

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
**Louisville, Kentucky**

**ANNUAL REPORT**  
**June 30, 2011 and 2010**

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
Louisville, Kentucky

ANNUAL REPORT  
June 30, 2011 and 2010

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the Louisville Regional Airport Authority (the "Authority") as of and for the year ended June 30, 2011 and the discretely presented component unit of the Louisville Renaissance Zone Corporation (the "LRZC") as of and for the year ended June 30, 2011 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. The financial statements of the Authority and LRZC as of June 30, 2010 were audited by other auditors whose report, dated November 4, 2010, expressed an unqualified opinion on those statements.

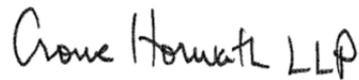
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the LRZC were not audited in accordance with *Government Auditing Standards*. 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 basic financial statement presentation. We believe that our audit provides 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 Authority as of June 30, 2011, the financial position of the LRZC as of June 30, 2011, and the respective changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority, taken as a whole. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is also not a required part of the basic financial statements. The information in these schedules 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.



Crowe Horwath LLP

Louisville, Kentucky  
October 26, 2011

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
**Management's Discussion and Analysis**  
**June 30, 2011 and 2010**

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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), primarily a commercial operations airport, and Bowman Field (LOU), primarily a general aviation and air traffic reliever airport to SDF. 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, 2011.

**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 Authority 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 operating 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 separately presents its own financial statements. It is important to read these statements in conjunction with the LRZC statements. However, the information provided in the Management's Discussion and Analysis only includes the Authority's financial results.

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(Continued)

**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
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**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>FY2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Passengers				
Enplaned	1,694,781	1,649,704	1,682,284	1,956,868
Deplaned	<u>1,691,926</u>	<u>1,643,620</u>	<u>1,678,874</u>	<u>1,945,714</u>
Total	<u><u>3,386,707</u></u>	<u><u>3,293,324</u></u>	<u><u>3,361,158</u></u>	<u><u>3,902,582</u></u>
Landed weight				
Passenger	2,126,001,682	2,026,632,956	2,148,742,098	2,485,816,845
Cargo	<u>10,836,774,963</u>	<u>10,414,748,871</u>	<u>10,324,892,516</u>	<u>10,442,470,286</u>
Total	<u><u>12,962,776,645</u></u>	<u><u>12,441,381,827</u></u>	<u><u>12,473,634,614</u></u>	<u><u>12,928,287,131</u></u>

Louisville International's (SDF) status as a major worldwide cargo leader in terms of volume is best reflected by its current ranking of 3<sup>rd</sup> in North America and 10<sup>th</sup> worldwide. Following the expansion of UPS Worldport<sup>SM</sup> in 2010, UPS' cargo volume at SDF continued to grow in FY11. UPS' cargo volume at SDF for FY11 was 4.7 billion pounds versus FY10 of 4.5 billion pounds – a 4.2% increase.

During FY11 passenger enplanements at Louisville International Airport increased by 2.8% compared to FY10. Passenger activity was influenced by an increase in the number of daily flights and available seats offered from the airport. This past year, United Airlines launched new service to its hub at Washington D.C. (Dulles). In addition, low-fare carrier Vision Airlines launched new service from Louisville to Atlanta, GA, Destin/Fort Walton Beach, FL and Fort Lauderdale, FL. These new routes and positive customer response to recently announced service to Denver, CO by both Frontier Airlines and United Airlines has allowed the airport to boost seat capacity and lure more passengers to the airport.

The past year's economic uncertainty and high fuel costs have forced airlines to aggressively "right-size" their fleet, modify capacity and adjust pricing nationwide. Further airline industry consolidation through the mergers of Delta-Northwest, Frontier-Midwest and United-Continental have provided airlines additional opportunities to adjust fleet, frequencies and aircraft size offered in the market. We expect these conditions to continue well into FY12.

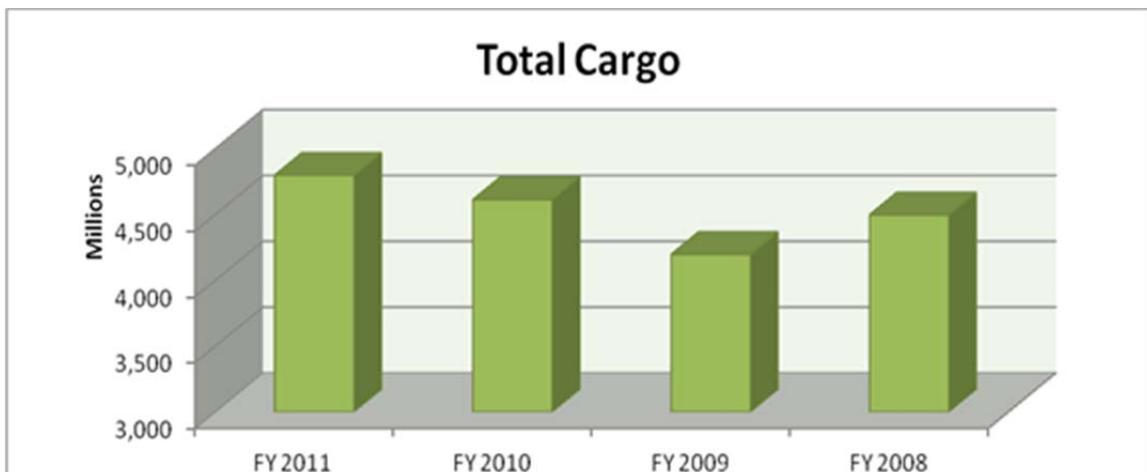
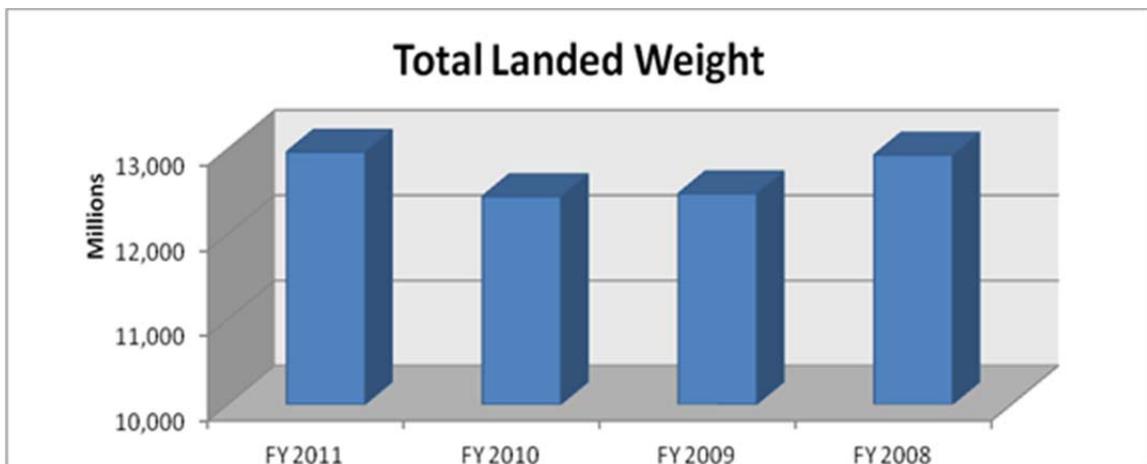
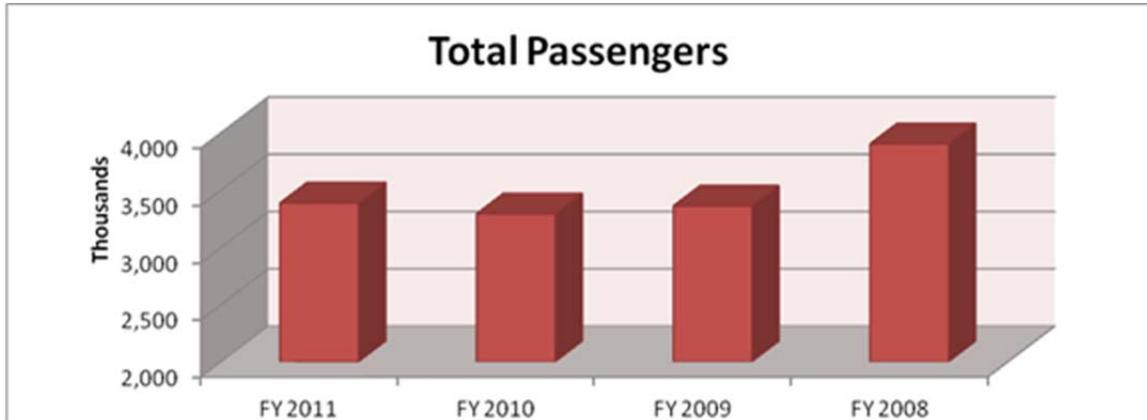
Despite the turbulence impacting air travel in the region and the nation, Louisville has managed to add new service and remains well positioned with access to 28 nonstop destinations by seven airline brands including three low-cost carriers. Though consumer demand for air travel services will continue to be a difficult behavior to predict over the next 18 to 24 months we expect that Louisville International Airport's balanced market profile will continue to be attractive to both business and leisure travelers from across the region.

The following page provides key statistical information in graph form.

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LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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Statistical Graphs



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**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
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**Financial Highlights**

**(Versus Budget and Prior Year)**

- Total Revenues for FY11 were 6.0% more than FY10 actual and 4.3% less than budget. Major contributors to this increase are:
  - Parking revenues were up approximately \$1.3 million versus FY10 and \$450,000 versus budget. Parking rates were increased during FY 11 which is the major reason for the increase over prior year.
  - Rental Car revenues were \$1.0 million greater than budget and \$297,000 greater than FY10.
  - Passenger Facility Charges (PFC) were up approximately \$1.4 million versus FY10 and down \$300,000 versus budget. In FY11 the Authority received approval on a PFC application which allowed an increase to \$4.50 which is the primary reason for this increase over FY10.
- Operating Expenses before Depreciation for FY11 were \$1.0 million or 3.7% less than budget and \$330,000 or 1.2% greater than FY10 actual. Major contributors to these variances are:
  - Payroll, Fringe Benefits and Retirement contributions were under FY11 budget by \$1.4 million and \$230,000 under FY10 actual. The major reason for this is our continued sensitivity to keeping costs down in an effort to respond to the unfavorable economic impacts to the airlines. Areas we consciously controlled were restrictions on overtime and a continued hiring freeze in some vacant positions.
  - Fuel and Utilities were \$450,000 greater than prior year and \$55,000 greater than budget. Contract Services were \$550,000 greater than prior year and flat compared to budget.
- Operating Income before Depreciation was \$32.7 million which is \$3.6 million greater than budgeted and \$2.1 million greater than FY10 actual.
- Interest Expense is approximately \$500,000 less than prior year and budget. The variances are due primarily to the 2002 A & B bond variable rate interest costs.
- Net Loss before Capital Contributions was \$21.5 million, which is \$14.8 million greater than budget and \$14.2 million greater than FY10 actual. The primary reason for this difference is the loss incurred on the sale of land which is explained further in the Capital Assets section.
- Net Assets decreased from prior year by \$10.6 million to \$291.9 million due to the loss on sale of land previously mentioned.

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**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
**Management's Discussion and Analysis**  
**June 30, 2011 and 2010**

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**Financial Information**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Unrestricted	\$ 47,966,718	\$ 39,583,055	\$ 38,127,219
Restricted	89,416,277	93,138,130	96,362,878
Capital assets, net (includes in progress)	541,387,250	571,854,003	584,320,565
Other	<u>13,838,640</u>	<u>14,272,522</u>	<u>15,466,923</u>
Total assets	692,608,885	718,847,710	734,277,585
<b>LIABILITIES</b>			
Unrestricted	5,954,938	6,587,117	5,095,488
Restricted	27,165,544	25,063,730	26,183,791
Long-term debt	327,140,000	345,100,000	361,990,000
Other	<u>40,452,748</u>	<u>39,601,966</u>	<u>40,100,372</u>
Total liabilities	400,713,230	416,352,813	433,369,651
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	180,281,660	196,325,947	190,952,980
Restricted for debt services	65,558,032	66,965,002	66,427,361
Restricted for capital projects	11,863,734	14,012,964	18,152,562
Unrestricted net assets	<u>34,192,229</u>	<u>25,190,984</u>	<u>25,375,031</u>
Total net assets	<u>\$ 291,895,655</u>	<u>\$ 302,494,897</u>	<u>\$ 300,907,934</u>

The decrease in Total Assets and Total Net Assets is primarily due to the sale of land which is explained further in the Capital Assets section. The decrease in Total Liabilities is primarily due to our usual reduction in outstanding bonds due to principal payments.

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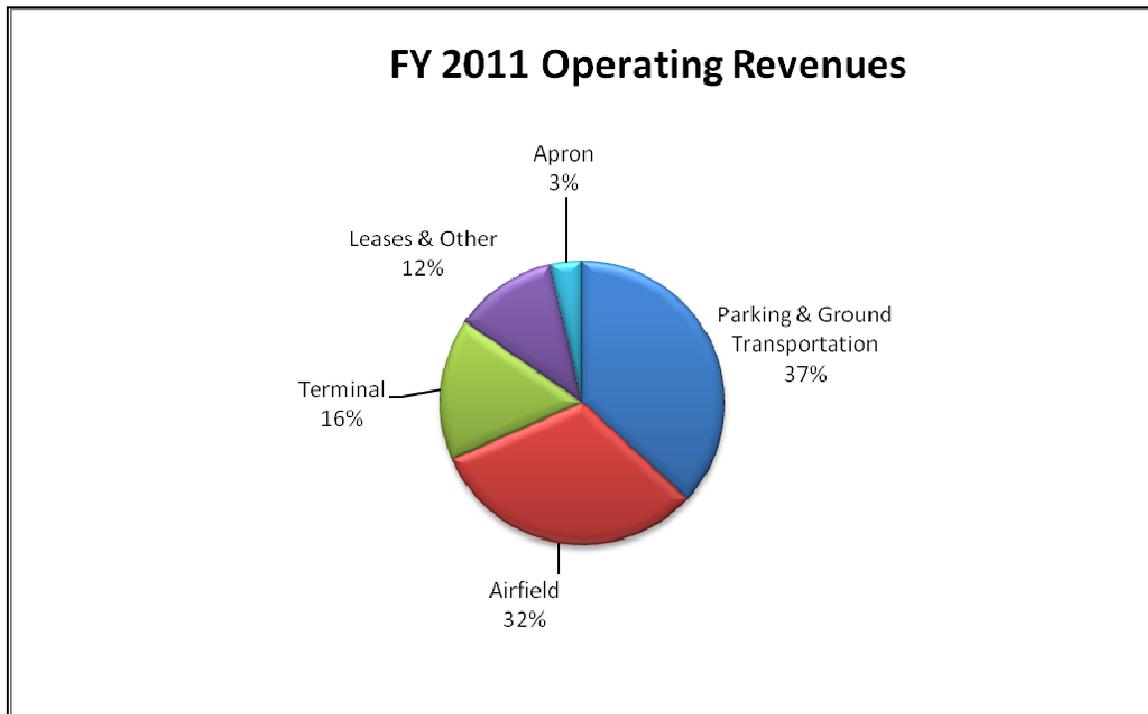
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**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
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**Revenue.** The following schedule presents a summary of revenues for the fiscal years ended June 30:

	2011		2010 <u>Actual</u>	2009 <u>Actual</u>
	<u>Actual</u>	<u>Budget</u>		
Operating revenues				
Landing and field use	\$ 18,966,756	\$ 18,919,351	\$ 18,821,087	\$ 20,055,027
Apron area	2,169,823	2,076,783	2,148,070	2,475,485
Landside terminal	5,972,357	5,804,436	5,926,732	6,392,306
Airside terminal	3,716,523	3,373,090	3,423,724	3,578,675
Leases	6,588,145	6,309,680	6,255,242	6,254,383
Parking and ground transportation	22,084,268	20,606,400	20,479,497	21,324,462
Other	<u>456,921</u>	<u>268,490</u>	<u>415,475</u>	<u>482,438</u>
Total operating revenues	59,954,793	57,358,230	57,469,827	60,562,776
Non-operating revenues				
Passenger facility charge	5,888,853	6,156,390	4,447,652	4,594,799
Interest income	<u>1,156,827</u>	<u>750,440</u>	<u>1,301,398</u>	<u>2,376,785</u>
Total non-operating revenues	<u>7,045,680</u>	<u>6,906,830</u>	<u>5,749,050</u>	<u>6,971,584</u>
Total revenues	<u>\$ 67,000,473</u>	<u>\$ 64,265,060</u>	<u>\$ 63,218,877</u>	<u>\$ 67,534,360</u>

The major contributors to total revenues' increase over budget and FY10 have been explained earlier under Financial Highlights. The Authority also receives Capital Contributions from Federal & State Government grants and private donations. These grants are generally only available for use on eligible capital and major maintenance spending. Capital Contributions received or accrued for FY11 and FY10 were \$10,937,848 and \$8,890,235 respectively. The primary reasons for the increase over prior year are eligible projects to construct a taxiway that will enable Group VI aircraft to access Louisville International Airport. Unused Federal Grant funds from FY11 remain available for use by the Authority in future years.



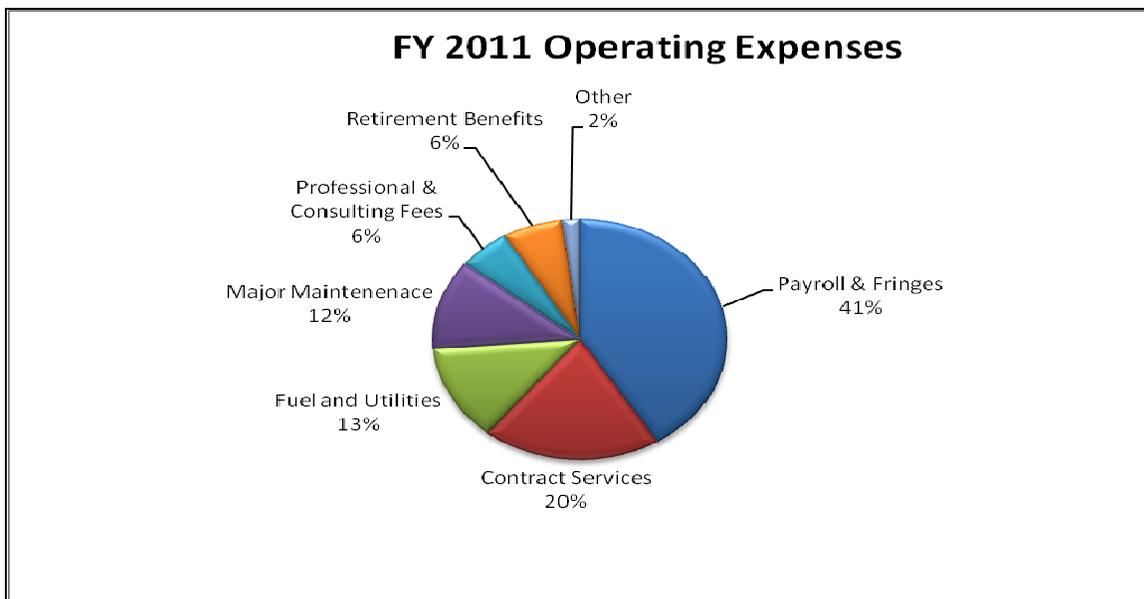
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**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
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**Expenses.** The following schedule presents a summary of operating expenses before depreciation for the fiscal years ended June 30:

	2011		2010 <u>Actual</u>	2009 <u>Actual</u>
	<u>Actual</u>	<u>Budget</u>		
Operating expenses				
Payroll and fringe benefits	\$ 11,229,998	\$ 12,442,181	\$ 11,460,450	\$ 12,614,186
Contract services	5,336,537	5,289,920	4,784,041	5,067,173
Fuel and utilities	3,527,769	3,472,600	3,076,261	3,420,007
Professional and consulting fees	1,568,317	1,674,440	1,756,569	1,848,080
Retirement	1,784,590	1,996,501	1,784,805	1,693,751
Other	<u>541,002</u>	<u>817,904</u>	<u>479,627</u>	<u>202,709</u>
Total operating expenses before major maintenance and depreciation	23,988,213	25,693,546	23,341,753	24,845,906
Major maintenance	<u>3,257,674</u>	<u>2,610,000</u>	<u>3,574,877</u>	<u>4,426,132</u>
Total operating expenses before depreciation	<u>27,245,887</u>	<u>28,303,546</u>	<u>26,916,630</u>	<u>29,272,038</u>
Non-operating expenses				
Interest expense	14,848,982	15,565,971	15,299,423	17,785,333
Other	<u>18,289,641</u>	<u>-</u>	<u>130,138</u>	<u>2,693,343</u>
Total non-operating expenses	<u>33,138,623</u>	<u>15,565,971</u>	<u>15,429,561</u>	<u>20,478,676</u>
Total expenses before depreciation	<u>\$ 60,384,510</u>	<u>\$ 43,869,517</u>	<u>\$ 42,346,191</u>	<u>\$ 49,750,714</u>

The Authority continued several cost cutting measures in response to the airline industry being hampered by the economic downturn. The largest area of reduction was payroll related costs. Discussion of this and the increases in Operating Expenses were included earlier in the Financial Highlights section. Other Non-Operating Expense variance to Budget and FY10 actual is primarily the loss on sale of assets which is discussed later in the Capital Assets section.



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**LOUISVILLE REGIONAL AIRPORT AUTHORITY**  
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**Capital Assets.** During fiscal year 2011, the Authority's capital spending and accruals totaled approximately \$16,200,000. Major projects were: Noise Mitigation, Land Acquisition, Relocation and Sound Insulation - \$5,842,000; Runways & Taxiways - \$6,125,000; construction of Administrative, Parking and Terminal Projects - \$2,550,000; and purchase of equipment - \$900,000. Fixed assets acquired and projects completed and capitalized during the year totaled approximately \$14,706,000. A summary of capital assets can be found in Note 6 to the financial statements.

Additionally, the major capital asset disposition by the Authority during fiscal year 2011 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 the appraised fair market value of \$1,111,000. This land had a book value of approximately \$24,035,000. As explained in Note 8, 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 \$4,807,000 which offset the net loss of \$18,117,000.

**Debt.** Currently, the Authority has bonds outstanding of \$344,820,000 of which \$327,140,000 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, hangar construction and upgrades at Bowman Field. The major project that was in process during fiscal year 2011 and funded by a portion of the debt was the continuing construction of Taxiway Alpha. During FY11 the Authority issued Series 2011 A & B bonds which refinanced a portion of Series 1998A, 2001A & B bonds. The net present value savings from this refinance is \$1.7 million. A summary of changes in long-term debt and annual debt service requirements are found in Note 7 to the financial statements.

**Requests for Information.** The annual 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 and Accounting, P.O. Box 9129, Louisville, KY 40209.

Respectfully submitted,



Dorothy M. Caulk, CPA  
Director of Finance and Accounting

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>				
Current assets, unrestricted				
Cash and equivalents	\$ 21,235,445	\$ 16,647,315	\$ 916,259	\$ 1,560,940
Investments, at amortized cost plus accrued interest	18,481,078	15,507,135	-	-
Fees and rentals receivable, net	4,023,780	3,526,591	1,847,169	1,619,604
Due from component unit	2,922,863	2,609,624	-	-
Supplies and prepaid expenses	<u>1,303,552</u>	<u>1,292,390</u>	-	-
Total unrestricted current assets	47,966,718	39,583,055	2,763,428	3,180,544
Current assets, restricted				
Cash and equivalents	34,696,680	38,204,175	-	-
Cash – land fund	1,995,125	3,072,567	-	-
Interest receivable	122,080	97,061	-	-
Grants receivable	1,308,088	28,007	-	-
Investments, at amortized cost plus accrued interest – land fund	<u>3,862,276</u>	<u>5,000,238</u>	-	-
Total restricted current assets	<u>41,984,249</u>	<u>46,402,048</u>	-	-
Total current assets	89,950,967	85,985,103	2,763,428	3,180,544
Noncurrent assets, unrestricted				
Capital assets not being depreciated	345,430,517	357,954,938	11,270,847	9,604,113
Depreciable capital assets, net	195,956,733	213,899,065	6,178,213	6,532,475
Deferred loan and bond cost, net of accumulated amortization of \$7,546,079 as of 2011 and \$6,349,111 as of 2010	<u>13,838,640</u>	<u>14,272,522</u>	<u>3,138,304</u>	<u>3,333,431</u>
Total unrestricted noncurrent assets	555,225,890	586,126,525	20,587,364	19,470,019
Noncurrent assets, restricted				
Cash – PFC fund	1,054,409	883,110	-	-
Cash and equivalents	20,523,865	17,745,801	-	-
Investments – PFC fund	3,471,989	3,000,143	-	-
Investments, at amortized cost plus accrued interest	<u>22,381,765</u>	<u>25,107,028</u>	-	-
Total restricted noncurrent assets	<u>47,432,028</u>	<u>46,736,082</u>	-	-
Total noncurrent assets	<u>602,657,918</u>	<u>632,862,607</u>	<u>20,587,364</u>	<u>19,470,019</u>
<b>Total assets</b>	<u>\$ 692,608,885</u>	<u>\$ 718,847,710</u>	<u>\$ 23,350,792</u>	<u>\$ 22,650,563</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

LIABILITIES	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	2011	2010	2011	2010
Current liabilities (payable from unrestricted current assets)				
Accounts payable	\$ 4,056,906	\$ 4,852,253	\$ 229,668	\$ 65,674
Due to the Authority	-	-	2,922,863	2,609,624
Accrued expenses and other	879,409	822,331	234,441	269,819
Loans payable	-	-	3,469,360	1,492,584
Deferred income	<u>1,018,623</u>	<u>912,533</u>	-	-
Total unrestricted current liabilities	5,954,938	6,587,117	6,856,332	4,437,701
Current liabilities (payable from restricted current assets)				
Bonds payable	17,680,000	16,890,000	-	-
Accounts payable	3,294,133	750,250	-	-
Accrued interest	<u>6,191,411</u>	<u>7,423,480</u>	-	-
Total restricted current liabilities	<u>27,165,544</u>	<u>25,063,730</u>	-	-
Total current liabilities	33,120,482	31,650,847	6,856,332	4,437,701
Long-term debt				
Bonds and loans payable	327,140,000	345,100,000	15,274,506	17,308,669
Other liabilities				
Deposit from UPS land option	7,819,551	7,804,954	-	-
Unamortized bond premium, net	9,524,773	8,688,588	-	-
Deposit from Commonwealth of Kentucky	18,724,824	18,724,824	-	-
Other liabilities	83,600	83,600	-	-
Revolving coverage (payable from restricted assets)	<u>4,300,000</u>	<u>4,300,000</u>	-	-
Total other liabilities	<u>40,452,748</u>	<u>39,601,966</u>	-	-
<b>Total liabilities</b>	<b><u>\$ 400,713,230</u></b>	<b><u>\$ 416,352,813</u></b>	<b><u>\$ 22,130,838</u></b>	<b><u>\$ 21,746,370</u></b>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 180,281,660	\$ 196,325,947	\$ -	\$ -
Restricted for debt service	65,558,032	66,965,002	-	-
Restricted for capital projects	11,863,734	14,012,964	-	-
Unrestricted net assets	<u>34,192,229</u>	<u>25,190,984</u>	<u>1,219,954</u>	<u>904,193</u>
Total net assets	<u>\$ 291,895,655</u>	<u>\$ 302,494,897</u>	<u>\$ 1,219,954</u>	<u>\$ 904,193</u>

See accompanying notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Years ended June 30, 2011 and 2010

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>				
Rentals and concessions	\$ 40,988,036	\$ 38,648,740	\$ -	\$ -
Landing and field use fees	18,966,757	18,821,087	-	-
Land sales and TIF revenues	-	-	1,337,673	1,289,157
Total operating revenues	<u>59,954,793</u>	<u>57,469,827</u>	<u>1,337,673</u>	<u>1,289,157</u>
<b>Operating expenses</b>				
Operations and general maintenance	14,246,841	14,043,337	-	-
Administrative, general, planning and engineering	<u>9,741,372</u>	<u>9,298,416</u>	<u>198,557</u>	<u>148,752</u>
Total operating and maintenance	23,988,213	23,341,753	198,557	148,752
Major maintenance	3,257,674	3,574,877	-	-
Depreciation and amortization	<u>28,153,053</u>	<u>28,175,958</u>	<u>354,262</u>	<u>236,174</u>
Total operating expenses	<u>55,398,940</u>	<u>55,092,588</u>	<u>552,819</u>	<u>384,926</u>
<b>Operating income</b>	4,555,853	2,377,239	784,854	904,231
Non-operating revenues (expenses)				
Investment earnings, net	1,156,827	1,301,398	710	1,252
Interest expense	(14,848,982)	(15,299,423)	(469,803)	(385,727)
Passenger facility charges	5,888,853	4,447,652	-	-
Net gain (loss) on disposal of assets	(18,100,046)	4,248	-	-
Other expenses	<u>(189,595)</u>	<u>(134,386)</u>	<u>-</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>(26,092,943)</u>	<u>(9,680,511)</u>	<u>(469,093)</u>	<u>(384,475)</u>
<b>(Loss) income before capital contributions</b>	(21,537,090)	(7,303,272)	315,761	519,756
Capital contributions	<u>10,937,848</u>	<u>8,890,235</u>	<u>-</u>	<u>-</u>
<b>Change in net assets</b>	(10,599,242)	1,586,963	315,761	519,756
Net assets, beginning of year	<u>302,494,897</u>	<u>300,907,934</u>	<u>904,193</u>	<u>384,437</u>
<b>Net assets, end of year</b>	<u>\$ 291,895,655</u>	<u>\$ 302,494,897</u>	<u>\$ 1,219,954</u>	<u>\$ 904,193</u>

See accompanying notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2011 and 2010

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 59,578,291	\$ 57,829,149	\$ -	\$ -
Land sales and TIF revenues	-	-	1,110,108	160,189
Payments to suppliers	(20,134,215)	(18,738,733)	(173,341)	(500,814)
Payments to employees	(7,456,559)	(7,621,485)	-	-
Net cash flows provided by (used for) operating activities	<u>31,987,517</u>	<u>31,468,931</u>	<u>936,767</u>	<u>(340,625)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital contributions	9,657,767	9,539,129	-	-
Passenger facility charges	5,888,853	4,447,652	-	-
Acquisition and construction of capital assets	(13,847,426)	(15,544,893)	(1,527,956)	(295,360)
Proceeds from sale of assets	1,127,927	53,500	-	-
Proceeds from issuance of debt	37,170,000	-	1,435,196	585,126
Principal paid on capital debt	(54,340,000)	(16,085,000)	(1,492,583)	(193,108)
Net proceeds received from the Authority	-	-	309,037	235,023
Interest paid on capital debt, net of capitalized interest	(16,081,051)	(15,593,826)	(305,852)	(317,438)
Fees paid on bonds	(189,595)	(134,386)	-	-
Issuance costs of capital debt	(763,086)	8,703	-	-
Net cash flows (used for) provided by capital and related financing activities	<u>(31,376,611)</u>	<u>(33,309,121)</u>	<u>(1,582,158)</u>	<u>14,243</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from maturities of investments	68,687,044	46,964,833	-	-
Cash advances to component unit	(309,037)	(235,023)	-	-
Purchase of investments	(68,269,608)	(61,914,524)	-	-
Investment income	2,233,251	866,472	710	1,252
Net cash flows provided by (used for) investing activities	<u>2,341,650</u>	<u>(14,318,242)</u>	<u>710</u>	<u>1,252</u>
<b>Net increase (decrease) in cash and equivalents</b>	2,952,556	(16,158,432)	(644,681)	(325,130)
Cash and equivalents, beginning of year	<u>76,552,968</u>	<u>92,711,400</u>	<u>1,560,940</u>	<u>1,886,070</u>
<b>Cash and equivalents, end of year</b>	<u>\$ 79,505,524</u>	<u>\$ 76,552,968</u>	<u>\$ 916,259</u>	<u>\$ 1,560,940</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2011 and 2010

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	2011	2010	2011	2010
Operating income	\$ 4,555,853	\$ 2,377,239	\$ 784,854	\$ 904,231
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation and amortization	28,153,053	28,175,958	354,262	236,174
Changes in assets and liabilities:				
Fees and rentals receivable	(497,189)	198,083	(227,565)	(1,128,968)
Deferred income	106,090	12,985	-	-
Supplies and prepaid expenses	(11,162)	(283,746)	-	-
Accounts payable	(390,803)	825,565	25,216	(352,062)
Accrued expenses and other	57,078	14,593	-	-
Deposit from UPS land option	14,597	148,254	-	-
Net cash provided by (used for) operating activities	\$ 31,987,517	\$ 31,468,931	\$ 936,767	\$ (340,625)

**NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES**

The Authority has retainage and accounts payable related to construction in progress of approximately \$4,083,000 and \$1,944,000 as of June 30, 2011 and 2010, respectively. The Authority recorded a loss on sale of assets of approximately \$18,100,000 and a gain on sale of assets of approximately \$4,000 as of June 30, 2011 and 2010, respectively.

The Authority capitalized interest expense offset by proceeds on loans payable of approximately \$44,000 and \$135,000 in 2011 and 2010, respectively.

LRZC capitalized interest expense offset by proceeds on loans payable of approximately \$0 and \$146,000 in 2011 and 2010, respectively.

LRZC financed the purchase of capital assets through accounts payable of approximately \$139,000 and \$40,000 in 2011 and 2010, respectively.

See accompanying notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization: The Louisville Regional Airport Authority (the Authority) is a municipal corporation established by Chapter No. 77 of the 1928 Public Acts of the Commonwealth of Kentucky and existing pursuant to Kentucky Revised Statutes Chapter 183. The Board consists of the Mayor of Louisville Metro, seven members appointed by the Mayor of Louisville Metro and three members appointed by the Governor of the Commonwealth of Kentucky.

The Authority is responsible for the operation of Louisville International Airport, primarily a commercial operations airport, and Bowman Field, primarily a general aviation and reliever airport, in Louisville, Jefferson County, Kentucky. Costs of operating the Authority are recovered primarily through user charges. Primary revenue sources are:

Rentals and Concessions: These are revenues from airlines, fixed base operators, rental car companies, parking lot, food, gift shop and other commercial tenants. Leases generally are for terms from one to five years and require rentals based on the volume of business of the lessee, with specified minimum rentals.

Landing and Field Use Fees: These fees are generally from scheduled airlines and nonscheduled commercial aviation and are assessed based on the landed weight of the aircraft. The scheduled airline fee structure is assessed pursuant to use agreements between the Authority and the signatory airlines. The Authority entered into a Landing Fee Surcharge Agreement beginning July 1, 2003 with one of its commercial tenants to provide financial support for a terminal renovation project. The revenue generated from this agreement was approximately \$532,000 and \$530,000 for fiscal years 2011 and 2010, respectively.

Construction and Equipment Grants: Certain expenditures for airport capital improvements are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA), with certain matching funds provided by the Authority, the Commonwealth of Kentucky, or from other 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 accounting principles generally accepted in the United States. The Authority has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting 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.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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. See Note 16 for further LRZC disclosures.

Net Assets: The Authority's net assets are classified as follows:

*Invested in Capital Assets – Net of Related Debt:* The Authority's investment in capital assets, net of outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

*Restricted Net Assets:* Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws, or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Authority's restricted assets are expendable.

*Unrestricted Net Assets:* Net assets whose use by the Authority is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board.

Release of Restricted Net Assets: When an expense or outlay is incurred for which both restricted and unrestricted net assets are available, the Authority's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

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 present value less the estimated portion that is expected to be uncollectible. As of June 30, 2011 and 2010, the allowance for uncollectible accounts was \$350,000 and \$279,000, respectively.

Investments: Investment securities are recorded at amortized cost and are not materially different from fair 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 \$44,000 and \$135,000 during 2011 and 2010, respectively.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. 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	10 - 25 years
Utility systems	5 - 20 years
Vehicles and other	5 - 15 years
Computer equipment and software	3 years

Nondepreciable capital assets include land (including easements), construction in progress and certain land acquisition costs.

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

Deferred Income: Deferred income consists of concessionaire rentals and payments received in advance, which will be recognized as revenue when earned.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Operating Revenues and Expenses: Operating revenues and expenses for enterprise funds are those that result from providing services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

Reclassifications: Certain amounts from 2010 have been reclassified to conform to 2011 presentation with no impact to total net assets or the change in net assets for the year.

**NOTE 2 - CASH AND 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 balances of each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Through December 2013, non-interest bearing transactional based accounts will be fully insured by the FDIC as part of the Temporary Guarantee Liquidity Program for participating banks. 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.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 2 - CASH AND EQUIVALENTS** (Continued)

Cash and equivalents consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 3,550	\$ 3,550
Deposits with financial institutions	26,009,749	25,611,794
Repurchase agreements	<u>53,492,225</u>	<u>50,937,624</u>
	<u>\$ 79,505,524</u>	<u>\$ 76,552,968</u>

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

	<u>2011</u>	<u>2010</u>
Covered by federal depository insurance	\$ 368,535	\$ 370,850
Uninsured and collateralized	<u>25,967,519</u>	<u>25,597,815</u>
Bank balance	<u>\$ 26,336,054</u>	<u>\$ 25,968,665</u>
Carrying amount	<u>\$ 26,009,749</u>	<u>\$ 25,611,794</u>

**NOTE 3 – INVESTMENTS**

At June 30, 2011, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 10,281,985	Weighted average 1.39 years	AAA
Federal Home Loan Bank	20,346,752	Weighted average 1.18 years	AAA
Freddie Mac	9,867,383	Weighted average 0.36 years	AAA
Federal Farm Credit Bank	1,002,390	0.26 years	AAA
Tennessee Valley Authority	702,063	1.71 years	AAA
FDIC Structured Sale Guarantee Note	<u>5,996,535</u>	0.29 years	AAA
	<u>\$ 48,197,108</u>		

At June 30, 2010, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 7,587,225	Weighted average 8.11 years	AAA
Federal Home Loan Bank	16,257,029	Weighted average 1.39 years	AAA
Freddie Mac	20,295,301	Weighted average 0.23 years	AAA
Federal Farm Credit Bank	3,771,719	Weighted average 2.72 years	AAA
Tennessee Valley Authority	<u>703,270</u>	2.71 years	AAA
	<u>\$ 48,614,544</u>		

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 3 – INVESTMENTS (Continued)**

Investment balances are presented on the Statement of Net Assets under the following captions for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Unrestricted investments	\$ 18,481,078	\$ 15,507,135
Restricted investments, current	3,862,276	5,000,238
Restricted investments, noncurrent	<u>25,853,754</u>	<u>28,107,171</u>
 Total investments	 <u>\$ 48,197,108</u>	 <u>\$ 48,614,544</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 primarily 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, 2011, approximately \$12,485,000 was invested in U.S. Government agency obligations. Domestic bank obligations may not exceed 35% of invested assets per issuer.

**NOTE 4 - RESTRICTED ASSETS**

The Authority's restricted assets, 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, 2011</u>					
Bond funds	\$ 55,220,545	\$ 13,556,843	\$ -	\$ 1,308,088	\$ 70,085,476
Revolving debt coverage	-	8,824,922	122,080	-	8,947,002
Land proceeds	1,995,125	3,862,276	-	-	5,857,401
PFC funds	<u>1,054,409</u>	<u>3,471,989</u>	<u>-</u>	<u>-</u>	<u>4,526,398</u>
	<u>\$ 58,270,079</u>	<u>\$ 29,716,030</u>	<u>\$ 122,080</u>	<u>\$ 1,308,088</u>	<u>\$ 89,416,277</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

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**NOTE 4 - RESTRICTED ASSETS** (Continued)

	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Interest Receivable</u>	<u>Grants Receivable</u>	<u>Total</u>
<u>June 30, 2010</u>					
Bond funds	\$ 55,949,976	\$ 16,264,999	\$ -	\$ 28,007	\$ 72,242,982
Revolving debt coverage	-	8,842,029	97,061	-	8,939,090
Land proceeds	3,072,567	5,000,238	-	-	8,072,805
PFC funds	<u>883,110</u>	<u>3,000,143</u>	<u>-</u>	<u>-</u>	<u>3,883,253</u>
	<u>\$ 59,905,653</u>	<u>\$ 33,107,409</u>	<u>\$ 97,061</u>	<u>\$ 28,007</u>	<u>\$ 93,138,130</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 highest annual aggregate debt service for the current or future fiscal year which approximated \$8,800,000 at June 30, 2011 and 2010. 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, 2011 and 2010, this reimbursement amount was approximately \$4,300,000.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The Authority provides management services to LRZC. The amount due from LRZC was approximately \$2,923,000 and \$2,610,000 at June 30, 2011 and 2010, respectively.

In May 2011, the Authority sold 125 acres of land that was originally purchased under the Authority's voluntary land acquisition and relocation program using funds primarily 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 \$1,100,000 by independent appraisers. The land had a net book value of approximately \$24,000,000 at the time of sale, which included \$4,800,000 of aviation easements that the Authority retained. Therefore, the Authority recorded a loss of \$18,100,000 related to this transaction.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Louisville Regional Airport Authority:</b>				
Capital assets not being depreciated:				
Land	\$ 279,308,390	\$ 5,423,167	\$ -	\$ 284,731,557
Capital projects in progress:				
Construction projects	25,713,113	13,408,873	(10,112,641)	29,009,345
Land acquisition program	<u>52,933,435</u>	<u>2,791,142</u>	<u>(24,034,962)</u>	<u>31,689,615</u>
Total capital assets not being depreciated	357,954,938	21,623,182	(34,147,603)	345,430,517
Other capital assets:				
Land improvements	414,876,323	4,899,846	-	419,776,169
Buildings	134,652,592	234,304	-	134,886,896
Utility systems	38,247,196	3,148,320	(164,192)	41,231,324
Equipment (excluding automotive)	13,674,848	198,922	(43,538)	13,830,232
Vehicle and automotive equipment	8,643,783	801,832	(134,609)	9,311,006
Furniture and fixtures	<u>5,036,156</u>	<u>-</u>	<u>-</u>	<u>5,036,156</u>
Total other capital assets	615,130,898	9,283,224	(342,339)	624,071,783
Less accumulated depreciation for:				
Land improvements	279,502,563	19,116,029	-	298,618,592
Buildings	70,322,695	5,471,027	-	75,793,722
Utility systems	32,587,586	1,087,261	(164,194)	33,510,653
Equipment (excluding automotive)	7,562,327	971,582	(43,527)	8,490,382
Vehicle and automotive equipment	6,716,647	406,316	(134,610)	6,988,353
Furniture and fixtures	<u>4,540,015</u>	<u>173,333</u>	<u>-</u>	<u>4,713,348</u>
Total accumulated depreciation	<u>401,231,833</u>	<u>27,225,548</u>	<u>(342,331)</u>	<u>428,115,050</u>
Other capital assets, net	<u>213,899,065</u>	<u>(17,942,324)</u>	<u>(8)</u>	<u>195,956,733</u>
Net capital assets	<u>\$ 571,854,003</u>	<u>\$ 3,680,858</u>	<u>\$ (34,147,611)</u>	<u>\$ 541,387,250</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 6 - CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Louisville Regional Airport Authority:</b>				
Capital assets not being depreciated:				
Land	\$ 278,753,222	\$ 555,168	\$ -	\$ 279,308,390
Capital projects in progress:				
Construction projects	26,347,084	8,464,747	(9,098,718)	25,713,113
Land acquisition program	<u>47,297,594</u>	<u>5,635,841</u>	<u>-</u>	<u>52,933,435</u>
Total capital assets not being depreciated	352,397,900	14,655,756	(9,098,718)	357,954,938
Other capital assets:				
Land improvements	355,304,789	62,403,517	(2,831,983)	414,876,323
Buildings	188,602,828	555,222	(54,505,458)	134,652,592
Utility systems	35,058,893	3,188,303	-	38,247,196
Equipment (excluding automotive)	13,340,621	666,839	(332,612)	13,674,848
Vehicle and automotive equipment	7,658,961	1,178,215	(193,393)	8,643,783
Furniture and fixtures	<u>6,162,172</u>	<u>-</u>	<u>(1,126,016)</u>	<u>5,036,156</u>
Total other capital assets	606,128,264	67,992,096	(58,989,462)	615,130,898
Less accumulated depreciation for:				
Land improvements	219,386,424	60,116,139	-	279,502,563
Buildings	106,795,361	7,966,501	(44,439,167)	70,322,695
Utility systems	30,301,368	2,286,218	-	32,587,586
Equipment (excluding automotive)	6,113,170	1,449,157	-	7,562,327
Vehicle and automotive equipment	6,583,256	275,341	(141,950)	6,716,647
Furniture and fixtures	<u>5,026,020</u>	<u>274,614</u>	<u>(760,619)</u>	<u>4,540,015</u>
Total accumulated depreciation	<u>374,205,599</u>	<u>72,367,970</u>	<u>(45,341,736)</u>	<u>401,231,833</u>
Other capital assets, net	<u>231,922,665</u>	<u>(4,375,874)</u>	<u>(13,647,726)</u>	<u>213,899,065</u>
Net capital assets	<u>\$ 584,320,565</u>	<u>\$ 10,279,882</u>	<u>\$ (22,746,444)</u>	<u>\$ 571,854,003</u>

**NOTE 7 – LONG-TERM DEBT**

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

	<u>2011</u>	<u>2010</u>
1998 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 3.80% to 5.30% through July 1, 2025, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	\$ 4,800,000	\$ 8,300,000
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.	39,285,000	73,400,000

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 7 – LONG-TERM DEBT (Continued)**

	<u>2011</u>	<u>2010</u>
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.	\$ 2,850,000	\$ 7,730,000
2002 Series A Revenue Bonds, various annual principal payments with interest payments at 35 day intervals at variable rates (0.552% at June 30, 2011) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	39,800,000	40,925,000
2002 Series B Revenue Bonds, various annual principal payments with interest payments at 35 day intervals at variable rates (0.682% at June 30, 2011) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue bonds, Bond Funds and Net Revenues.	31,875,000	32,775,000
2003 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 2.50% to 4.77% through July 1, 2013, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	4,950,000	6,480,000
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.	5,670,000	6,000,000
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.	98,275,000	103,475,000
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.	47,870,000	47,870,000
2008 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.50% to 5.50% through July 1, 2038 secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	32,275,000	35,035,000

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 7 – LONG-TERM DEBT** (Continued)

	<u>2011</u>	<u>2010</u>
2011 Series A Revenue Bonds, various annual principal payments with semiannual interest payments at rates ranging from 3.00% to 5.00% through July 1, 2020 secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	\$ 32,905,000	\$ -
2011 Series B Revenue Bonds, various annual principal payments with semiannual interest payments at rates ranging from 3.00% to 4.00% through July 1, 2017 secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds, and Net Revenues.	<u>4,265,000</u>	<u>-</u>
Total debt	344,820,000	361,990,000
Less current portion	<u>17,680,000</u>	<u>16,890,000</u>
	<u>\$ 327,140,000</u>	<u>\$ 345,100,000</u>

Changes in Long-Term Debt: The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 361,990,000	\$ 37,170,000	\$ (54,340,000)	\$ 344,820,000	\$ 17,680,000

Changes in Long-Term Debt: The following is a summary of changes in long-term debt for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 378,075,000	\$ -	\$ (16,085,000)	\$ 361,990,000	\$ 16,890,000

The total interest incurred for the year ended June 30, 2011 was approximately \$14,893,000. Of this amount, approximately \$44,000 was capitalized as a component of the cost of capital assets constructed during the year and approximately \$14,849,000 was charged to expense.

In connection with the bond agreements, the Authority has to comply with a debt service coverage financial covenant. At June 30, 2011, the Authority was in compliance with this financial covenant.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 7 – LONG-TERM DEBT** (Continued)

Annual Debt Service Requirements: The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2011, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2012	\$ 17,680,000	\$ 16,082,000	\$ 33,762,000
2013	18,715,000	15,644,000	34,359,000
2014	19,650,000	14,692,000	34,342,000
2015	18,265,000	13,802,000	32,067,000
2016	19,065,000	12,990,000	32,055,000
2017-2021	97,335,000	50,481,000	147,816,000
2022-2026	91,910,000	26,243,000	118,153,000
2027-2031	44,605,000	9,784,000	54,389,000
2032-2036	15,655,000	1,738,000	17,393,000
2037-2039	<u>1,940,000</u>	<u>218,000</u>	<u>2,158,000</u>
	<u>\$ 344,820,000</u>	<u>\$ 161,674,000</u>	<u>\$ 506,494,000</u>

Outstanding Letters of Credit: At June 30, 2011 the Authority had \$135,000 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, 2011 and 2010.

Refunding Transaction: In 2011, the Authority issued \$37,170,000 of 2011 Series A and B Bonds to refund certain maturities of the 1998 Series A and 2001 Series A and B Bonds totaling \$37,450,000. The refunding transaction will change future debt service from \$47,527,000 to \$45,505,000 over the life of the bonds. This results in a cash flow savings of \$2,022,000 and a net present value savings of \$1,732,000 at 3.77%. The outstanding in substance defeased debt is \$37,170,000 at June 30, 2011, which will be paid by an escrow fund.

**NOTE 8 - 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 has developed a subdivision located outside the noise-impacted areas, which 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 \$26 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.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 8 - 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. This includes costs of residences acquired, replacement housing payments, demolition and other related costs. At June 30, 2011, capital projects in progress include approximately \$32 million related to the Part 150 Land Acquisition Program which consists of total project expenditures to date of approximately \$255 million less \$223 million of costs related to land which has been sold or optioned for sale.

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 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 year 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. On March 27, 2009, the Authority entered into a deed which transferred additional property to the Commonwealth at a value of \$1,088,840. That deed was filed with the County Clerk of Jefferson County, Kentucky on May 15, 2009. The entire amount of these transfers 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.

Deposit From UPS Land Option: In December 1996, the Authority and United Parcel Service, Inc. (UPS) executed a UPS/RAA Deal Points memo that summarized an intended exchange and sale of property. The memo was a non-binding expression of intent subject to definitive agreements and approvals. In December 1996, UPS made an advance payment of \$3,500,000 to the Authority for the intended purchase and option of land under this agreement. In January 1999, the Authority and UPS formally entered into a Property Exchange and Agreement of Sale whereby UPS agreed to transfer certain property to the Authority, the Authority agreed to transfer certain property to UPS, and the Authority granted UPS options to purchase certain real property. The agreements identified the areas to be optioned but did not identify specific tracts of land.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)**

In December 2003, UPS entered into a Lease in Anticipation of Transfer for a portion of the area included in the agreements. Under the lease, a portion of the lease payments were to be applied to the purchase price of the land under the agreement. The area under lease was stipulated to be a part of the second option, at which time lease payments would no longer be due. In December 2006, UPS exercised the second option with an advance payment to the Authority of \$4,531,250. The portion of lease payments received applicable to the purchase of land total \$162,851.

In fiscal year 2009, the Authority transferred land valued at \$374,550 in partial settlement of the advances. The Authority expects to transfer additional property in the future, as specified by UPS, in order to satisfy the remaining obligations under the agreements.

Litigation: From time to time, the Authority is a party to litigation involving routine matters and is subject to certain other claims which arise in the normal course of business. In management's opinion, the ultimate resolution of the claims is not expected to have a material adverse effect on the Authority's financial position, change in net assets or cash flow.

Risk Management: The Airport is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport has purchased commercial insurance to cover these risks. The amount of settlements has not exceeded coverage in any of the past two fiscal years.

The Airport is subject to federal, state, and local regulations in regards to the discharge of various materials into the environment. Costs are routinely incurred to remove, contain, and neutralize existing environmental contaminants and these costs are generally expensed as incurred. Future costs for existing conditions are not readily determinable and are not reflected in the financial statements.

**NOTE 9 - SPECIAL FACILITY REVENUE BONDS (Conduit Debt)**

Special Facility Revenue Bonds totaling \$148,800,000 (UPS) and \$15,500,000 (Airis / Federal Express) issued during fiscal year 1999 and \$42,600,000 (UPS) issued in fiscal year 2006 (collectively, the Facility Bonds), were issued to finance the acquisition and construction of facilities of UPS and Airis / Federal Express (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. At June 30, 2011 and 2010, Special Facility Revenue Bonds outstanding aggregated \$201,140,000 and \$202,370,000, respectively.

**NOTE 10 - 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 employee 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, 2011 and 2010 totaled approximately \$93,000 and \$97,000, respectively, and contributions to the 401(k) Plan for the same years were approximately \$122,000 and \$132,000, respectively.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

All employees hired after May 1, 2001 are required to participate in a defined benefit plan administered by the County Employees Retirement System of Kentucky (CERS) under the Kentucky Retirement Systems (KRS), a cost-sharing multiple-employer public employee retirement system. All then current Authority employees as of May 1, 2001 who worked more than one hundred hours per month could elect to participate in either CERS or the Kentucky Public Employees Deferred Compensation Authority 401(k) Plan.

**County Employees Retirement System of Kentucky**

The eligible payroll for employees covered by the Plan was approximately \$7,819,000 and \$7,908,000, out of a total payroll of approximately \$8,400,000 and \$8,566,000 for the years ended June 30, 2011 and 2010, respectively.

For members participating prior to September 1, 2008 the following applies: 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.

For members participating after September 1, 2008 the following applies: Employees who retire at or after age 65 with 60 months of credited services are entitled to a retirement benefit, payable monthly for life, up to 2.0% of their final compensation multiplied by his or her service credit. Final compensation is calculated by taking the average of the last five full fiscal years of salary. Benefits begin to vest upon reaching five years of service. Any non-hazardous employee, age fifty-seven or older, may retire at any time with full benefits if the member's age and years of service equal 87. Any hazardous employee with twenty-five years of service may retire at any time with full benefits. Vested employees with at least 120 months of service may retire at or after age sixty 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. Members with a participation date on or after September 1, 2008 will additionally contribute 1% to the KRS Insurance Fund, making the total contribution of their salaries 6% for non-hazardous and 9% for hazardous. The Authority was required by the same statute to contribute 16.93%, 16.16% and 13.50% of the covered employees' salaries for non-hazardous positions, and 33.25%, 32.97% and 29.50% for a hazardous position for 2011, 2010 and 2009, respectively. The contribution requirements for the year ended June 30, 2011 was approximately \$2,130,000, consisting of \$1,665,000 from the Authority and \$465,000 from employees; for the year ended June 30, 2010 was approximately \$2,089,000, consisting of \$1,623,000 from the Authority and \$466,000 from employees; and for the year ended June 30, 2009 was approximately \$2,025,000, consisting of \$1,531,000 from the Authority and \$494,000 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, 2010. The Commonwealth of Kentucky's Comprehensive Annual Financial Reports should be referred to for additional disclosures related to the CERS ([www.kyret.ky.gov](http://www.kyret.ky.gov)).

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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June 30, 2011 and 2010

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

In addition to the above defined benefit pension plan, effective May 1, 2001, all then current 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 \$70,300 and \$69,000 for each year ending June 30, 2011 and 2010, respectively.

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits and deferred compensation plans described in Notes 10 and 11, the Authority offered postemployment 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 95% 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 \$77,000 for 25 employees and \$100,000 for 26 employees during 2011 and 2010, respectively. The Plan may be terminated at the election of the Board without notice.

**NOTE 13 - PROPERTY LEASED TO OTHERS**

The Authority leases land and terminal and other facilities to certain airlines and others. The terms of these leases range from 1 to 20 years. Some of the rentals and fees paid by certain airlines are based on the costs allocable to the respective cost centers including direct and indirect maintenance and operating expenses, major maintenance, capital equipment, amortization of the cost of capital improvements, annual revenue bond debt service, as well as any other adjustments needed to maintain the debt service coverage account or other deposits required under the Bond Resolution. Other leases contain fixed rents which may be subject to escalation. For the years ended June 30, 2011 and 2010, revenues from these leases were approximately \$13.8 million and \$13.1 million, respectively.

The Authority also enters into rental agreements with concessionaires for food and beverage, news and gift, rental car facilities, advertising and others. Generally, the agreements are for terms from 1 to 5 years and provide for a concession fee equal to the greater of a percentage of gross revenues or a minimum monthly guarantee (MMG). Certain agreements are subject to a variable MMG. Other agreements provide for a concession fee that is contingent on sales. For the years ended June 30, 2011 and 2010, revenues from such agreements were approximately \$8.7 million and \$8.5 million, respectively. Revenues from contingent rentals that are made up primarily of the excess over MMG and sales only based agreements were \$2.4 million for each year.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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 June 30, 2011 and 2010

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**NOTE 13 - PROPERTY LEASED TO OTHERS (Continued)**

All land and facility leases and concession agreements are accounted for as operating leases. Future revenues under these agreements, based on fixed terms or on FY11 actual rates and assuming current agreements are carried to contractual termination are as follows:

Year ended June 30,	<u>Land and Facilities</u>	<u>Concessions</u>	<u>Total</u>
2012	\$ 13,178,000	\$ 6,248,000	\$ 19,426,000
2013	12,277,000	6,952,000	19,229,000
2014	12,275,000	6,854,000	19,129,000
2015	12,234,000	6,839,000	19,073,000
2016	4,745,000	1,719,000	6,464,000
Thereafter	<u>22,344,000</u>	<u>-</u>	<u>22,344,000</u>
	<u>\$ 77,053,000</u>	<u>\$ 28,612,000</u>	<u>\$ 105,665,000</u>

**NOTE 14 - PASSENGER FACILITY CHARGES**

The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on passengers. The Authority is approved by the FAA to impose a PFC on enplaning revenue passengers of \$3.00 through November 2010, increasing to \$4.50 in December 2010.

The FAA has authorized the Authority to collect total net PFC revenue of \$110,570,137 to be applied as follows:

For direct payment on capital project costs	\$ 23,291,197
To be applied to the debt service and related costs on the 2001 Series A and B Bonds issued to finance PFC approved project costs	<u>87,278,940</u>
	<u>\$ 110,570,137</u>

During the years ended June 30, 2011 and 2010, amounts of approximately \$5,889,000 and \$4,448,000, respectively, were received in passenger facility charges.

**NOTE 15 - MAJOR CUSTOMERS**

During fiscal years 2011 and 2010, the Authority earned approximately 26% and 27% of its operating revenues from one customer in each year, respectively.

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(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
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**NOTE 16 – LOUISVILLE RENAISSANCE ZONE CORPORATION NOTES TO FINANCIAL STATEMENTS**

**Organization:** LRZC is a non-stock, non-profit public property corporation set up to oversee an area that is bordered at the north by Fern Valley Road, the east by I-65, the south by I-265, and the west by CSX railroad. This area can be developed for commercial or industrial uses. The LRZC entered into an Interlocal Cooperation Agreement with the Louisville Metro Government and the Commonwealth of Kentucky whereby funding will be provided by Tax Incremental Financing (TIF). The Authority's Board members also serve as the LRZC's Board. This causes the relationship between the Authority and the LRZC to be related entities resulting in the need for including a discretely presented component unit in the statements of the Authority.

**Capital Assets:** The LRZC records capital assets at cost or at estimated fair value at the date of purchase. Costs that clearly relate to land development projects are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, costs are allocated based on their relative fair value to the total project. Interest costs are capitalized while development is in progress. The LRZC depreciation policy is consistent with that of the Authority.

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 9,550,023	\$ 1,114,909	\$ -	\$ 10,664,932
Construction projects	<u>54,090</u>	<u>551,825</u>	<u>-</u>	<u>605,915</u>
Total capital assets not being depreciated	9,604,113	1,666,734	-	11,270,847
Other capital assets:				
Land improvements	3,654,595	-	-	3,654,595
Utility systems	<u>3,114,054</u>	<u>-</u>	<u>-</u>	<u>3,114,054</u>
Total other capital assets	6,768,649	-	-	6,768,649
Less accumulated depreciation	<u>(236,174)</u>	<u>(354,262)</u>	<u>-</u>	<u>(590,436)</u>
Other capital assets, net	<u>6,532,475</u>	<u>(354,262)</u>	<u>-</u>	<u>6,178,213</u>
Net capital assets	<u>\$ 16,136,588</u>	<u>\$ 1,312,472</u>	<u>\$ -</u>	<u>\$ 17,449,060</u>

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 4,709,677	\$ 4,840,346	\$ -	\$ 9,550,023
Construction projects	<u>12,132,428</u>	<u>-</u>	<u>(12,078,338)</u>	<u>54,090</u>
Total capital assets not being depreciated	16,842,105	4,840,346	(12,078,338)	9,604,113
Other capital assets:				
Land improvements	-	3,654,595	-	3,654,595
Utility systems	<u>-</u>	<u>3,114,054</u>	<u>-</u>	<u>3,114,054</u>
Total other capital assets	-	6,768,649	-	6,768,649
Less accumulated depreciation	<u>-</u>	<u>(236,174)</u>	<u>-</u>	<u>(236,174)</u>
Other capital assets, net	<u>-</u>	<u>6,532,475</u>	<u>-</u>	<u>6,532,475</u>
Net capital assets	<u>\$ 16,842,105</u>	<u>\$ 11,372,821</u>	<u>\$ (12,078,338)</u>	<u>\$ 16,136,588</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 16 – LOUISVILLE RENAISSANCE ZONE CORPORATION NOTES TO FINANCIAL STATEMENTS (Continued)**

Long-Term Debt: LRZC has three loans payable to United Parcel Service (UPS) as listed below:

	<u>2011</u>	<u>2010</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. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	\$ 5,440,377	\$ 5,097,523
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.	8,205,600	8,605,841
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>5,097,889</u>	<u>5,097,889</u>
Total loans payable	18,743,866	18,801,253
Less current portion	<u>3,469,360</u>	<u>1,492,584</u>
	<u>\$ 15,274,506</u>	<u>\$ 17,308,669</u>

Annual Loan Repayment Requirements: The annual loan repayment requirements to maturity, including principal and interest, as of June 30, 2011, are estimated as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2012	\$ 3,469,360	\$ 272,896	\$ 3,742,256
2013	3,469,560	163,211	3,632,771
2014	749,178	-	749,178
2015	749,501	-	749,501
2016	749,486	-	749,486
2017-2021	3,746,905	-	3,746,905
2022-2026	4,124,497	-	4,124,497
2027-2028	<u>1,685,379</u>	<u>-</u>	<u>1,685,379</u>
	<u>\$ 18,743,866</u>	<u>\$ 436,107</u>	<u>\$ 19,179,973</u>

**SUPPLEMENTAL INFORMATION**

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Year ended June 30, 2011  
 (With comparative totals for 2010)

	2011			2010 Total
	Louisville International	Bowman Field	Total	
<b>Operating revenues</b>				
Landing and field use fees	\$ 18,940,731	\$ 26,026	\$ 18,966,757	\$ 18,821,087
Terminal area	9,602,631	86,246	9,688,877	9,350,456
Apron area	2,169,824	-	2,169,824	2,148,070
Parking and ground transportation	22,084,267	-	22,084,267	20,479,497
Aviation related facility leases	3,075,560	1,403,436	4,478,996	4,304,532
Land leases and other	1,938,115	171,037	2,109,152	1,950,710
Airport services	252,775	25,256	278,031	227,615
Other revenue	<u>167,908</u>	<u>10,981</u>	<u>178,889</u>	<u>187,860</u>
Total operating revenues	58,231,811	1,722,982	59,954,793	57,469,827
<b>Operating expenses</b>				
Operations and general maintenance				
Salaries, wages	7,115,260	369,462	7,484,722	7,644,744
Contracts	3,232,183	35,908	3,268,091	3,077,871
Utilities and fuel supplies	2,873,847	407,610	3,281,457	2,895,891
Supplies and other	754,118	175,475	929,593	882,762
Costs recovered from tenants	<u>(713,675)</u>	<u>(3,347)</u>	<u>(717,022)</u>	<u>(457,931)</u>
Total operations and general maintenance	13,261,733	985,108	14,246,841	14,043,337
Administrative, general, planning and engineering	<u>9,198,160</u>	<u>543,212</u>	<u>9,741,372</u>	<u>9,298,416</u>
Total operating expenses before major maintenance and depreciation	22,459,893	1,528,320	23,988,213	23,341,753
Major maintenance	3,204,651	53,023	3,257,674	3,574,877
Depreciation and amortization	<u>26,942,055</u>	<u>1,210,998</u>	<u>28,153,053</u>	<u>28,175,958</u>
Total operating expenses	<u>52,606,599</u>	<u>2,792,341</u>	<u>55,398,940</u>	<u>55,092,588</u>
<b>Operating income (loss)</b>	5,625,212	(1,069,359)	4,555,853	2,377,239
<b>Non-operating revenues (expenses) and capital contributions</b>				
Investment earnings, net	1,156,827	-	1,156,827	1,301,398
Interest expense	(14,848,982)	-	(14,848,982)	(15,299,423)
Passenger facility charge	5,888,853	-	5,888,853	4,447,652
Net (loss) gain on disposal of assets	(18,100,046)	-	(18,100,046)	4,248
Other expenses	(189,595)	-	(189,595)	(134,386)
Capital contributions	<u>10,935,815</u>	<u>2,033</u>	<u>10,937,848</u>	<u>8,890,235</u>
Net non-operating revenues (expenses)	<u>(15,157,128)</u>	<u>2,033</u>	<u>(15,155,095)</u>	<u>(790,276)</u>
<b>Changes in net assets</b>	<u>\$ (9,531,916)</u>	<u>\$ (1,067,326)</u>	<u>\$ (10,599,242)</u>	<u>\$ 1,586,963</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT  
June 30, 2011

	Cost				Accumulated Depreciation				Net Balance June 30, 2011	
	Balance July 1, 2010	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2011	Balance July 1, 2010	Provisions	Retirements/ Adjustments		Balance June 30, 2011
<b>Louisville International Airport</b>										
Land	\$ 278,393,422	\$ -	\$ -	\$ 5,423,167	\$ 283,816,589	\$ -	\$ -	\$ -	\$ -	\$ 283,816,589
Land improvements – runways, taxiways, and aprons	304,981,939	-	-	687,782	305,669,721	196,709,231	13,077,776	-	209,787,007	95,882,714
Land improvements – ground transportation and other	94,596,496	-	-	4,044,011	98,640,507	76,732,429	5,227,817	-	81,960,246	16,680,261
Buildings	122,479,396	-	-	153,698	122,633,094	61,959,808	5,087,669	-	67,047,477	55,585,617
Utility systems	38,122,659	-	(164,193)	3,148,322	41,106,788	32,467,135	1,086,615	(164,193)	33,389,557	7,717,231
Equipment (excluding automotive)	13,379,302	-	(22,550)	198,914	13,555,666	7,298,399	956,245	(22,550)	8,232,094	5,323,572
Vehicles and automotive equipment	7,822,710	-	(134,609)	801,831	8,489,932	5,895,573	406,315	(134,609)	6,167,279	2,322,653
Furniture and fixtures	5,036,156	-	-	-	5,036,156	4,540,014	173,334	-	4,713,348	322,808
Capital projects in progress	78,630,480	15,598,599	(19,227,969)	(14,630,033)	60,371,077	-	-	-	-	60,371,077
<b>Total Louisville International Airport</b>	<b>943,442,560</b>	<b>15,598,599</b>	<b>(19,549,321)</b>	<b>(172,308)</b>	<b>939,319,530</b>	<b>385,602,589</b>	<b>26,015,771</b>	<b>(321,352)</b>	<b>411,297,008</b>	<b>528,022,522</b>
<b>Bowman Field</b>										
Land	914,968	-	-	-	914,968	10,350	2,070	-	12,420	902,548
Land improvements – runways, taxiways, and aprons	14,755,352	-	-	168,053	14,923,405	5,791,459	781,535	-	6,572,994	8,350,411
Land improvements – ground transportation and other	542,536	-	-	-	542,536	259,093	26,831	-	285,924	256,612
Buildings	12,173,196	-	-	80,606	12,253,802	8,362,888	383,357	-	8,746,245	3,507,557
Utility systems	124,536	-	-	-	124,536	120,451	645	-	121,096	3,440
Equipment (excluding automotive)	295,543	-	(20,977)	-	274,566	263,929	15,336	(20,977)	258,288	16,278
Vehicles and automotive equipment	821,075	-	-	-	821,075	821,073	1	-	821,074	-
Construction in progress	16,069	601,414	-	(289,601)	327,882	-	-	-	-	327,882
<b>Total Bowman Field</b>	<b>29,643,275</b>	<b>601,414</b>	<b>(20,977)</b>	<b>(40,942)</b>	<b>30,182,770</b>	<b>15,629,243</b>	<b>1,209,775</b>	<b>(20,977)</b>	<b>16,818,041</b>	<b>13,364,728</b>
<b>Total Louisville International Airport and Bowman Field</b>	<b>\$ 973,085,835</b>	<b>\$ 16,200,013</b>	<b>\$ (19,570,298)</b>	<b>\$ (213,250)</b>	<b>\$ 969,502,300</b>	<b>\$ 401,231,832</b>	<b>\$ 27,225,546</b>	<b>\$ (342,329)</b>	<b>\$ 428,115,049</b>	<b>\$ 541,387,250</b>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF INSURANCE COVERAGE  
June 30, 2011

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	<u>Expiration Date</u>	<u>Amount of Coverage</u>
Chartis Aviation:		
General airport liability	07/31/2011	\$ 250,000,000
Optional war risk and other perils	07/31/2011	50,000,000
Optional TRIA	07/31/2011	250,000,000
FM Global:		
All risk property	07/31/2011	500,000,000
Hartford Fire Insurance Company:		
Automobile coverage	07/31/2011	1,000,000
CV Starr:		
Public officials' liability covering board members and all employees	07/31/2011	10,000,000
Chubb Insurance Group:		
All risk unlicensed equipment floater	07/31/2011	7,411,565
Blanket travel accident	07/31/2011	125,000
KEMI:		
Worker's compensation	07/31/2011	Statutory Limitations
Employer's liability	07/31/2011	1,000,000
Fidelity and Deposit Co. of Maryland		
Fidelity and crime covering board members and all employees	07/31/2011	
Employee dishonesty		500,000
Forgery/alteration		100,000
Theft		100,000
Travelers Insurance Company:		
Pension trust liability covering fiduciaries of the authority retirement plans	08/01/2011	1,000,000
Starr Indemnity:		
Accidental policy covering airport volunteers	01/01/2012	15,000 per person
Axis Surplus Ins. Co.:		
Cyber liability	03/01/2012	1,000,000

Note: The Authority approved and has comparable policies in place for those policies listed above that have an expiration date between June 30, 2011 and the submission of these statements.

**OTHER REQUIRED INFORMATION**

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  
Louisville, Kentucky

We have audited the accompanying financial statements of the Louisville Regional Airport Authority (the "Authority") and the discretely presented component unit of the Louisville Renaissance Zone Corporation (the "LRZC") as of and for the year ended June 30, 2011 and have issued our report thereon dated October 26, 2011. 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. The financial statements of the LRZC were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

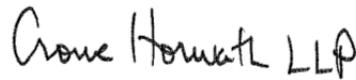
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 26, 2011.

This report is intended solely for the information and use of the members of the Board of the Authority, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, slightly slanted style.

Crowe Horwath LLP

Louisville, Kentucky  
October 26, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON 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  
Louisville, Kentucky

### Compliance

We have audited the Louisville Regional Airport Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. 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 non-compliance 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

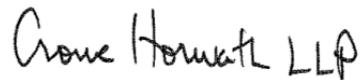
### Internal Control Over Compliance

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 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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 and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, slightly slanted style.

Crowe Horwath LLP

Louisville, Kentucky  
October 26, 2011

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2011

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, 2011	Accumulated Expenditures
<u>U.S. Department of Transportation</u>						
Direct Programs:						
Federal Aviation Administration						
Airport Improvement						
	20.106	3-21-0031-78	Taxiway A (Phase I), Various Airfield Projects and Purchase of Equipment	\$ 10,419,971	\$ -	\$ 10,419,971
	20.106	3-21-0031-80	Taxiway A (Phase II), Airfield Lighting (Phase II)	12,951,842	-	12,951,842
	20.106	3-21-0031-82	Various Airport Projects and Purchase of Equipment	1,306,250	-	1,243,185
	20.106	3-21-0031-83	Taxiway Echo (Phase I), Various Airfield Projects and Purchase of Equipment	3,454,353	2,270,017	3,454,348
	20.106	3-21-0031-84	Taxiway A (Phase III), Various Airfield Projects and Purchase of Equipment	6,834,772	332,225	962,713
	20.106	3-21-0031-87	Various Airfield Projects	2,613,553	2,613,553	2,613,553
	20.106	3-21-0031-88	Acquire Land	5,000,000	-	3,000,000
	20.106	3-21-0031-89	Acquire Land	1,772,439	1,772,439	1,772,439
	20.106	3-21-0031-90	Taxiway A (Phase IV), Various Airfield Projects and Purchase of Equipment	13,101,152	2,667,500	2,667,500
	20.106	3-21-0031-91	Taxiway A (Phase IV), Various Airfield Projects and Purchase of Equipment	6,628,193	-	-
Bowman Field						
	20.106	3-21-0032-17	Update Airport Layout Plan	150,000	-	150,000
	20.106	3-21-0032-18	Taxiway Lima (Phase II)	1,330,000	-	1,070,538
	20.106	3-21-0032-19	Install Airport Guidance Signs	68,073	2,033	2,033
	20.106	3-21-0032-21	Acquire Easement	50,000	-	-
Total U.S. Department of Transportation				<u>65,680,598</u>	<u>9,657,767</u>	<u>40,308,122</u>

See accompanying note to schedule of expenditures of federal awards.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2011

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, 2011	Accumulated Expenditures
<u>U.S. Department of Homeland Security</u>						
	97.090	HSTS0208HSLR259	Law Enforcement Officer Reimbursement Program	\$ 643,641	\$ 94,386	\$ 411,085
	97.072	HSTS0208HCAN449	TSA National Explosives Detection Canine Team	<u>1,002,500</u>	<u>93,053</u>	<u>501,500</u>
				<u>1,646,141</u>	<u>187,439</u>	<u>912,585</u>
Pass-Through Funds:						
Federal Emergency Management Agency/Commonwealth of Kentucky Emergency Management						
	97.036	FEMA-1818DRKY	Public Disaster Assistance (Ice Storm)	456,631	-	410,968
	97.036	FEMA-1855DRKY	Public Disaster Assistance (Flood)	<u>37,767</u>	<u>-</u>	<u>37,767</u>
				<u>494,398</u>	<u>-</u>	<u>448,735</u>
Total U.S. Department of Homeland Security				<u>2,140,539</u>	<u>187,439</u>	<u>1,361,320</u>
Total Expenditures of Federal Awards.				<u>\$ 67,821,137</u>	<u>\$ 9,845,206</u>	<u>\$ 41,669,442</u>

See accompanying note to schedule of expenditures of federal awards.

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2011

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Louisville Regional Airport Authority and is presented on the 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  
June 30, 2011

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**PART I: SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
Material weakness(es) identified?        Yes   √   No

Significant deficiencies identified that  
are not considered to be material  
weakness(es)?        Yes   √   No

Non-compliance material to financial  
statements noted?        Yes   √   No

**Federal Awards**

Internal control over major programs:  
Material weakness(es) identified?        Yes   √   No

Significant deficiencies identified that  
are not considered to be material  
weakness(es)?        Yes   √   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) Circular A-133?        Yes   √   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	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?   √   Yes        No

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2011

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**PART II: FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**PART III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**PART IV: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

No matters were reported.

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  
Louisville, Kentucky

We have audited the Louisville Regional Airport Authority's (the Authority) compliance 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, 2011. 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 non-compliance 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 compliance requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, and regulations, applicable to the passenger facility charge program. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance with the Guide, 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.

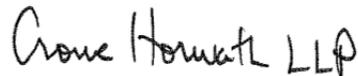
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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.

#### 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, 2011, and have issued our report thereon dated October 26, 2011. Our audit was performed for the purpose of forming an opinion on the basic 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 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.

This report is intended solely for the information and use of the members of the Board of the Authority, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

Louisville, Kentucky  
October 26, 2011

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
 SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED  
 Year ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program	Record of Decision	Impose Authority	Use Authority	PFC Collected	Interest Collected	Expenditures
<u>U.S. Department of Transportation</u>						
Passenger Facility Charge Program						
	97-01-C-00-SDF	\$ 90,600,000	\$ 90,600,000	\$ 72,686,585	\$ 729,637	\$ 50,576,584
	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	1,267,315	1,267,315	-	-	1,253,136
	08-05-C-00-SDF	900,000	900,000	-	-	726,813
	11-06-C-00-SDF	<u>2,123,882</u>	<u>2,123,882</u>	<u>-</u>	<u>-</u>	<u>621,896</u>
Totals		<u>\$ 110,570,137</u>	<u>\$ 110,570,137</u>	<u>\$ 72,686,585</u>	<u>\$ 729,637</u>	<u>\$ 68,857,369</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY  
SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2011

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Summary of Auditor's Results

We have issued an unqualified opinion, dated October 26, 2011 on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2011.

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 non-compliance which are material to Louisville Regional Airport Authority's financial statements.

We have issued an unqualified opinion, dated October 26, 2011 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, 2011

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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.