

Financial Statements

**LOUISVILLE REGIONAL AIRPORT
AUTHORITY**

ANNUAL REPORT

June 30, 2007 and 2006

LOUISVILLE REGIONAL AIRPORT AUTHORITY

June 30, 2007 and 2006

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June 30, 2007 and 2006

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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 years ended June 30, 2007 and 2006 and the discretely presented component unit of the Louisville Renaissance Zone Corporation as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinions.

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, 2007 and 2006 and the financial position of the Louisville Renaissance Zone Corporation as of June 30, 2007, and the respective results of their operations and their cash flows for the years 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 28, 2007 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 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 opinions 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.

Mantz & Bressler LLP

Louisville, Kentucky
September 28, 2007

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, 2007.

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.

The accompanying statements include a component unit named Louisville Renaissance Zone Corporation (LRZC). This legally separate component was incorporated in 2003 and is for the first time presenting its own financial statements. It is important to read the Authority's statements in conjunction with the LRZC statements.

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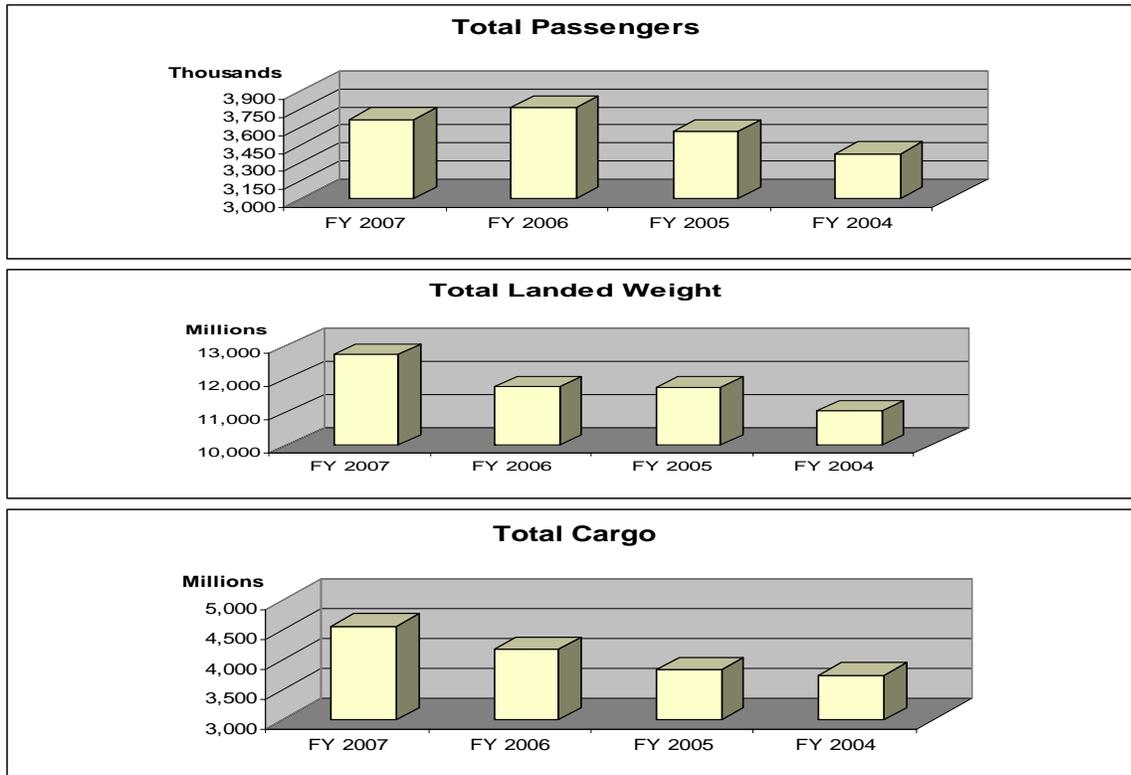
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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:

	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Passengers				
Enplaned	1,839,166	1,883,500	1,787,116	1,694,003
Deplaned	1,824,428	1,877,186	1,776,746	1,683,829
Total	3,663,594	3,760,686	3,563,862	3,377,832
Landed Weight				
Passenger	2,233,506,863	2,359,068,586	2,555,047,519	2,519,625,108
Cargo	10,505,786,357	9,407,376,224	9,206,011,229	8,512,253,463
Total	12,739,293,220	11,766,444,810	11,761,058,748	11,031,878,571

Louisville International's (SDF) status as a major worldwide cargo leader in terms of volume is best reflected by its current ranking of 3rd in North America and 8th worldwide. UPS has started construction of their \$1.0+ billion expansion to the UPS WorldportSM II facilities which will expand their current capacities by approximately 25%. UPS' cargo volume at SDF for fiscal year 2007 was 4.5 billion pounds versus fiscal year 2006 of 4.1 billion pounds – a 9.3% increase. Passenger traffic decreased 2.6% as compared to fiscal year 2006 mainly due to seat availability. In the closing months of FY 2007 the addition of two new airlines to our airport, Frontier and ExpressJet, along with other airlines providing additional seats and flights to other cities has caused the last two months of the fiscal year to show an increase of approximately 4.5% over the same two months last year.



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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Highlights (Versus Budget and Prior Year)

- Total Revenues for fiscal year 2007 were 3.8% greater than fiscal year 2006 actual and 4.7% greater than budget. Major contributors to this increase are:
 - Landing Fees were \$1.2 million greater than fiscal year 2006 and \$330,000 less than budget. The increase over prior is due to an increase of 8.3% in landed weight.
 - Lease revenue was down \$1.2 million compared to prior year and \$1.0 million greater than budget. The decrease to prior year was due to the termination of leased warehouses that ultimately were sold to UPS for their expansion. The reason for the variance to budget was the lease of a hangar facility that was not budgeted.
 - Interest Income was \$1.1 million greater than prior year and \$2.7 million greater than budget due to higher cash balances and higher interest rates versus prior year and budgeted estimates.
 - PFC's were \$230,000 less than prior year and \$905,000 less than budget. This was due to lower passenger traffic than budgeted and the reduction of a \$4.50 PFC to \$3.00 effective September 1, 2006.
- Operating Expenses before Depreciation for fiscal year 2007 were 3.0% less than budget and 10.1% greater than fiscal year 2006 actual.
- Operating Income before Depreciation was \$30,811,688 which is \$2,107,750 (7.3%) greater than budgeted and \$835,265 (2.6%) less than fiscal year 2006 actual.
- Interest Expense is \$4.0 million greater than prior year and \$2.0 million greater than budget. It should be noted that fiscal year 2006 was understated by \$1.6 million due to an error in calculating capitalized interest. These accompanying statements show FY 2006 restated for this adjustment. The other major change is due to ceasing to capitalize interest on our FAA Part 150 voluntary property acquisition and relocation program. At the end of FY 2006 we had acquired more than 90% of the residential properties and now consider this project substantially complete for purposes of capitalizing interest.
- Net Loss before Capital Contributions was \$112.3 million which is \$104.5 million greater than budget and \$58.8 million greater than fiscal year 2006 actual. The major contributor to the variance to prior year and budget was due to the loss on sale of land to the LRZC acquired through our Part 150 program which is explained later under Capital Assets.
- Net Assets decreased from prior year by \$88,717,693 to \$276,054,265. As mentioned in the previous item the major contributor is the loss on sale of land.

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>2007</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Assets:		(Restated)	
Unrestricted	\$ 34,971,587	\$ 43,948,670	\$23,137,696
Restricted	94,434,907	92,158,635	86,629,902
Capital Assets (Includes In Progress)	591,575,906	687,762,856	708,570,286
Other	16,276,132	17,606,909	16,869,231
Total Assets	<u>\$737,258,532</u>	<u>\$841,477,070</u>	<u>\$835,207,115</u>
Liabilities:			
Unrestricted	\$10,769,233	\$5,514,390	\$4,524,726
Restricted	26,056,800	27,564,258	25,068,809
Long Term Debt	382,120,000	405,230,000	407,355,000
Other	42,258,234	38,396,464	36,855,104
Total Liabilities	<u>\$461,204,267</u>	<u>\$476,705,112</u>	<u>\$473,803,639</u>
Net Assets	<u>\$276,054,265</u>	<u>\$364,771,958</u>	<u>\$361,403,476</u>

The decrease in Capital Assets is substantially due to the sale of land which is further discussed in detail in the Capital Assets section of this MD&A. Unrestricted Liabilities increase is due to the accrual of the final settlement on a lawsuit related to the acquisition of a business and land acquired under the Louisville Airport Improvement Program (LAIP). The reduction in Long Term Debt is due to the normal principal payments as well as the early retirement of the remaining balance of the 1995A Series bonds. The major reason for the increase in Other Liabilities is the receipt of monies under an option agreement for the sale of land to UPS.

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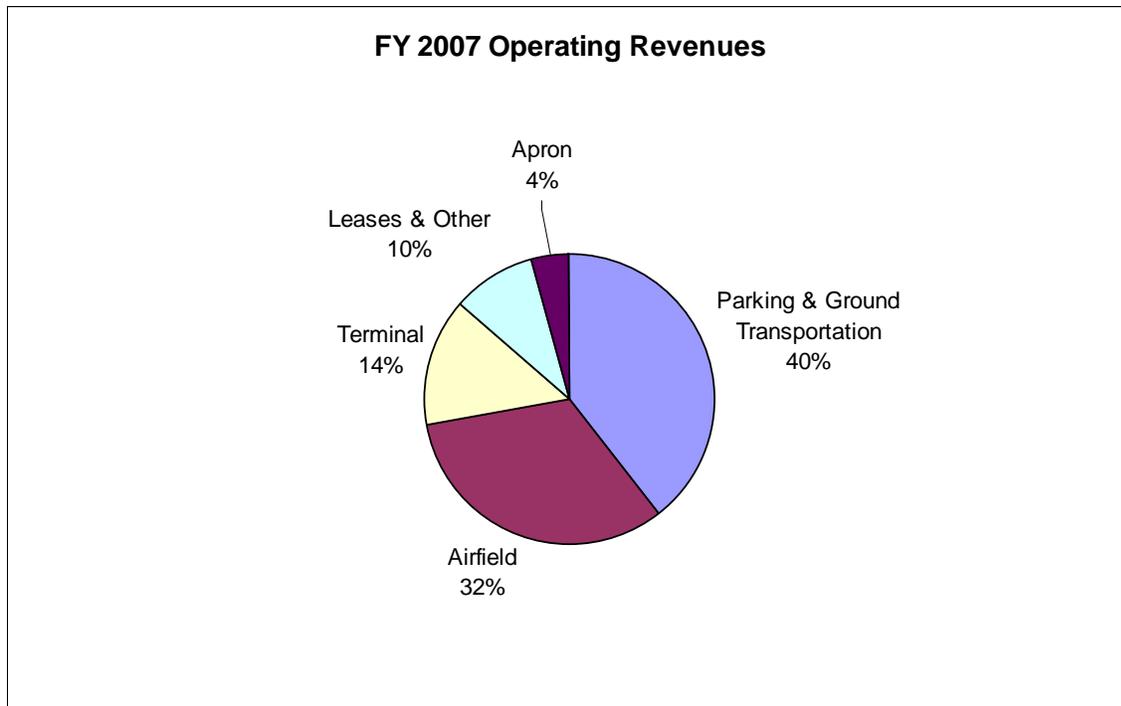
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Revenue

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

	2007		2006	2005
	Actual	Budget	Actual	Actual
Operating Revenues				
Landing and Field Use	\$18,644,636	\$18,978,400	\$17,452,994	\$16,824,551
Apron Area	2,364,122	2,115,510	1,582,207	1,228,501
Landside Terminal	4,958,444	5,111,076	4,327,171	4,150,041
Airside Terminal	3,355,087	3,271,447	3,756,536	3,356,774
Leases	5,161,624	4,123,500	6,403,492	5,609,034
Parking & Ground Transportation	22,638,830	22,293,700	22,057,611	19,667,305
Other	296,725	239,510	238,208	217,598
Total Operating Revenues	57,419,468	56,133,143	55,818,219	51,053,804
Non Operating Revenues				
Passenger Facility Charge	5,780,894	6,685,000	6,019,344	4,841,197
Interest Income	5,869,285	3,163,800	4,728,473	2,706,650
Total Non Operating Revenues	11,650,179	9,848,800	10,747,817	7,547,847
Total Revenues	\$69,069,647	\$65,981,943	\$66,566,036	\$58,601,651

The major contributors to total revenues' favorable increases to budget and fiscal year 2006 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 2007 and 2006 were \$23,603,434 and \$56,896,186 respectively. The major decrease to FY 2006 was a \$22.4 million tract of land donated by the James Graham Brown Foundation and a \$5.0 million grant from the Commonwealth of Kentucky that were both recorded in FY 2006.



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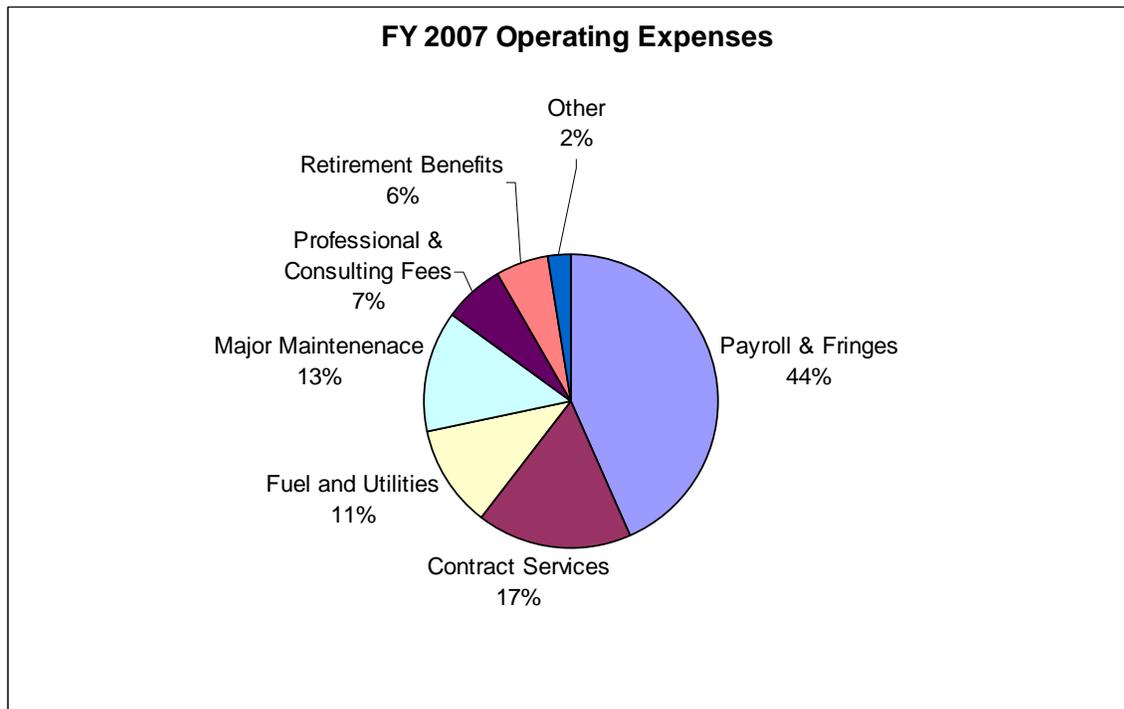
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Expenses

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

	2007		2006	2005
	Actual	Budget	Actual	Actual
Operating Expenses:				
Payroll & Fringe Benefits	\$11,553,619	\$11,369,712	\$11,016,327	\$10,752,885
Contract Services	4,556,717	4,597,486	3,833,874	3,867,619
Fuel and Utilities	2,932,841	3,056,900	2,819,679	2,274,100
Major Maintenance	3,551,265	4,054,750	2,700,029	2,014,504
Professional & Consulting Fees	1,827,195	1,648,500	1,595,892	1,403,317
Retirement	1,526,698	1,293,200	1,283,110	1,078,032
Other	659,445	1,408,656	922,354	1,295,591
Total Operating Expenses	\$26,607,780	\$27,429,204	\$24,171,265	\$22,686,048

Major contributors to increased spending versus prior year were increased costs of major maintenance which includes a change in capitalization policy (\$851,000), wages and retirement costs (\$782,000) and operating costs of the In-line Bag Screen operation (\$714,000). The revised individual capitalization amount is now set at \$50,000 versus the prior amount of \$5,000. This alone accounts for \$586,000 of the \$851,000 previously mentioned increase of major maintenance. The increase in wages and retirement costs is primarily due to the budgeted annual wage increases and an increase in the Authority's contribution to the retirement costs which is dictated by state statute.



LOUISVILLE REGIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Capital Assets

During fiscal year 2007, the Authority's capital spending and accruals totaled approximately \$69,510,000. Major projects were: Noise Mitigation, Land Acquisition and Relocation Program - \$21,765,000; Runways & Taxiways - \$12,116,000; and In-Line Baggage Screening Building - \$4,799,000. Fixed Assets acquired and Projects completed and capitalized during the year totaled approximately \$88,356,000. Included in that total is \$19,681,000 of additional costs incurred for land acquired by the Authority in prior years for airfield expansion under LAIP.

Additionally, the major capital asset disposition by the Authority during fiscal year 2007 was the sale of a portion of the land previously acquired under the FAA approved Part 150 Noise Mitigation, Land Acquisition and Relocation Program to the LRZC for \$4,000,000. This land had a book value of approximately \$136,353,000. As explained in Note F, 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 transfer of this land includes the attachment of avigation easements, airport servitudes and other deed restrictions on the property which severely restrict the use and consequently the value of the property and give the Authority these rights in perpetuity. As such Avigation Easements associated with the property were recorded and valued at \$27,271,000 which offset the net loss of \$105,082,000.

Debt

Currently, the Authority has bonds outstanding of \$396,530,000 of which \$382,120,000 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 2007 and funded by a portion of the debt include, In-Line Baggage Screening Facility, West Runway South Extension and Taxiway Alpha. A summary of changes in long-term debt and annual debt service requirements is found in Note G 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

	Louisville Regional Airport Authority		<u>Component Unit</u> Louisville Renaissance Zone Corporation
	June 30		June 30
	<u>2007</u>	2006 (Restated)	<u>2007</u>
ASSETS			
Current Assets, Unrestricted			
Cash and equivalents	\$ 4,895,015	\$ 11,621,964	\$ 18,826
Investments, at amortized cost plus accrued interest	25,034,805	26,938,093	-
Fees and rentals receivable	4,342,761	4,756,881	-
Supplies and prepaid expenses	<u>699,006</u>	<u>631,732</u>	<u>-</u>
Total unrestricted current assets	34,971,587	43,948,670	18,826
Current Assets, Restricted			
Cash and equivalents	31,619,586	37,104,054	-
Cash – Land Fund	4,169,094	181,164	-
Interest receivable	634,266	677,733	-
Grants receivable	2,807,887	2,351,736	-
Investments, at amortized cost plus accrued interest	<u>4,607,337</u>	<u>-</u>	<u>-</u>
Total restricted current assets	<u>43,838,170</u>	<u>40,133,523</u>	<u>-</u>
Total current assets	78,809,757	84,082,193	18,826
Noncurrent Assets, Unrestricted			
Capital assets not being depreciated	342,283,480	451,102,399	8,662,589
Depreciable capital assets, net	249,292,426	236,660,457	-
Deferred loan and bond cost, net of accumulated amortization of \$4,919,779 in 2007 and \$4,081,113 in 2006	<u>16,276,132</u>	<u>17,606,909</u>	<u>2,153,816</u>
Total unrestricted noncurrent assets	607,852,038	705,369,765	10,816,405
Noncurrent Assets, Restricted			
Cash – PFC Fund	4,094,446	3,025,444	-
Cash and cash equivalents	3,876,677	4,257,265	-
Investments, at amortized cost plus accrued interest	<u>42,625,614</u>	<u>44,561,239</u>	<u>-</u>
Total restricted noncurrent assets	<u>50,596,737</u>	<u>52,025,112</u>	<u>-</u>
Total noncurrent assets	<u>658,448,775</u>	<u>757,394,877</u>	<u>10,816,405</u>
Total assets	<u>\$ 737,258,532</u>	<u>\$ 841,477,070</u>	<u>\$ 10,835,231</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET ASSETS -- CONTINUED

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation
	June 30		June 30
	<u>2007</u>	<u>2006</u> (Restated)	<u>2007</u>
LIABILITIES			
Current Liabilities (payable from unrestricted current assets)			
Accounts payable	\$ 9,834,961	\$ 3,932,474	\$ 1,737,276
Accrued expenses and other	833,072	857,274	120,888
Deferred income	<u>101,200</u>	<u>724,642</u>	<u>-</u>
Total unrestricted current liabilities	10,769,233	5,514,390	1,858,164
Current Liabilities (payable from restricted current assets)			
Current portion of bonds payable	14,410,000	15,025,000	-
Accounts payable	3,305,670	3,618,685	-
Accrued interest	<u>8,341,130</u>	<u>8,920,573</u>	<u>-</u>
Total restricted current liabilities	<u>26,056,800</u>	<u>27,564,258</u>	<u>-</u>
Total current liabilities	<u>36,826,033</u>	<u>33,078,648</u>	<u>1,858,164</u>
Long-Term Debt			
Bonds and loans payable	<u>382,120,000</u>	<u>405,230,000</u>	<u>9,695,832</u>
Other Liabilities			
Deposit from UPS Land Option	8,031,250	3,500,000	-
Unamortized bond premium, net	10,029,721	10,627,098	-
Deposit from Commonwealth of Kentucky	19,813,663	19,813,663	-
Deferred revenue	-	72,103	-
Other liabilities	83,600	83,600	-
Revolving coverage (payable from restricted assets)	<u>4,300,000</u>	<u>4,300,000</u>	<u>-</u>
Total other liabilities	<u>42,258,234</u>	<u>38,396,464</u>	<u>-</u>
Total liabilities	461,204,267	476,705,112	11,553,996
Commitments and contingencies			
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	270,978,416	342,166,102	-
Restricted for debt service	14,407,952	14,474,945	-
Restricted for capital projects	4,094,446	3,025,444	-
Unrestricted net assets (deficit)	<u>(13,426,549)</u>	<u>5,105,467</u>	<u>(718,675)</u>
Total net assets (deficit)	<u>\$ 276,054,265</u>	<u>\$ 364,771,958</u>	<u>\$ (718,675)</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

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation
	June 30		June 30
	2007	2006 (Restated)	2007
Operating Revenues			
Rentals and concessions	\$ 38,417,638	\$ 38,094,109	\$ -
Landing and field use fees	<u>19,001,830</u>	<u>17,724,110</u>	<u>-</u>
Total operating revenues	57,419,468	55,818,219	-
Operating Expenses			
Operations and maintenance	16,356,955	14,674,622	-
Administrative, general, planning and engineering	<u>10,250,825</u>	<u>9,496,643</u>	<u>600,205</u>
Operating expenses before depreciation and amortization	26,607,780	24,171,265	600,205
Depreciation and amortization	<u>29,469,112</u>	<u>28,646,631</u>	<u>-</u>
Total operating expenses	<u>56,076,892</u>	<u>52,817,896</u>	<u>600,205</u>
Operating income (expense)	<u>1,342,576</u>	<u>3,000,323</u>	<u>(600,205)</u>
Non-Operating Revenues (Expenses)			
Investment earnings, net	5,869,285	4,728,473	2,328
Interest expense	(19,660,090)	(15,677,207)	(120,888)
Passenger facility charges	5,780,894	6,019,344	-
Settlement of lawsuit	-	1,589,194	-
Net loss on disposal of assets and other expense	<u>(105,653,792)</u>	<u>(2,181,994)</u>	<u>-</u>
Net non-operating revenue (expense) before asset realization adjustment	<u>(113,663,703)</u>	<u>(5,522,190)</u>	<u>(118,560)</u>
Loss before asset realization adjustment and capital contributions	(112,321,127)	(2,521,867)	(718,765)
Net loss on asset realization adjustment	<u>-</u>	<u>(51,005,837)</u>	<u>-</u>
Loss before capital contributions	(112,321,127)	(53,527,704)	(718,765)
Capital Contributions	<u>23,603,434</u>	<u>56,896,186</u>	<u>-</u>
Increase (decrease) in net assets	(88,717,693)	3,368,482	(718,765)
Net assets, beginning of year	<u>364,771,958</u>	<u>361,403,476</u>	<u>-</u>
Net assets (deficit), end of year	<u>\$ 276,054,265</u>	<u>\$ 364,771,958</u>	<u>\$ (718,765)</u>

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

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation
	June 30		June 30
	2007	2006 (Restated)	2007
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 61,669,292	\$ 57,223,146	-
Payments to suppliers	(13,249,437)	(16,886,080)	1,053,798
Payments to employees	(7,547,331)	(7,006,105)	83,273
Net cash provided by operating activities	<u>40,872,524</u>	<u>33,330,961</u>	<u>1,137,071</u>
Cash Flows From Capital and Related Financing Activities			
Capital contributions	22,834,268	34,103,437	-
Passenger facility charges	5,780,894	6,019,344	-
Acquisition and construction of capital assets	(41,657,921)	(48,729,969)	(10,816,405)
Proceeds from sale of assets	4,001,180	11,086,868	-
Proceeds from issuance of debt	-	47,870,000	9,695,832
Principal paid on capital debt	(23,725,000)	(49,300,000)	-
Interest paid on capital debt, net of capitalized interest	(20,239,533)	(15,800,670)	-
Fees paid on bonds	(206,115)	(211,737)	-
Issuance costs of capital debt	492,111	(1,189,823)	-
Cash flows used for capital and related financing activities	<u>(52,720,116)</u>	<u>(16,152,550)</u>	<u>(1,120,573)</u>
Cash Flows From Investing Activities			
Proceeds from maturities of investments	50,248,946	49,382,693	-
Purchase of investments	(51,017,370)	(95,998,380)	-
Investment income	5,080,943	5,244,490	2,328
Net cash (used) provided for investing activities	<u>4,312,519</u>	<u>(41,371,197)</u>	<u>2,328</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,535,073)	(24,192,786)	18,826
Cash and Cash Equivalents, Beginning of Year	<u>56,189,891</u>	<u>80,382,677</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ 48,654,818</u>	<u>\$ 56,189,891</u>	<u>\$ 18,826</u>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS - CONTINUED

	Louisville Regional Airport Authority		<u>Component Unit</u> Louisville Renaissance Zone Corporation
	June 30		June 30
	<u>2007</u>	<u>2006</u> (Restated)	<u>2007</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 1,342,576	\$ 3,000,323	\$ (600,205)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	29,469,112	28,646,631	-
Settlement of lawsuit	-	1,589,194	-
Changes in assets and liabilities:			
Fees and rental receivable	414,120	(881,881)	-
Deferred income	(695,545)	697,614	-
Supplies and prepaid expenses	(67,274)	(5,456)	-
Accounts payable	5,902,487	248,073	1,737,276
Accrued expenses and other	(24,202)	36,463	-
Deposit from UPS land option	<u>4,531,250</u>	<u>-</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 40,872,524</u>	<u>\$ 33,330,961</u>	<u>\$ 1,137,071</u>

Noncash Investing, Capital and Financing Activities:

The Authority has retainage and accounts payable related to construction in progress of approximately \$9,922,000 and \$5,894,000 as of June 30, 2007 and 2006, respectively. The Authority recorded a loss on sale of assets of \$105,448,000 and \$1,971,000 as of June 30, 2007 and 2006, respectively. During 2006, the Authority wrote down approximately \$51,006,000 of land assets (see Note M) and recorded donated land valued at approximately \$22,365,000. 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, 2007 and 2006

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 \$529,000 and \$532,000 for fiscal year 2007 and 2006, 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.

The Authority has adopted GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units, an Amendment to GASB Statement No. 14." The adoption of this statement requires the Authority to discretely present the legally separate, tax-exempt Louisville Renaissance Zone Corporation (LRZC) as a component unit of the Authority.

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

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

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

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 need for including a discretely presented component unit in the statements of the Authority. As of June 30, 2006, there were no material amounts to report. Therefore, no 2006 statements are presented for any LRZC activities.

Cash and 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, 2007 and 2006, the allowance for uncollectible accounts was \$319,000 and \$400,000, respectively.

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 \$138,717 and \$4,852,389 during 2007 and 2006, respectively.

The Authority's depreciation policy requires that all qualifying assets with costs in excess of \$50,000 and an expected useful life of three years or greater to be capitalized. This policy was changed in May 2006. Prior to that date, the policy required all qualifying assets with costs in excess of \$5,000 to be capitalized. The change was deemed to be a change in estimate that is accounted for on a prospective basis. The change in estimate decreased operating income for the year ended June 30, 2007 by approximately \$586,000.

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. The LRZC records construction in progress at cost or at estimated fair value at the date of purchase.

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, 2007 and 2006

NOTE B--RESTATEMENT

During fiscal 2007, management determined that interest had been overcapitalized in prior years. Accordingly, the accompanying financial statements for the year ended June 30, 2006, have been restated to reflect the correct amount of capitalized interest and interest expense. The primary financial statement amounts for fiscal 2006 impacted are as follows:

	<u>As Reported</u>	<u>Adjustment</u>	<u>Adjusted Balance</u>
Capital assets not being depreciated	\$ 452,672,429	\$ (1,570,030)	\$ 451,102,399
Net assets	366,341,988	(1,570,030)	364,771,958
Interest expense	14,107,177	1,570,030	15,677,207
Increase in net assets	4,938,512	(1,570,030)	3,368,482

NOTE C--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.

Cash and equivalents consist of the following at June 30:	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 3,575	\$ 3,575
Deposits with financial institutions	15,021,318	15,850,554
Repurchase agreements	<u>33,629,925</u>	<u>40,335,762</u>
	<u>\$ 48,654,818</u>	<u>\$ 56,189,891</u>

The following table categorizes deposits with financial institutions as an indication of the level of risk associated with such deposits:

Covered by federal depository insurance	\$ 202,191	\$ 200,000
Uninsured and collateralized	<u>15,680,540</u>	<u>16,335,916</u>
Bank balance	<u>\$ 15,882,731</u>	<u>\$ 16,535,916</u>
Carrying amount	<u>\$ 15,021,318</u>	<u>\$ 15,850,554</u>

NOTE D--INVESTMENTS

At June 30, 2007, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 27,886,688	Weighted average 1.82 years	AAA
Federal Farm Credit Banks	8,387,778	Weighted average 0.87 years	AAA
Federal Home Loan Bank	16,155,418	Weighted average 2.47 years	AAA
Federal Home Loan Mortgage Corp.	14,114,017	Weighted average 0.88 years	AAA
Freddie Mac	5,016,961	Weighted average 0.46 years	AAA
Tennessee Valley Authority	706,894	5.75 years	AAA
	<u>\$ 72,267,756</u>		

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE D--INVESTMENTS--CONTINUED

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.

	<u>2007</u>	<u>2006</u>
Unrestricted investments	\$ 25,034,805	\$ 26,938,093
Restricted investments	<u>47,232,951</u>	<u>44,561,239</u>
Total investments	<u>\$ 72,267,756</u>	<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.

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, 2007, \$72,267,756 was invested in U.S. Government agency obligations. Domestic bank obligations may not exceed 35% of invested assets per issuer.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE E--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, 2007</u>					
Bond Funds	\$33,629,924	\$33,906,614	\$ 558,500	\$ 2,807,887	\$70,902,925
Revolving Debt Coverage	-	8,719,000	75,766	-	8,794,766
Part 150 Land Funds	4,169,094	4,607,337	-	-	8,776,431
PFC Fund	4,094,446	-	-	-	4,094,446
Other Funds	<u>1,866,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,866,339</u>
	<u>\$43,759,803</u>	<u>\$47,232,951</u>	<u>\$ 634,266</u>	<u>\$ 2,807,887</u>	<u>\$94,434,907</u>
	<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	\$41,361,319	\$35,641,935	\$ 596,600	\$ 2,351,736	\$79,951,590
Revolving Debt Coverage	-	8,919,304	81,133	-	9,000,437
Part 150 Land Funds	181,164	-	-	-	181,164
PFC Fund	<u>3,025,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,025,445</u>
	<u>\$44,567,928</u>	<u>\$44,561,239</u>	<u>\$ 677,733</u>	<u>\$ 2,351,736</u>	<u>\$92,158,636</u>

The Authority's Airport System Revenue Bond Resolution adopted by the Authority's Board in 1983 required that the Authority collect net 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 \$8,700,000 and \$8,900,000 at June 30, 2007 and 2006, 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, 2007 and 2006, this reimbursement amount was approximately \$4,300,000.

NOTE F--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.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE F--COMMITMENTS AND CONTINGENCIES--CONTINUED

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, 2007, capital projects in progress include approximately \$33,079,000 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. The Authority retains certain rights in perpetuity associated with this land that is sold.

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.

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 fiscal year 2007 this lawsuit was dismissed under a settlement agreement in which the Authority agreed to pay a total of \$11,500,000 for release from all claims that relate to this lawsuit and relocation. As of June 30, 2007, the total due under this settlement agreement was \$5,500,000. The remaining settlement amount was paid in July 2007.

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).

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE G--DEBT

Line-of-credit: The Authority has a \$10,000,000 line of credit available through July 31, 2008, with PNC Bank. When the Authority draws on the line of credit, they can choose prime minus 2.65% or the 30, 60, 90 London Interbank offer rate plus .25%. The minimum draw is \$1,000,000 and when drawn, the line is unsecured. There was a \$-0- balance at June 30, 2007 and 2006.

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

	2007	2006
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, repaid in 2007.	\$ -	\$ 10,000,000
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	30,775,000	32,700,000
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	9,265,000	9,560,000
2001 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.50% to 5.75% through July 1, 2031, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	84,345,000	87,655,000
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	9,550,000	10,105,000
2002 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (3.75% at June 30, 2007) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	44,025,000	44,975,000
2002 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at variable rates (3.80% at June 30, 2007) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues	35,250,000	36,025,000

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE G--DEBT--CONTINUED

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

	<u>2007</u>	<u>2006</u>
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	\$ 10,810,000	\$ 12,150,000
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	6,930,000	7,220,000
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	117,710,000	121,995,000
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	<u>47,870,000</u>	<u>47,870,000</u>
Total debt	396,530,000	420,255,000
Less current portion	<u>14,410,000</u>	<u>15,025,000</u>
	<u>\$ 382,120,000</u>	<u>\$ 405,230,000</u>

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.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds	<u>\$ 420,255,000</u>	<u>\$ -</u>	<u>\$ (23,725,000)</u>	<u>\$ 396,530,000</u>	<u>\$ 14,410,000</u>

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	<u>\$ 421,685,000</u>	<u>\$ 47,870,000</u>	<u>\$ (49,300,000)</u>	<u>\$ 420,255,000</u>	<u>\$ 15,025,000</u>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE G--DEBT--CONTINUED

The total interest incurred for the year ended December 31, 2007 was \$19,798,807. Of this amount, \$138,717 was capitalized as a component of the cost of capital assets constructed during the year and \$19,660,090 was charged to expense.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2007, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 14,410,000	\$ 19,656,080	\$ 34,066,080
2009	15,070,000	18,962,643	34,032,643
2010	15,795,000	18,244,085	34,039,085
2011	16,550,000	17,511,865	34,061,865
2012	17,355,000	16,684,770	34,039,770
2013 – 2017	94,295,000	68,981,753	163,276,753
2018 – 2022	97,510,000	43,666,263	141,176,263
2023 – 2027	82,875,000	19,855,923	102,730,923
2028 – 2032	37,895,000	6,276,500	44,171,500
2033	4,775,000	191,000	4,966,000
	<u>\$ 396,530,000</u>	<u>\$ 230,030,882</u>	<u>\$ 626,560,882</u>

Outstanding Letters of Credit: At June 30, 2007 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, 2007 and 2006.

Louisville Renaissance Zone Corporation

LRZC has three loans payable to United Parcel Service (UPS) as listed below

	<u>2007</u>
Loan payable to be paid in five annual installments of principal and accrued interest payable at 6%, beginning August 12, 2008 and maturing on August 12, 2012.	\$ 5,329,000
Loan payable to be paid in fourteen annual installments of principal, beginning September 21, 2008 and maturing on September 21, 2021. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	1,043,364
Loan payable to be paid in seven annual installments of principal beginning September 21, 2021 and maturing on September 21, 2027. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	<u>3,323,468</u>
Total debt	9,695,832
Less current portion	<u>-</u>
	<u>\$ 9,695,832</u>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE G--DEBT--CONTINUED

Louisville Renaissance Zone Corporation

Annual Loan Repayment Requirements

The annual loan repayment requirements to maturity, including principal and interest, for long-term debt as of June 30, 2007, are as follows:

Year Ended				
June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2008	\$ -	\$ -	\$ -	
2009	43,064	479,610	522,674	
2010	197,782	317,438	515,220	
2011	858,820	305,852	1,164,672	
2012	2,249,126	259,515	2,508,641	
2013-2017	2,595,276	129,757	2,725,033	
2018-2022	455,548	-	455,548	
2023-2027	2,746,594	-	2,746,594	
2028	549,622	-	549,622	
	<u>\$ 9,695,832</u>	<u>\$ 1,492,172</u>	<u>\$ 11,188,004</u>	

NOTE H--SPECIAL FACILITY REVENUE BONDS

Special Facility Revenue Bonds totaling \$108,800,000 and \$15,500,000 issued during FY 1999 and \$42,600,000 issued in FY 2006 (collectively, the Facility Bonds), were issued to finance the acquisition and construction of facilities of United Parcel Service and Airis (collectively, the Companies). Although taking the legal form of a financing lease between the Authority and the Companies, the substance of these arrangements is that the Facility Bonds constitute special and limited obligations and do not constitute a debt, liability or general obligation of the Authority or a pledge of Authority revenues. Repayment of the Facility Bonds and related interest is unconditionally the obligation of the Companies. As such, no liability relating to the Facility Bonds is included in the accompanying financial statements.

NOTE I--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, 2007 and 2006 totaled approximately \$36,000 and \$27,000, respectively and contributions to the 401(k) Plan for the same years were approximately \$207,000 and \$213,000, respectively.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE J--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 \$7,829,000 and \$7,572,000, out of a total payroll of approximately \$8,866,000 and \$8,400,000 for the years ended June 30, 2007 and 2006, 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.

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 13.19% and 10.98% of the covered employees' salaries for non-hazardous positions, and 28.21% and 25.01% for a hazardous position for 2007 and 2006, respectively. The contribution requirements for the year ended June 30, 2007 was approximately \$1,784,000, consisting of \$1,335,000 from the Authority and \$449,000 from employees. The contribution requirement for the year ended June 30, 2006 was approximately \$1,510,000, consisting of \$1,078,000 from the Authority and \$432,000 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, 2006. The Commonwealth of Kentucky's Comprehensive Annual Financial Reports should be referred to for additional disclosures related to the County Employees Retirement System (www.kyret.com).

In addition to the above defined benefit pension plan, effective May 1, 2001, all 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 approximately \$85,000 and \$75,000 for the years ending June 30, 2007 and 2006, respectively.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE K--OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits and deferred compensation plans described in Notes I and J, 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 \$106,000 for 35 employees and \$120,000 for 38 employees during 2007 and 2006, respectively. The Plan may be terminated at the election of the board without notice.

NOTE L--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, 2007		June 30, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	\$ 71,322,644	\$ 71,322,644	\$ 87,009,559	\$ 87,009,559
Investments	72,267,756	72,267,756	71,499,332	71,499,332
Bonds payable	396,530,000	397,920,291	420,255,000	417,908,757

NOTE M--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, expenses and changes in net assets 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, 2007 and 2006

NOTE N--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, 2007, are as follows:

<u>Year Ended</u> <u>June 30</u>	
2008	\$ 4,762,062
2009	4,726,975
2010	4,990,722
2011	4,348,935
2012	4,416,119
Thereafter	<u>24,182,040</u>
	<u>\$ 47,426,853</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, 2007 and 2006 were \$3,731,598 and \$2,883,077, respectively.

NOTE O--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

Louisville Regional Airport Authority:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 235,749,131	\$46,961,872	\$ (2,255,751)	\$ 280,455,252
Capital projects in progress:				
Construction projects	58,359,384	31,371,921	(60,982,542)	28,748,763
Land acquisition program	<u>156,993,884</u>	<u>10,182,932</u>	<u>(134,097,351)</u>	<u>33,079,465</u>
Total capital assets not being depreciated	<u>451,102,399</u>	<u>88,516,725</u>	<u>(197,335,644)</u>	<u>342,283,480</u>
Other capital assets:				
Land improvements	311,065,367	23,390,166	(5,280,644)	329,174,889
Buildings	172,010,324	11,282,961	(1,753,151)	181,540,134
Utility systems	36,408,456	175,500	(1,820,981)	34,762,975
Equipment (excluding automotive)	7,734,167	6,224,470	(1,514,220)	12,444,417
Vehicle and automotive equipment	8,586,895	56,870	-	8,643,765
Furniture and fixtures	<u>5,715,333</u>	<u>264,402</u>	<u>(689,601)</u>	<u>5,290,134</u>
Total other capital assets at historical cost	<u>541,520,542</u>	<u>41,394,369</u>	<u>(11,058,597)</u>	<u>571,856,314</u>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE O--CAPITAL ASSETS --CONTINUED

Louisville Regional Airport Authority -- Continued:

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	\$ 180,180,195	\$15,735,482	\$ (5,110,352)	\$ 190,805,325
Buildings	80,214,79	9,573,594	(1,634,468)	88,153,920
Utility systems	28,097,319	1,666,703	(1,777,086)	27,986,936
Equipment (excluding automotive)	5,763,546	419,562	(1,480,704)	4,702,404
Vehicle and automotive equipment	6,657,386	382,142	-	7,039,528
Furniture and fixtures	3,946,845	618,531	(689,601)	3,875,775
Total accumulated depreciation	<u>304,860,085</u>	<u>28,396,014</u>	<u>(10,692,211)</u>	<u>322,563,888</u>
Other capital assets, net	<u>236,660,457</u>	<u>12,998,355</u>	<u>(366,386)</u>	<u>249,292,426</u>
Net capital assets	<u>\$ 687,762,856</u>	<u>\$101,515,080</u>	<u>\$(197,702,030)</u>	<u>\$ 591,575,906</u>

Louisville Renaissance Zone Corporation:

Capital assets not being depreciated:				
Land	\$ -	\$ 5,337,574	\$ -	\$ 5,337,574
Construction projects	-	<u>3,325,015</u>	-	<u>3,323,015</u>
Net capital assets	<u>\$ -</u>	<u>\$ 8,662,589</u>	<u>\$ -</u>	<u>\$ 8,662,589</u>

There was no capital asset activity for LRZC for the year ended June 30, 2006. Capital asset activity for the Authority for the year ended June 30, 2006 was as follows:

Louisville Regional Airport Authority:

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	35,043,340	(19,983,980)	58,359,384
Land acquisition program	<u>208,608,259</u>	<u>12,142,921</u>	<u>(63,757,296)</u>	<u>156,993,884</u>
Total capital assets not being depreciated	<u>452,294,787</u>	<u>84,312,926</u>	<u>(85,505,314)</u>	<u>451,102,399</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>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE O--CAPITAL ASSETS --CONTINUED

Louisville Regional Airport Authority -- Continued:

	Beginning Balance	Increases	Decreases	Ending Balance
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>\$70,994,464</u>	<u>\$ (91,801,894)</u>	<u>\$ 687,762,856</u>

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. 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, 2007 and 2006, amounts of \$5,780,894 and \$6,019,344, 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, 2006 and for the year then ended have been reclassified to be consistent with the classifications adopted for the financial statements as of June 30, 2007 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.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2007 and 2006

NOTE R--RELATED PARTY TRANSACTION

In October 2006, the Authority sold 424 acres of land that was originally purchased under the Authority's voluntary land acquisition and relocation program using funds from the Federal Aviation Administration's (FAA) Part 150 Noise Mitigation program to the LRZC, a related party. The land was deemed to have a fair market value of \$4,000,000 by independent appraisers. The land had a net book value of approximately \$136,353,000 at the time of sale, which included \$27,272,000 of aviation easements that the Authority retained. Therefore, the Authority recorded a loss of \$105,092,000 related to this transaction. Furthermore, the Authority provides management services to LRZC. The amount due from LRZC was approximately \$1,534,000 at June 30, 2007.

NOTE K--MAJOR CUSTOMERS

During fiscal year 2007 and 2006, the Authority earned approximately 26% and 23%, respectively, of its operating revenues from one customer.

SUPPLEMENTAL INFORMATION

LOUISVILLE REGIONAL AIRPORT AUTHORITY

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2007 with comparative totals for 2006

	2007			2006 Total (restated)
	Louisville International	Bowman Field	Total	
Operating Revenues				
Landing and field use fees	\$ 18,972,010	\$ 29,820	\$ 19,001,830	\$ 17,724,110
Terminal area	8,251,705	61,828	8,313,533	8,083,708
Apron area	2,006,929	-	2,006,929	1,311,091
Ground transportation	22,638,830	-	22,638,830	22,057,611
Aviation related facility leases	2,263,455	1,264,568	3,528,023	4,930,504
Land leases and other	1,408,417	225,185	1,633,602	1,472,989
Airport services	226,757	24,897	251,654	222,084
Other revenue	42,166	2,901	45,067	16,122
Total operating revenues	<u>55,810,269</u>	<u>1,609,199</u>	<u>57,419,468</u>	<u>55,818,219</u>
Operating Expenses				
Operations and maintenance				
Salaries, wages	7,071,105	450,398	7,521,503	7,145,266
Contracts	4,430,731	113,578	4,544,309	3,933,695
Utilities and fuel supplies	2,587,542	345,299	2,932,841	2,819,681
Major maintenance	3,382,766	168,499	3,551,265	2,700,029
Other	3,223	61,912	65,135	67,377
Costs recovered from tenants	<u>(2,243,672)</u>	<u>(14,426)</u>	<u>(2,258,098)</u>	<u>(1,991,426)</u>
Total operations and maintenance	<u>15,231,695</u>	<u>1,125,260</u>	<u>16,356,955</u>	<u>14,674,622</u>
Administrative, general, planning and engineering	<u>9,698,055</u>	<u>552,770</u>	<u>10,250,825</u>	<u>9,496,643</u>
Operating expenses before depreciation and amortization	24,929,750	1,678,030	26,607,780	24,171,265
Depreciation and amortization	<u>28,366,809</u>	<u>1,102,303</u>	<u>29,469,112</u>	<u>28,646,631</u>
Total operating expenses	<u>53,296,559</u>	<u>2,780,333</u>	<u>56,076,892</u>	<u>52,817,896</u>
Operating Income	<u>2,513,710</u>	<u>(1,171,134)</u>	<u>1,342,576</u>	<u>3,000,323</u>
Non-Operating Revenues (Expenses)				
Capital Contributions and Settlement of Lawsuit				
Investment earnings, net	5,869,285	-	5,869,285	4,728,473
Interest expense	(19,660,090)	-	(19,660,090)	(15,677,207)
Passenger facility charge	5,780,894	-	5,780,894	6,019,344
Settlement of lawsuit	-	-	-	1,589,194
Net loss on disposal of assets and other revenue	(105,653,792)	-	(105,653,792)	(2,181,994)
Capital contributions	22,301,842	1,301,592	23,603,434	56,896,186
Net loss on asset realization adjustment	-	-	-	(51,005,837)
Non-operating revenues and expenses	<u>(91,361,861)</u>	<u>1,301,592</u>	<u>(90,060,269)</u>	<u>368,159</u>
Increase (decrease) in net assets	<u>\$ (88,848,151)</u>	<u>\$ 130,458</u>	<u>\$ (88,717,693)</u>	<u>\$ 3,368,482</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT

June 30, 2007

	Cost				Accumulated Depreciation					Net Balance June 30, 2007
	Balance	Additions	Retirements	Transfers/ Adjustments	Balance	Balance July 1, 2006	Provisions	Retirements/ Adjustments	Balance	
	July 1, 2006 (restated)				June 30, 2007				June 30, 2007	
Louisville International Airport										
Land	\$235,006,765	\$ 27,270,620	\$ (2,255,751)	\$ 19,691,252	\$279,712,886	\$ -	\$ -	\$ -	\$ -	\$279,712,886
Land improvements - runways, taxiways, and aprons	261,823,253	-	(11,660)	21,326,149	283,137,742	144,563,940	13,775,246	(11,660)	158,327,524	124,810,218
Land improvements - ground transportation and other	36,933,323	-	(5,268,984)	-	31,664,339	29,082,314	1,543,651	(5,098,692)	25,527,273	6,137,066
Buildings	160,882,296	-	(1,753,151)	11,128,721	170,257,866	73,511,230	8,871,045	(1,634,468)	80,747,808	89,510,058
Utility systems	36,283,920	-	(1,820,981)	175,500	34,638,439	27,979,448	1,666,058	(1,777,086)	27,868,418	6,770,021
Equipment (excluding automotive)	7,484,052	627,570	(1,514,220)	5,596,900	12,194,302	5,637,339	390,402	(1,480,704)	4,547,037	7,647,265
Vehicles and automotive equipment	7,504,909	56,869	-	-	7,561,778	5,617,641	357,793	-	5,975,434	1,586,344
Furniture and fixtures	5,715,333	-	(689,601)	264,402	5,290,134	3,946,845	618,531	(689,601)	3,875,776	1,414,358
Capital projects in progress	<u>214,093,682</u>	<u>39,176,260</u>	<u>(134,097,351)</u>	<u>(58,616,163)</u>	<u>60,556,428</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,556,428</u>
Total Louisville International Airport	<u>\$965,727,533</u>	<u>\$ 67,131,319</u>	<u>\$(147,411,699)</u>	<u>\$ (433,239)</u>	<u>\$885,013,914</u>	<u>\$290,338,757</u>	<u>\$ 27,222,726</u>	<u>\$(10,692,211)</u>	<u>\$306,869,270</u>	<u>\$578,144,644</u>

Continued

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT--CONTINUED

June 30, 2007

	Cost				Accumulated Depreciation				Net Balance June 30, 2007	
	Balance July 1, 2006 (restated)	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2007	Balance July 1, 2006	Provisions	Retirements/ Adjustments		Balance June 30, 2007
Bowman Field:										
Land	\$ 742,367	\$ -	\$ -	\$ -	\$ 742,367	\$ -	\$ -	\$ -	\$ -	\$ 742,367
Land improvements - runways, taxiways, and aprons	12,166,697	-	-	2,064,017	14,230,714	6,425,344	411,736	-	6,837,080	7,393,634
Land improvements - ground transportation and other	142,093	-	-	-	142,093	103,203	4,849	-	108,052	34,041
Buildings	11,128,028	-	-	154,240	11,282,268	6,707,082	702,549	-	7,407,631	3,872,637
Utility systems	124,536	-	-	-	124,536	117,871	645	-	118,516	6,020
Equipment (excluding automotive)	250,115	-	-	-	250,115	128,086	29,160	-	157,246	92,869
Vehicles and automotive equipment	1,081,985	-	-	-	1,081,985	1,039,742	24,349	-	1,064,091	17,894
Construction in progress	<u>1,259,587</u>	<u>2,378,592</u>	-	<u>(2,366,379)</u>	<u>1,271,800</u>	-	-	-	-	<u>1,271,800</u>
Total Bowman Field	<u>26,895,408</u>	<u>2,378,592</u>	-	<u>(148,122)</u>	<u>29,125,878</u>	<u>14,521,328</u>	<u>1,173,288</u>	-	<u>15,694,616</u>	<u>13,431,262</u>
Total Louisville International Airport and Bowman Field	<u>\$ 992,622,941</u>	<u>\$ 69,509,911</u>	<u>\$(147,411,699)</u>	<u>\$ (581,361)</u>	<u>\$ 914,139,792</u>	<u>\$304,860,085</u>	<u>\$ 28,396,014</u>	<u>\$(10,692,211)</u>	<u>\$ 322,563,886</u>	<u>\$ 591,575,906</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF INSURANCE COVERAGE

June 30, 2007

	<u>Expiration Date</u>	<u>Amount of Coverage</u>	
XL Specialty: General airport liability	07/31/07	\$ 25,000,000	
XL Specialty / Lloyds of London: Excess coverage	07/31/07	225,000,000	
FM Global: All risk property	07/31/07	500,000,000	
Hartford Fire Insurance Company: Automobile coverage	07/31/07	1,000,000	
Fidelity and Deposit Co of Maryland: Fidelity and crime covering board members and all employees	07/31/07		
Employee dishonesty		500,000	
Forgery/alteration		100,000	
Theft		100,000	
Travelers Insurance Company: Pension trust liability covering fiduciaries of the Authority retirement plans	07/31/07	2,000,000	
RSUI: Public officials' liability covering board members and all employees	07/31/07	10,000,000	
Chubb Insurance Group: All risk unlicensed equipment floater	07/31/07	6,560,417	
KEMI: Worker's compensation and employer's liability	07/31/07	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	12/31/07	15,000	per person
Axis Surplus Ins. Co.: Cyber Liability	02/01/08	1,000,000	

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES

Year ended June 30, 2007

	<u>1995 Series A Revenue Bond Funds</u>
	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 1,565,000
Additions:	
Funds provided at closing	6,875,684
Investment earnings	8,233
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(10,429,283)
Transfers (to) from other funds	<u>1,980,382</u>
Bond Fund Balances, June 30, 2007	<u><u>\$ 16</u></u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES -- CONTINUED

Year ended June 30, 2007

	<u>1997 Series A Revenue Bond Funds</u>
	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 2,957,758
Additions:	
Deposits	-
Investment earnings	66,561
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(3,934,690)
Transfers (to) from other funds	<u>3,922,304</u>
Bond Fund Balances, June 30, 2007	<u>\$ 3,011,933</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>1998 Series A Revenue Bond Funds</u>
	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 530,965
Additions:	
Deposits	-
Investment earnings	11,865
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(760,293)
Transfers (to) from other funds	<u>756,790</u>
Bond Fund Balances, June 30, 2007	<u><u>\$ 539,327</u></u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2001 Series A Bond Funds</u>	
	<u>Construction Fund</u>	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 5	\$ 5,691,341
Additions:		
Deposits	-	-
Investment earnings	-	127,120
Deductions:		
Capital expenditures	-	-
Bond principal and interest payments	-	(7,989,931)
Transfers (to) from other funds	<u>(5)</u>	<u>7,940,062</u>
Bond Fund Balances, June 30, 2007	<u>\$ -</u>	<u>\$ 5,768,592</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2001 Series B Bond Funds</u>	
	<u>Construction Fund</u>	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 1,206,938	\$ 804,199
Additions:		
Deposits	-	-
Investment earnings	39,562	18,195
Deductions:		
Capital expenditures	(1,244,883)	-
Bond principal and interest payments	-	(1,041,606)
Transfers (to) from other funds	<u>(1,617)</u>	<u>1,041,618</u>
Bond Fund Balances, June 30, 2007	<u>\$ -</u>	<u>\$ 822,406</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2002 Series A Bond Funds</u>	
	<u>Debt Service Fund</u>	<u>Cost of Issuance Fund</u>
Bond Fund Balances, July 1, 2006	\$ 950,000	\$ 13
Additions:		
Deposits	-	-
Investment earnings	24,726	1
Deductions:		
Capital expenditures	-	-
Other expenditures	(107,025)	-
Bond principal and interest payments	(2,502,104)	-
Transfers (to) from other funds	<u>2,636,054</u>	<u>(14)</u>
Bond Fund Balances, June 30, 2007	<u>\$ 1,001,651</u>	<u>\$ -</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2002 Series B Bond Funds</u>	
	<u>Debt Service Fund</u>	<u>Cost of Issuance Fund</u>
Bond Fund Balances, July 1, 2006	\$ 903,539	\$ 10
Additions:		
Deposits	-	-
Investment earnings	20,760	-
Deductions:		
Capital expenditures	-	-
Other expenditures	(94,412)	-
Bond principal and interest payments	(2,147,215)	-
Transfers (to) from other funds	<u>2,118,530</u>	<u>(10)</u>
Bond Fund Balances, June 30, 2007	<u>\$ 801,202</u>	<u>\$ -</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2003 Series A Bond Funds</u>	
	<u>Debt Service Fund</u>	<u>Cost of Issuance Fund</u>
Bond Fund Balances, July 1, 2006	\$ 1,565,242	\$ 13,194
Additions:		
Deposits	-	-
Investment earnings	35,601	631
Deductions:		
Capital expenditures	-	-
Bond principal and interest payments	(1,760,485)	-
Transfers (to) from other funds	<u>1,754,884</u>	<u>(13,825)</u>
Bond Fund Balances, June 30, 2007	<u>\$ 1,595,242</u>	<u>\$ -</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2003 Series B Bond Funds</u>
	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 436,526
Additions:	
Deposits	-
Investment earnings	9,757
Deductions:	
Capital expenditures	-
Bond principal and interest payments	(577,253)
Transfers (to) from other funds	<u>571,696</u>
Bond Fund Balances, June 30, 2007	<u>\$ 440,726</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2003 Series C Bond Funds</u>	
	<u>Construction Fund</u>	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 800,302	\$ 7,402,966
Additions:		
Deposits	-	-
Investment earnings	37,642	165,578
Deductions:		
Capital expenditures	-	-
Bond principal and interest payments	-	(10,409,579)
Transfers (to) from other funds	<u>(54,761)</u>	<u>10,357,645</u>
Bond Fund Balances, June 30, 2007	<u>\$ 783,183</u>	<u>\$ 7,516,610</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>2005 Series A Bond Funds</u>		
	<u>Cost of Issuance Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>
Bond Fund Balances, July 1, 2006	\$ 6,923	\$ 9,834,229	\$ 1,409,346
Additions:			
Deposits	-	-	-
Investment earnings	173	343,448	34,120
Deductions:			
Cost of Issue or Capital expenditures	(4,052)	(3,863,023)	-
Bond principal and interest payments	-	-	(2,315,406)
Transfers (to) from other funds	<u>(3,044)</u>	<u>-</u>	<u>2,029,645</u>
Bond Fund Balances, June 30, 2007	<u>\$ -</u>	<u>\$ 6,314,654</u>	<u>\$ 1,157,705</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>Gross Revenue Fund</u>
Bond Fund Balances, July 1, 2006	\$ -
Additions:	
Deposits	31,301,692
Investment earnings	1,750
Deductions:	
Capital expenditures	-
Bond principal and interest payments	-
Transfers (to) from other funds	<u>(31,303,442)</u>
Bond Fund Balances, June 30, 2007	<u><u>\$ -</u></u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN BOND FUND BALANCES--CONTINUED

Year ended June 30, 2007

	<u>Aggregate Debt Service Reserve Fund</u>
Bond Fund Balances, July 1, 2006	\$ 34,399,199
Additions:	
Deposits	-
Investment earnings	1,671,748
Deductions:	
Capital expenditures	-
Bond principal and interest payments	-
Transfers (to) from other funds	<u>(3,787,656)</u>
Bond Fund Balances, June 30, 2007	<u>\$ 32,283,291</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, 2007 and have issued our report thereon dated September 28, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 its 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.

Louisville Regional Airport Authority
Page two

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 and use of the members of the Board of the Authority, management, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature in cursive script that reads "Mantz & Bressler LLP".

Louisville, Kentucky
September 28, 2007

**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, 2007. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

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

Mantel & Bressler LLP

Louisville, Kentucky
September 28, 2007

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2007

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, 2007	Accumulated Expenditures
<u>U.S. Department of Transportation</u>						
Direct Program:						
Airport Improvement Program:						
Louisville International Airport						
	20.106	3-21-0031-69	Security Enhancements	\$ 11,250,000	\$ 4,271,647	\$ 10,799,326
	20.106	3-21-0031-72	Extend Runway (Phase II) West Runway Overrun	5,077,331	491,096	4,973,403
	20.106	3-21-0031-76	Various Airport Projects and Purchase of Equipment	16,946,436	6,956,978	15,868,442
	20.106	3-21-0031-77	Acquire Land for Noise Compatibility Provide Relocation Assistance	9,000,000	900,000	9,000,000
	20.106	3-21-0031-78	Taxiway A (Phase I), Various Airfield Projects & Purchase of Equipment	10,419,971	2,282,241	2,282,241
	20.106	3-21-0031-79	Acquire Land for Noise Compatibility Provide Relocation Assistance	10,000,000	7,000,000	7,000,000
Bowman Field:						
	20.106	3-21-0032-14	Pavement Condition Index	150,000	7,671	78,886
	20.106	3-21-0032-15	Rehabilitate Runway 14-32	1,759,405	770,508	1,583,465
	20.106	3-21-0032-16	Construct Taxiway Lima (Phase I)	<u>1,709,449</u>	<u>467,143</u>	<u>467,143</u>
Total Louisville International Airport and Bowman Field				<u>\$ 66,312,592</u>	<u>\$ 23,147,284</u>	<u>\$ 52,052,906</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, 2007

NOTE A--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.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

 yes X no

- Significant deficiencies 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

- Significant deficiencies 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:

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes no

Section II-Financial Statement Findings

No matters were reported.

Section III-Federal Award Findings and Questioned Costs

No matters were reported.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTION

Year ended June 30, 2007

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 AND ON 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 (the 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, 2007. 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, 2007.

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 the 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 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 of 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.

Continued

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, 2007, and have issued our report thereon dated September 28, 2007. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole.

The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the Guide and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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



Louisville, Kentucky
September 28, 2007

LOUISVILLE REGIONAL AIRPORT AUTHORITY

**SUPPLEMENTARY SCHEDULE OF PASSENGER FACILITY
CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Record of Decision</u>	<u>Impose Authority</u>	<u>Use Authority</u>	<u>PFC Collected</u>	<u>Interest Earned</u>	<u>Expenditures</u>
<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	\$ 484,665	\$ 32,144,982
	97-01-C-01-SDF	50,600,000	50,600,000	12,505,895	-	-
	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	-	-	5,666,800
	06-04-C-00-SDF	<u>1,267,315</u>	<u>1,267,315</u>	<u>-</u>	<u>-</u>	<u>1,072,192</u>
Totals		<u>\$ 107,546,255</u>	<u>\$ 107,546,255</u>	<u>\$ 52,505,895</u>	<u>\$ 484,665</u>	<u>\$ 48,896,114</u>

See accompanying independent auditor's report

LOUISVILLE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Summary of Auditor's Results

We have issued an unqualified opinion, dated September 28, 2007 on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2007.

Our audit disclosed no material weaknesses or significant deficiencies 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 28, 2007 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, 2007

The prior year's audit disclosed no findings required to be reported in accordance with the provisions of the Passenger Facility Charge Audit Guide for Public Agencies.