment (excluding automotive)	7,502,973	231,194	-	7,734,167
Vehicle and automotive equipment	7,486,273	1,498,216	(397,594)	8,586,895
Furniture and fixtures	<u>7,100,472</u>	<u>1,015,729</u>	<u>(2,400,868)</u>	<u>5,715,333</u>
Total other capital assets at historical cost	<u>552,885,350</u>	<u>14,839,006</u>	<u>(26,203,814)</u>	<u>541,520,542</u>
Less accumulated depreciation for:				
Land improvements	180,298,746	15,310,084	(15,428,635)	180,180,195
Buildings	73,097,604	8,811,868	(1,694,678)	80,214,794
Utility systems	25,886,082	2,211,237	-	28,097,319
Equipment (excluding automotive)	5,505,834	257,712	-	5,763,546
Vehicle and automotive equipment	6,289,231	751,209	(383,054)	6,657,386
Furniture and fixtures	<u>5,532,354</u>	<u>815,358</u>	<u>(2,400,867)</u>	<u>3,946,845</u>
Total accumulated depreciation	<u>296,609,851</u>	<u>28,157,468</u>	<u>(19,907,234)</u>	<u>304,860,085</u>
Other capital assets, net	<u>256,275,499</u>	<u>(13,318,462)</u>	<u>(6,296,580)</u>	<u>236,660,457</u>
Net capital assets	<u>\$ 708,570,286</u>	<u>\$72,564,494</u>	<u>\$ (91,801,894)</u>	<u>\$ 689,332,886</u>

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE O--CAPITAL ASSETS--CONTINUED**

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

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

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2006 and 2005

**NOTE P--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 FAA to impose a \$3.00 passenger facility charge on enplaning revenue passengers. Effective March 1, 2006, the FAA authorized the airport to increase the charge to \$4.50. Subsequent to year end, the FAA approved the Authority's amendment requesting the rate return to \$3.00 effective September 1, 2006. The FAA has authorized the Authority to collect total net PFC revenue of \$107,546,255 to be applied as follows:

For direct payment on capital project costs	\$ 20,267,315
To be applied to the debt service and related costs on the 2001 Series A & B Bonds issued to finance PFC approved project costs	<u>87,278,940</u>
	<u>\$ 107,546,255</u>

During the year ended June 30, 2006 and 2005, amounts of \$6,019,344 and \$4,841,197, respectively were received in passenger facility charges.

**NOTE Q--RECLASSIFICATION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

Certain accounts on the financial statements as of June 30, 2005 and for the year then ended have been reclassified to be consistent with the classifications adopted for the financial statements as of June 30, 2006 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 R--SUBSEQUENT EVENTS**

On September 1, 2006, the Authority called all outstanding Series 1995A bonds in the amount of \$8,700,000. The Authority paid a call premium of 1% in the amount of \$87,000 and accrued interest of \$77,283 related to this transaction.

**SUPPLEMENTAL INFORMATION**

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

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

Year ended June 30, 2006 with comparative totals for 2005

	2006			2005 Total
	Louisville International	Bowman Field	Total	
<b>Operating revenues</b>				
Landing and field use fees	\$ 17,701,635	\$ 22,475	\$ 17,724,110	\$ 16,824,551
Terminal area	8,031,789	51,919	8,083,708	7,506,816
Apron area	1,311,091	-	1,311,091	1,228,502
Ground transportation	22,057,611	-	22,057,611	19,667,306
Aviation related facility leases	3,693,128	1,237,376	4,930,504	4,311,775
Land leases and other	1,269,443	203,546	1,472,989	1,297,260
Airport services	204,086	17,998	222,084	208,021
Other revenue	7,841	8,281	16,122	9,573
Total operating revenues	<u>54,276,624</u>	<u>1,541,595</u>	<u>55,818,219</u>	<u>51,053,804</u>
<b>Operating expenses</b>				
Operations and maintenance				
Salaries, wages	6,718,460	426,806	7,145,266	7,086,972
Contracts	3,815,555	118,140	3,933,695	3,535,640
Utilities and fuel supplies	2,489,806	329,875	2,819,681	2,274,101
Major maintenance	2,481,812	218,217	2,700,029	2,014,504
Other	5,966	61,411	67,377	33,444
Costs recovered from tenants	(1,960,228)	(31,198)	(1,991,426)	(1,553,107)
Total operations and maintenance	<u>13,551,371</u>	<u>1,123,251</u>	<u>14,674,622</u>	<u>13,391,554</u>
Administrative, general, planning and engineering	<u>8,993,623</u>	<u>503,020</u>	<u>9,496,643</u>	<u>9,294,494</u>
Operating expenses before depreciation and amortization	22,544,994	1,626,271	24,171,265	22,686,048
Depreciation and amortization	<u>27,878,161</u>	<u>768,470</u>	<u>28,646,631</u>	<u>27,648,088</u>
Total operating expenses	<u>50,423,155</u>	<u>2,394,741</u>	<u>52,817,896</u>	<u>50,334,136</u>
<b>Operating Income</b>	<u>3,853,469</u>	<u>(853,146)</u>	<u>3,000,323</u>	<u>719,668</u>
<b>Non-operating revenues (Expenses)</b>				
<b>capital contributions and settlement of lawsuit</b>				
Investment earnings, net	4,728,473	-	4,728,473	2,706,650
Interest expense	(14,107,177)	-	(14,107,177)	(14,843,404)
Passenger facility charge	6,019,344	-	6,019,344	4,841,197
Settlement of lawsuit	1,589,194	-	1,589,194	-
Net loss on disposal of assets and other revenue	(2,180,356)	(1,638)	(2,181,994)	(561,313)
Capital contributions	55,041,475	1,854,711	56,896,186	32,511,865
Net loss on asset realization adjustment	(51,005,837)	-	(51,005,837)	-
<b>Non-operating revenues</b>	<u>85,116</u>	<u>1,853,073</u>	<u>1,938,189</u>	<u>24,654,995</u>
<b>Increase in net assets</b>	<u>\$ 3,938,585</u>	<u>\$ 999,927</u>	<u>\$ 4,938,512</u>	<u>\$ 25,374,663</u>

See accompanying independent auditor's report and notes to financial statements



LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT

June 30, 2006

	Cost				Accumulated Depreciation			Net Balance June 30, 2006
	Balance July 1, 2005	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2006	Provisions	Retirements/ Adjustments	
<b>Louisville International Airport</b>								
Land	\$199,644,138	\$ 35,116,384	\$ (1,764,038)	\$ 2,010,281	\$235,006,765	\$ -	\$ -	\$ 235,006,765
Land improvements - runways, taxiways, and aprons	275,483,222	-	(15,830,135)	2,170,166	261,823,253	13,342,553	(15,428,633)	144,563,940
Land improvements - ground transportation and other	36,933,323	-	-	-	36,933,323	1,557,877	-	29,082,314
Buildings	160,494,198	-	(7,575,218)	7,963,316	160,882,296	8,436,436	(1,694,678)	73,511,230
Utility systems	35,752,078	34,842	-	497,000	36,283,920	2,210,592	-	27,979,448
Equipment (excluding automotive)	7,342,052	142,000	-	-	7,484,052	239,032	-	5,637,339
Vehicles and automotive equipment	6,736,932	1,165,571	(64,948)	(332,646)	7,504,909	400,702	(383,054)	5,617,641
Furniture and fixtures	7,100,473	-	(2,400,868)	1,015,728	5,715,333	815,357	(2,400,867)	3,946,845
Capital projects in progress	250,900,185	47,016,314	-	(82,252,787)	215,663,712	-	-	215,663,712
<b>Total Louisville International Airport</b>	<b>\$980,386,601</b>	<b>\$ 83,475,111</b>	<b>\$(27,635,207)</b>	<b>\$(68,928,942)</b>	<b>\$967,297,563</b>	<b>\$ 27,002,549</b>	<b>\$(19,907,232)</b>	<b>\$290,338,757</b>
								<b>\$676,958,806</b>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT--CONTINUED

June 30, 2006

	Cost						Accumulated Depreciation		Net Balance June 30, 2006
	Balance July 1, 2005	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2006	Balance July 1, 2005	Provisions	Retirements/ Adjustments	
<b>Bowman Field:</b>									
Land	\$ 742,367	\$ -	\$ -	\$ -	\$ 742,367	\$ -	\$ -	\$ -	\$ 742,367
Land improvements - runways, taxiways, and aprons	10,864,363	-	-	1,302,334	12,166,697	6,020,540	404,804	-	6,425,344
Land improvements - ground transportation and other	142,093	-	-	-	142,093	98,353	4,850	-	103,203
Buildings	11,001,818	-	-	126,210	11,128,028	6,331,650	375,432	-	6,707,082
Utility systems	124,536	-	-	-	124,536	117,226	645	-	117,871
Equipment (excluding automotive)	160,920	89,195	-	-	250,115	109,406	18,680	-	128,086
Vehicles and automotive equipment	749,339	-	-	332,646	1,081,985	689,236	32,400	318,106	1,039,742
Construction in progress	1,008,100	1,739,977	-	(1,488,490)	1,259,587	-	-	-	1,259,587
<b>Total Bowman Field</b>	<b>24,793,536</b>	<b>1,829,172</b>	<b>-</b>	<b>272,700</b>	<b>26,895,408</b>	<b>13,366,411</b>	<b>836,811</b>	<b>318,106</b>	<b>14,521,328</b>
<b>Total Louisville International Airport and Bowman Field</b>	<b>\$1,005,180,137</b>	<b>\$ 85,304,283</b>	<b>\$(27,635,207)</b>	<b>\$(68,656,242)</b>	<b>\$ 994,192,971</b>	<b>\$296,609,851</b>	<b>\$ 27,839,360</b>	<b>\$ 19,589,126</b>	<b>\$ 304,860,085</b>
									<b>\$ 689,332,886</b>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF INSURANCE COVERAGE**

June 30, 2006

	<u>Expiration Date</u>	<u>Amount of Coverage</u>	
XL Specialty: General airport liability	07/31/06	\$ 25,000,000	
XL Specialty / Lloyds of London: Excess coverage	07/31/06	225,000,000	
FM Global: All risk property	07/31/06	500,000,000	
Hartford Fire Insurance Company: Automobile coverage	07/31/06	1,000,000	
Fidelity and Deposit: Fidelity and crime covering board members and all employees	07/31/06		
Employee dishonesty		500,000	
Forgery/alteration		100,000	
Theft		100,000	
Travelers Insurance Company: Pension trust liability covering fiduciaries of the Authority retirement plans	08/01/08	1,000,000	
RSUI: Public officials' liability covering board members and all employees	07/31/06	10,000,000	
Chubb Insurance Group: All risk unlicensed equipment floater	07/31/06	6,560,417	
KEMI: Worker's compensation and employers liability	07/31/06	1,000,000	
Chubb Insurance Group: Blanket travel accident	07/31/08	625,000 125,000	Aggregate per person
American Sentinel: Accidental policy covering airport volunteers	01/01/07	15,000	per person

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SCHEDULE OF CHANGES IN BOND FUND BALANCES  
 Year ended June 30, 2006

	<u>1995 Series A Revenue Bond Funds</u>
	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 2,514,040
Additions:	
Deposits	-
Investment earnings	28,960
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(38,725,552)
Transfers (to) from other funds	<u>37,747,552</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 1,565,000</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
**SCHEDULE OF CHANGES IN BOND FUND BALANCES**

Year ended June 30, 2006

1997 Series A Revenue Bond Funds

	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 2,905,537
Additions:	
Deposits	-
Investment earnings	50,084
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(3,938,295)
Transfers (to) from other funds	<u>3,940,432</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 2,957,758</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SCHEDULE OF CHANGES IN BOND FUND BALANCES  
 Year ended June 30, 2006

1998 Series A Revenue Bond Funds

	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 522,264
Additions:	
Deposits	-
Investment earnings	8,914
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(758,230)
Transfers (to) from other funds	<u>758,017</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 530,965</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2006

	<u>2001 Series A Bond Funds</u>	
	<u>Construction Fund</u>	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 5	\$ 5,604,965
Additions:		
Deposits	-	-
Investment earnings	-	94,140
Deductions:		
Capital expenditures	-	-
Bond principal and interest payments	-	(7,986,306)
Transfers (to) from other funds	<u>-</u>	<u>7,978,542</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 5</u>	<u>\$ 5,691,341</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED**

Year ended June 30, 2006

	<u>2001 Series B Bond Funds</u>	
	<u>Construction Fund</u>	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 2,321,824	\$ 795,567
Additions:		
Deposits	-	-
Investment earnings	62,759	13,679
Deductions:		
Capital expenditures	(1,177,645)	-
Bond principal and interest payments	-	(1,044,769)
Transfers (to) from other funds	<u>-</u>	<u>1,039,722</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 1,206,938</u>	<u>\$ 804,199</u>

See accompanying independent auditor's report



LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2006

	<u>2002 Series A Bond Funds</u>	
	<u>Debt Service</u> <u>Fund</u>	<u>Cost of</u> <u>Issuance Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 1,047,717	\$ 13
Additions:		
Deposits	-	-
Investment earnings	19,179	-
Deductions:		
Capital expenditures	-	-
Other expenditures	(120,381)	-
Bond principal and interest payments	(2,298,855)	-
Transfers (to) from other funds	<u>2,302,338</u>	<u>-</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 949,998</u>	<u>\$ 13</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED**

Year ended June 30, 2006

	<u>2002 Series B Bond Funds</u>	
	<u>Debt Service Fund</u>	<u>Cost of Issuance Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 816,109	\$ 10
Additions:		
Deposits	-	-
Investment earnings	15,487	-
Deductions:		
Capital expenditures	-	-
Other expenditures	(87,631)	-
Bond principal and interest payments	(1,726,993)	-
Transfers (to) from other funds	<u>1,886,567</u>	<u>-</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 903,539</u>	<u>\$ 10</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED**

Year ended June 30, 2006

	<u>2003 Series A Bond Funds</u>	
	<u>Debt Service Fund</u>	<u>Cost of Issuance Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 1,549,816	\$ 12,748
Additions:		
Deposits	-	-
Investment earnings	27,031	450
Deductions:		
Capital expenditures	-	-
Bond principal and interest payments	(1,775,060)	-
Transfers (to) from other funds	<u>1,763,455</u>	<u>-</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 1,565,242</u>	<u>\$ 13,198</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED**

Year ended June 30, 2006

	<u>2003 Series B Bond Funds</u>
	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 432,125
Additions:	
Deposits	-
Investment earnings	7,409
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(578,653)
Transfers (to) from other funds	<u>575,645</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 436,526</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2006

	<u>2003 Series C Bond Funds</u>	
	<u>Construction Fund</u>	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 7,969,389	\$ 6,415,248
Additions:		
Deposits	-	-
Investment earnings	128,633	121,900
Deductions:		
Capital expenditures	(7,297,720)	-
Bond principal and interest payments	-	(10,417,904)
Transfers (to) from other funds	<u>-</u>	<u>11,283,722</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 800,302</u>	<u>\$ 7,402,966</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED**

Year ended June 30, 2006

	<u>2005 Series A Bond Funds</u>		
	<u>Cost of Issuance Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ -	\$ -	\$ -
Additions:			
Deposits	526,942	13,954,423	35,946,512
Investment earnings	2,747	347,755	121,781
Deductions:			
Capital expenditures	(522,766)	(3,628,016)	-
Bond principal and interest payments	-	-	(1,029,069)
Transfers (to) from other funds	<u>-</u>	<u>(839,933)</u>	<u>(33,629,878)</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 6,923</u>	<u>\$ 9,834,229</u>	<u>\$ 1,409,346</u>

See accompanying independent auditor's report

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED**

Year ended June 30, 2006

	<u>Gross Revenue Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 418,507
Additions:	
Deposits	30,055,503
Investment earnings	2,675
Deductions:	
Capital expenditures	-
Bond principal and interest payments	-
Transfers (to) from other funds	<u>(30,476,685)</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ -</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2006

	<u>Aggregate Debt Service Reserve Fund</u>
<b>Bond Fund Balances, July 1, 2005</b>	\$ 36,006,634
Additions:	
Deposits	-
Investment earnings	926,018
Deductions:	
Capital expenditures	-
Bond principal and interest payments	-
Transfers (to) from other funds	<u>(2,533,453)</u>
<b>Bond Fund Balances, June 30, 2006</b>	<u>\$ 34,399,199</u>

See accompanying independent auditor's report



**AUDITOR'S REPORTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 accompanying financial statements of the Louisville Regional Airport Authority (the Authority) as of and for the year ended June 30, 2006 and have issued our report thereon dated September 8, 2006. 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 an opinion 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 reportable 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 caused by error or fraud 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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the members of the Board of the Authority, management, and federal and state awarding agencies. However, this report is a matter of public record and its distribution is not limited.

  
Louisville, Kentucky  
September 8, 2006

## 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, 2006. The Authority's major federal programs are identified in the accompanying schedule of federal awards. 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 States, 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, 2006.

### 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.

Continued

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 reportable 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 caused by error or fraud 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 solely for the information of the members of the Board of the Authority, management, and federal and state awarding agencies. However, this report is a matter of public record and its distribution is not limited.

*Granty + Bussler, LLP*

Louisville, Kentucky  
September 8, 2006

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2006

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, 2006	Accumulated Expenditures
<u>U.S. Department of Transportation</u>						
<u>Direct Program:</u>						
Airport Improvement Program:						
Louisville International Airport						
	20.106	3-21-0031-67	Modify Terminal Building, Regional Gate Construction and Security Checkpoint Expansion	\$ 2,649,359	\$ 264,936	\$ 2,649,359
	20.106	3-21-0031-69	Security Enhancements	11,250,000	5,159,058	6,527,679
	20.106	3-21-0031-72	Extend Runway (Phase II) West Runway Overrun	5,077,331	2,663,779	4,482,307
	20.106	3-21-0031-73	Rehabilitate Apron	1,321,170	70,893	1,241,120
	20.106	3-21-0031-74	Acquire Snow Removal Equipment	605,158	401,652	578,611
	20.106	3-21-0031-76	Various airport projects and purchase of equipment	16,946,436	8,911,464	8,911,464
	20.106	3-21-0031-77	Acquire Land for Noise Compatibility Provide Relocation Assistance	9,000,000	8,100,000	8,100,000
<u>Bowman Field:</u>						
	20.106	3-21-0032-13	Rehabilitate Taxiways	1,188,510	723,570	1,155,652
	20.106	3-21-0032-14	Pavement Condition	150,000	71,215	71,215
	20.106	3-21-0032-15	Rehabilitate Taxiways	1,759,405	812,957	812,957
<u>Total Louisville International Airport and Bowman Field</u>				<u>\$ 49,947,369</u>	<u>\$ 27,179,524</u>	<u>\$ 34,530,364</u>

See accompanying independent auditor's report and notes to the schedule of expenditures of federal awards

## **LOUISVILLE REGIONAL AIRPORT AUTHORITY**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2006

#### **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 cash 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.

#### **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 E in the notes to financial statements.

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2006

**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified?        yes   X   no
- Reportable condition(s) identified that are not considered to be material weakness(es)?        yes   X   none reported

Non-compliance material to financial statements noted?

       yes   X   no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?        yes   X   no
- Reportable condition(s) identified that are not considered to be material weakness(es)?        yes   X   none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

       yes   X   no

Identification of major programs:

CFDA Number(s)  
20.106

Name of Federal Program or Cluster  
U.S. Department of Transportation Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:

\$500,000

Auditee qualified as low-risk auditee?

  X   yes        no

**Section II-Financial Statement Findings**

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No matters were reported.

**Section III-Federal Award Findings and Questioned Costs**

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No matters were reported.

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2006

The prior year's audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



**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, 2006. 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 is applicable to its passenger facility charge program for the year ended June 30, 2006.

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.

Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Authority as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. 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 of the members of the Board of the Authority, management, and federal and state awarding agencies. However, this report is a matter of public record and its distribution is not limited.

*Mountjoy & Bressler, LLP*

Mountjoy & Bressler, LLP  
September 8, 2006

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SUPPLEMENTARY SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED

Year ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program	Record of Decision	Impose Authority	Use Authority	PFC Collected	Interest Earned	Expenditures
<u>U.S. Department of Transportation</u>						
Passenger Facility Charge Program						
	97-01-C-00-SDF	\$ 40,000,000	\$ 40,000,000	\$ 40,000,000	\$ 180,601	\$ 27,817,519
	97-01-C-01-SDF	50,600,000	50,600,000	6,611,897	109,816	-
	01-02-C-00-SDF	10,012,140	10,012,140	-	-	10,012,140
	03-03-C-00-SDF	5,666,800	5,666,800	-	-	5,268,841
	06-04-C-00-SDF	<u>1,267,315</u>	<u>1,267,315</u>	<u>-</u>	<u>-</u>	<u>778,344</u>
Totals		<u>\$ 107,546,255</u>	<u>\$ 107,546,255</u>	<u>\$ 46,611,897</u>	<u>\$ 290,417</u>	<u>\$ 43,876,844</u>

See accompanying independent auditor's report

## LOUISVILLE REGIONAL AIRPORT AUTHORITY

### SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

#### Summary of auditor's results

We have issued an unqualified opinion, dated September 8, 2006, on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2006.

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

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

We have issued an unqualified opinion, dated September 8, 2006, 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, 2006

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, 2006.