

LOUISVILLE REGIONAL AIRPORT AUTHORITY
Louisville, Kentucky

ANNUAL REPORT
June 30, 2013 and 2012

LOUISVILLE REGIONAL AIRPORT AUTHORITY
Louisville, Kentucky

ANNUAL REPORT
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Louisville Regional Airport Authority (the "Authority") as of and for the years ended June 30, 2013 and 2012 and the discretely presented component unit of the Louisville Renaissance Zone Corporation (the "LRZC") as of and for the years then ended as listed in the table of contents, and the related statements of revenues and expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

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, 2013 and 2012, the financial position of the LRZC as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

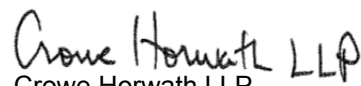
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtain during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The combining schedules of revenues, expenses, and change in net position included on page 36, the schedule of airport property, facilities, and equipment presented on page 37, and the schedule of insurance coverage presented on page 38 are presented for purpose of additional analysis and are not a required part of the financial statements. Such schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The schedules have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.


Crowe Horwath LLP

Louisville, Kentucky
October 10, 2013

Management's Discussion and Analysis

The Louisville Regional Airport Authority (the 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, 2013.

Basic Financial Statements

Our financial statements are prepared as a single enterprise fund using proprietary fund accounting that uses a similar basis of accounting as private-sector business enterprises. 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 Position, Statement of Revenues, Expenses & Changes in Net Position, 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 Position presents information on Assets, Liabilities, and the difference between these two reported as Net Position. Over time, increases or decreases in Net Position 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 Position reports operating and non-operating revenues and expenses of the Authority for the fiscal year with the difference being a net income or loss. This net income or loss is combined with any capital contributions and extraordinary items to determine the change in net position for the fiscal year. That change combined with last fiscal year's Net Position total reconciles to the Net Position 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.

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>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Passengers				
Enplaned	1,714,706	1,683,285	1,694,781	1,649,704
Deplaned	<u>1,711,188</u>	<u>1,679,619</u>	<u>1,691,926</u>	<u>1,643,620</u>
Total	<u>3,425,894</u>	<u>3,362,904</u>	<u>3,386,707</u>	<u>3,293,324</u>
Landed weight				
Passenger	2,096,797,510	2,021,365,123	2,126,001,682	2,026,632,956
Cargo	<u>11,163,286,840</u>	<u>11,057,242,404</u>	<u>10,836,774,963</u>	<u>10,414,748,871</u>
Total	<u>13,260,084,350</u>	<u>13,078,607,527</u>	<u>12,962,776,645</u>	<u>12,441,381,827</u>

Louisville International's (SDF) status as a major worldwide cargo leader in terms of volume is best reflected by its current ranking of 3rd in North America and a recent move up to 7th worldwide. UPS' cargo volume at SDF was 4.7 billion pounds for both FY13 and FY12.

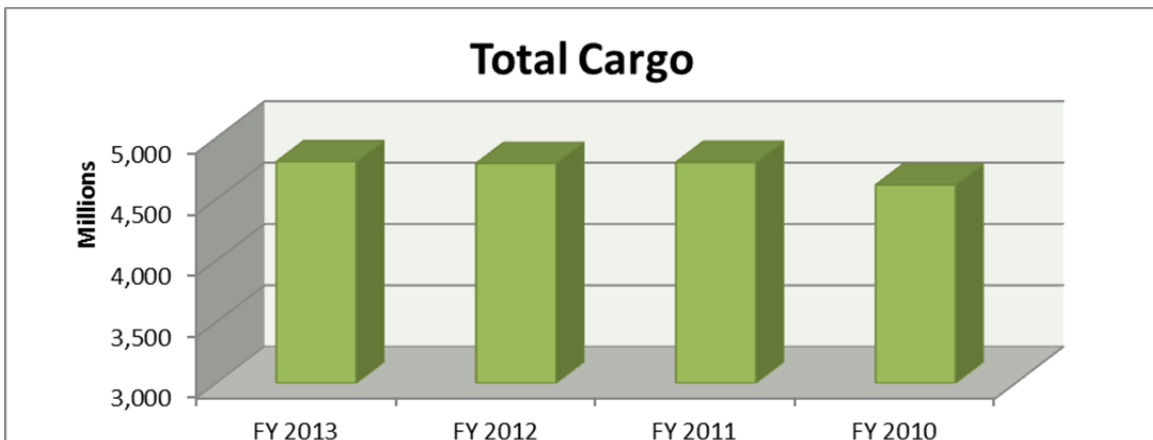
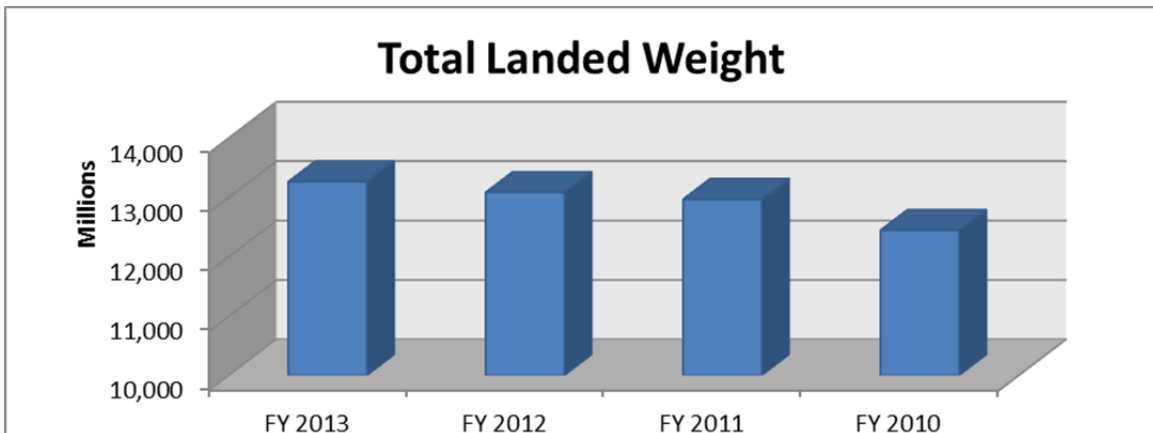
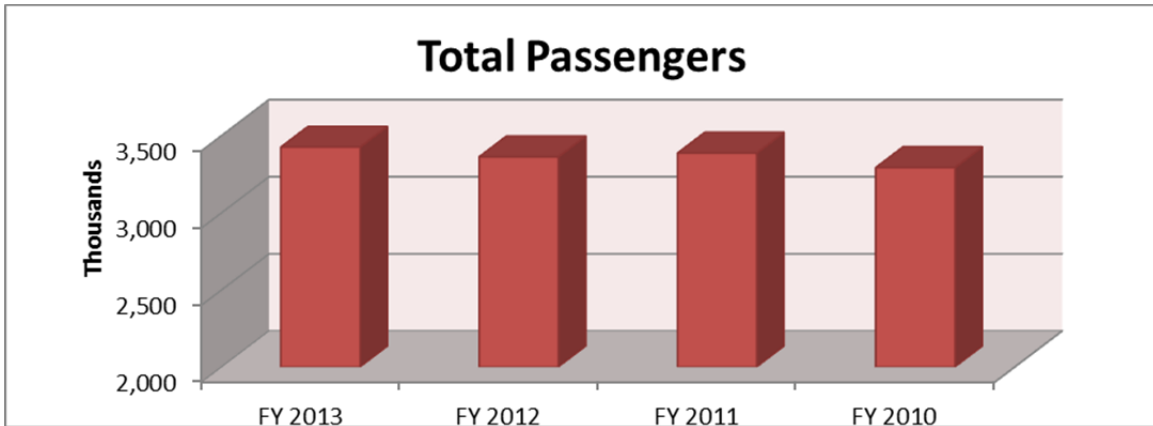
During FY 2013 passenger enplanements at Louisville International Airport (SDF) increased by 1.9% compared to FY 2012. During the year, the airport pursued a goal to enhance international connectivity, increase available seat inventory and to stimulate competition to key domestic destinations. As a result, Delta Air Lines began new service to New York-JFK, significantly expanding connecting service from Louisville to dozens of destinations in Europe. Also, Southwest introduced new low-fare service to both Atlanta, GA and Denver, CO which stimulated seat availability and reduced average fares in both markets. In fact, with a 10.6% increase in available seats during the second quarter of 2013, Louisville International Airport was the third fastest growing airport among the nation's largest 75 airports in terms of new seats added. Building on this success the airport will continue working with the business community to develop demand for existing air service and new opportunities as they arise.

Louisville International Airport offers quality service by five major airlines to 24 nonstop destinations including 17 of the 20 markets local travelers visit most. As demand for air travel continues to rebound over the next 24 months, we expect that the 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.

(Continued)

Statistical Graphs



(Continued)

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

- Total Revenues for FY13 were 7.0% more than FY12 actual and FY13 budget. Major contributors to this increase are:
 - Rental Car revenues were approximately \$486,000 greater than budget and \$340,000 greater than FY12.
 - Parking revenues were up approximately \$389,000 versus FY12 and \$300,000 versus budget.
 - Passenger Facility Charges (PFC) were up approximately \$125,000 versus FY12 and down \$146,000 versus budget.
 - Transfer of land resulted in a net gain of \$3.4 million as later explained in Capital Assets.
- Operating Expenses before Depreciation for FY13 were \$1.8 million or 6.0% less than budget and \$292,000 or 1.0% greater than FY12 actual. Major contributors to these variances are:
 - Payroll, Fringe Benefits and Retirement contributions were under budget by \$890,000 and \$202,000 over FY12 actual. Payroll and Fringe Benefits were favorable to budget primarily due to vacant positions throughout the year and were relatively flat compared to FY12. The increase in Retirement benefits versus FY12 was primarily due to the increase in the Kentucky mandated employer contribution rate.
 - Major Maintenance was under budget by \$376,000 and under FY12 actual by \$164,000.
 - Contract Services were under budget by \$322,000 and prior year by \$149,000. Primary reasons for the favorable position to budget are credit card fees which are \$140,000 favorable to budget and \$146,000 below prior year primarily due to a switch to a new credit card processor. Additionally, costs under the temporary labor contract for the Parking operation were \$80,000 under budget.
 - Professional & Consulting Fees were over by \$518,000 to prior year and \$204,000 to budget. Included in this variance are legal costs that were \$197,000 over prior year and \$113,000 over budget. Also included are engineering consulting fees of \$296,000 over prior year and \$47,000 over budget. Much of Engineering's consulting fees are subsequently charged to projects.
 - Other Expenses are under budget by \$462,000 and under prior year by \$251,000. One of the largest components of this category and the primary reason for the favorable position is an increase in the expense recoveries that the Authority charged to projects and tenants, which significantly offsets the increase in Engineering consulting fees discussed in the preceding bullet.
- Operating Income before Depreciation was \$32.5 million which is \$2.3 million greater than budgeted and \$900,000 greater than FY12 actual.
- Interest Expense is approximately \$900,000 less than prior year primarily due to the natural reduction in debt service of the 2003 Series bonds and the savings resulting from the 2011 refinance of a portion of the 2001 Series bonds. The \$755,000 savings compared to budget is due primarily to the 2002 A & B bond variable rate interest costs.
- Net Income before Capital Contributions was \$2.9 million, which is \$6.0 million greater than budget and \$6.8 million greater than FY12 actual. The primary reason for the difference to budget and prior year is the gain incurred on the disposal of property this fiscal year.
- Net Position increased from prior year by \$16.5 million to \$311.6 million.

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Financial Information

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Unrestricted	\$ 42,652,791	\$ 47,808,284	\$ 47,966,718
Restricted	86,378,681	84,329,710	89,416,277
Capital assets, net (includes in progress)	522,501,421	533,827,386	541,387,250
Other	<u>11,365,110</u>	<u>12,706,355</u>	<u>13,838,640</u>
Total assets	662,898,003	678,671,735	692,608,885
LIABILITIES			
Unrestricted	11,772,202	9,726,283	5,954,938
Restricted	28,162,715	25,782,670	27,165,544
Long-term debt	288,775,000	308,425,000	327,140,000
Other	<u>22,590,494</u>	<u>39,621,620</u>	<u>40,452,748</u>
Total liabilities	351,300,411	383,555,573	400,713,230
NET POSITION			
Invested in capital assets, net of related debt	206,652,490	189,864,212	180,281,660
Restricted for debt services	71,456,199	68,108,496	65,558,032
Restricted for capital projects	10,427,865	6,881,004	11,863,734
Unrestricted	<u>23,061,038</u>	<u>30,262,450</u>	<u>34,192,229</u>
Total net position	<u>\$ 311,597,592</u>	<u>\$ 295,116,162</u>	<u>\$ 291,895,655</u>

The decrease in Total Assets is primarily due to the current year's depreciation taken on capital assets and a transfer of land explained later in Capital Assets. The decrease in Total Liabilities is primarily due to our usual reduction in outstanding bonds due to principal payments and the reduction in liability to the Commonwealth of Kentucky as discussed later in Capital Assets. Total Net Position increased by \$16.5 million.

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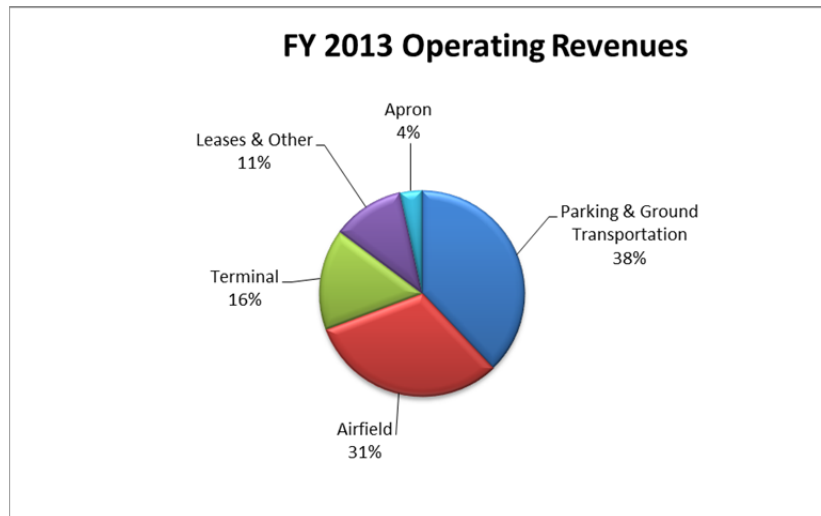
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Revenue. The following schedule presents a summary of revenues for the fiscal years ended June 30:

	2013		2012	2011
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Operating revenues				
Landing and field use	\$ 19,287,529	\$ 20,050,219	\$ 18,543,247	\$ 18,966,756
Apron area	2,144,079	2,120,306	2,015,649	2,169,823
Landside terminal	6,063,815	6,137,327	6,008,054	5,972,357
Airside terminal	3,677,483	3,515,919	3,511,544	3,716,523
Leases	6,524,871	6,367,048	6,680,636	6,588,145
Parking and ground transportation	23,252,003	22,422,561	22,482,342	22,084,268
Other	<u>421,622</u>	<u>297,360</u>	<u>951,472</u>	<u>456,921</u>
Total operating revenues	61,371,402	60,910,740	60,192,944	59,954,793
Non-operating revenues				
Passenger facility charge	6,823,983	6,969,696	6,697,614	5,888,853
Net gain on disposal of assets	3,501,318	-	-	-
Interest income	<u>1,175,015</u>	<u>251,180</u>	<u>1,226,404</u>	<u>1,156,827</u>
Total non-operating revenues	<u>11,500,316</u>	<u>7,220,876</u>	<u>7,924,018</u>	<u>7,045,680</u>
Total revenues	<u>\$ 72,871,718</u>	<u>\$ 68,131,616</u>	<u>\$ 68,116,962</u>	<u>\$ 67,000,473</u>

The major contributors to total revenues' increase over budget and FY12 have been explained earlier under Financial Highlights. The Authority also receives Capital Contributions from Federal & Kentucky 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 FY13 and FY12 were \$13,576,000 and \$7,138,000 respectively. The primary reason for the increase versus prior year is construction and rehabilitation of eligible taxiway & runway projects. Unused federal grant funds from FY13 remain available for use by the Authority in future years.



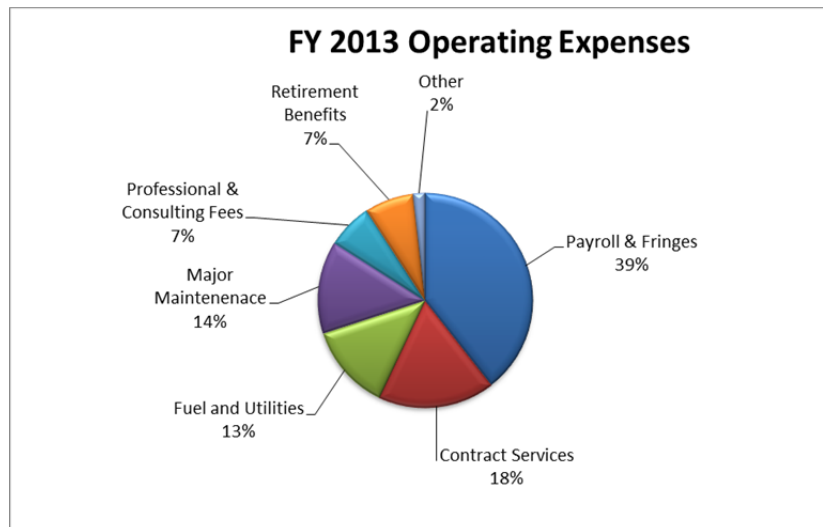
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LOUISVILLE REGIONAL AIRPORT AUTHORITY
Management's Discussion and Analysis
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Expenses. The following schedule presents a summary of operating expenses before depreciation for the fiscal years ended June 30:

	<u>2013</u>		<u>2012</u>	<u>2011</u>
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Operating expenses				
Payroll and fringe benefits	\$ 11,375,907	\$ 12,165,443	\$ 11,328,114	\$ 11,229,998
Contract services	5,068,516	5,390,816	5,217,312	5,336,537
Fuel and utilities	3,742,208	3,749,000	3,604,089	3,527,769
Professional and consulting fees	1,963,378	1,759,020	1,445,611	1,568,317
Retirement	2,143,496	2,242,325	1,989,607	1,784,590
Other	<u>512,407</u>	<u>974,914</u>	<u>764,031</u>	<u>541,002</u>
Total operating expenses before major maintenance and depreciation	24,805,912	26,281,518	24,348,764	23,988,213
Major maintenance	<u>4,028,010</u>	<u>4,404,000</u>	<u>4,192,635</u>	<u>3,257,674</u>
Total operating expenses before depreciation	<u>28,833,922</u>	<u>30,685,518</u>	<u>28,541,399</u>	<u>27,245,887</u>
Non-operating expenses				
Interest expense	12,457,213	13,243,455	13,385,303	14,848,982
Net loss on disposal of assets	-	-	1,895,415	18,100,146
Other	<u>177,837</u>	<u>170,618</u>	<u>167,190</u>	<u>189,495</u>
Total non-operating expenses	<u>12,635,050</u>	<u>13,414,073</u>	<u>15,447,908</u>	<u>33,138,623</u>
Total expenses before depreciation	<u>\$ 41,468,972</u>	<u>\$ 44,099,591</u>	<u>\$ 43,989,307</u>	<u>\$ 60,384,510</u>

Discussion of the variances from prior year and budget are included earlier in the Financial Highlights section.



(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
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Capital Assets. During fiscal year 2013, the Authority's capital spending and accruals totaled approximately \$29,260,000. Major projects were: Runways & Taxiways - \$16,544,000; Noise Mitigation, Land Acquisition, Relocation and Sound Insulation - \$4,650,000; construction of Administrative, Parking and Terminal Projects - \$5,485,000; and purchase of equipment - \$2,424,000. Fixed assets acquired and projects completed and capitalized during the year totaled approximately \$27,318,000. A summary of capital asset activity can be found in Note 6 to the financial statements.

Additionally, the major capital asset disposition by the Authority during fiscal year 2013 was the transfer of a portion of the land previously acquired under the FAA approved Part 150 Noise Mitigation, Land Acquisition and Relocation Program to the Commonwealth of Kentucky for forgiveness of debt as explained under Deposit from Commonwealth of Kentucky within Note 8. This land had a book value of approximately \$16,040,000. Under this program, as further explained under Part 150 Land Acquisition Program within Note 8, 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 \$3,208,000 which is included in the net gain of \$3,368,000.

Debt. Currently, the Authority has bonds outstanding of \$308,425,000 of which \$288,775,000 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. 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 financial report is intended to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any information contained in this report may be directed to the Director of Finance 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 POSITION
June 30, 2013 and 2012

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
ASSETS				
Current assets, unrestricted				
Cash and equivalents	\$ 9,612,851	\$ 8,745,149	\$ 1,818,345	\$ 1,929,724
Land held for sale	-	-	358,588	-
Investments, at amortized cost plus accrued interest	25,039,356	30,278,274	2,900,616	-
Fees and rentals receivable, net	3,641,653	4,690,378	5,042,428	2,389,944
Due from component unit	3,283,423	3,189,268	-	-
Supplies and prepaid expenses	<u>1,075,508</u>	<u>905,215</u>	-	-
Total unrestricted current assets	42,652,791	47,808,284	10,119,977	4,319,668
Current assets, restricted				
Cash and equivalents	25,967,819	32,593,557	-	-
Cash – land fund	3,286,451	735,342	-	-
Interest receivable	44,468	48,475	-	-
Grants receivable	2,432,499	1,040,329	-	-
Investments, at amortized cost plus accrued interest – land fund	-	<u>1,997,803</u>	-	-
Total restricted current assets	<u>31,731,237</u>	<u>36,415,506</u>	-	-
Total current assets	74,384,028	84,223,790	10,119,977	4,319,668
Noncurrent assets, unrestricted				
Fees and rentals receivable, net	-	-	7,500,000	-
Capital assets not being depreciated	350,533,703	358,269,590	10,252,366	9,379,272
Depreciable capital assets, net	171,967,718	175,557,796	10,389,859	11,080,954
Deferred loan and bond cost, net of accumulated amortization of \$10,048,135 as of 2013 and \$8,712,097 as of 2012	<u>11,365,110</u>	<u>12,706,355</u>	<u>2,748,049</u>	<u>2,943,176</u>
Total unrestricted noncurrent assets	533,866,531	546,533,741	30,890,274	23,403,402
Noncurrent assets, restricted				
Cash – PFC fund	1,384,426	339,994	-	-
Cash and equivalents	539,147	6,336,149	-	-
Investments – PFC fund	6,998,057	5,000,073	-	-
Investments, at amortized cost plus accrued interest	<u>45,725,814</u>	<u>36,237,988</u>	-	-
Total restricted noncurrent assets	<u>54,647,444</u>	<u>47,914,204</u>	-	-
Total noncurrent assets	<u>588,513,975</u>	<u>594,447,945</u>	<u>30,890,274</u>	<u>23,403,402</u>
Total assets	<u>\$ 662,898,003</u>	<u>\$ 678,671,735</u>	<u>\$ 41,010,251</u>	<u>\$ 27,723,070</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
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	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corp	
	June 30,		June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
LIABILITIES				
Current liabilities (payable from unrestricted current assets)				
Accounts payable	\$ 10,008,094	\$ 7,708,697	\$ 46,835	\$ 183,030
Due to the Authority	-	-	3,283,423	3,189,268
Accrued expenses and other	1,122,627	1,099,414	19,594	19,594
Loans payable	-	-	1,361,208	1,260,690
Deferred income	<u>641,481</u>	<u>918,172</u>	-	-
Total unrestricted current liabilities	<u>11,772,202</u>	<u>9,726,283</u>	<u>4,711,060</u>	<u>4,652,582</u>
Current liabilities (payable from restricted current assets)				
Bonds payable	19,650,000	18,715,000	-	-
Accounts payable	2,504,007	619,007	-	-
Accrued interest	<u>6,008,708</u>	<u>6,448,663</u>	-	-
Total restricted current liabilities	<u>28,162,715</u>	<u>25,782,670</u>	-	-
Total current liabilities	<u>39,934,917</u>	<u>35,508,953</u>	<u>4,711,060</u>	<u>4,652,582</u>
Long-term debt				
Bonds and loans payable	288,775,000	308,425,000	12,774,367	13,174,896
Other liabilities				
Deposit from UPS land option	7,819,551	7,819,551	-	-
Unamortized bond premium, net	7,862,519	8,693,645	-	-
Deposit from Commonwealth of Kentucky	2,524,824	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>22,590,494</u>	<u>39,621,620</u>	-	-
Total liabilities	<u>\$ 351,300,411</u>	<u>\$ 383,555,573</u>	<u>\$ 17,485,427</u>	<u>\$ 17,827,478</u>
NET POSITION				
Invested in capital assets	\$ 206,652,490	\$ 189,864,212	\$ -	\$ -
Restricted for debt service	71,456,199	68,108,496	-	-
Restricted for capital projects	10,427,865	6,881,004	-	-
Unrestricted net position	<u>23,061,038</u>	<u>30,262,450</u>	<u>23,524,824</u>	<u>9,895,592</u>
Total net position	<u>\$ 311,597,592</u>	<u>\$ 295,116,162</u>	<u>\$ 23,524,824</u>	<u>\$ 9,895,592</u>

See accompanying notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2013 and 2012

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Operating revenues				
Rentals and concessions	\$ 42,083,873	\$ 41,649,697	\$ 1,003,725	\$ 693,086
Landing and field use fees	19,287,529	18,543,247	-	-
Land sales, net of cost	-	-	514,514	7,137,290
TIF revenues	-	-	4,269,241	2,409,637
Total operating revenues	<u>61,371,402</u>	<u>60,192,944</u>	<u>5,787,480</u>	<u>10,240,013</u>
Operating expenses				
Operations and general maintenance	14,795,153	14,689,347	-	-
Administrative, general, planning and engineering	<u>10,010,759</u>	<u>9,659,417</u>	<u>220,522</u>	<u>454,280</u>
Total operating and maintenance	24,805,912	24,348,764	220,522	454,280
Major maintenance	4,028,012	4,192,635	-	-
Depreciation and amortization	<u>28,496,851</u>	<u>28,044,865</u>	<u>691,095</u>	<u>525,686</u>
Total operating expenses	<u>57,330,775</u>	<u>56,586,264</u>	<u>911,617</u>	<u>979,966</u>
Operating income	4,040,627	3,606,680	4,875,863	9,260,047
Non-operating revenues (expenses)				
Investment earnings, net	1,175,015	1,226,404	3,903	375
Interest expense	(12,457,213)	(13,385,303)	(435,792)	(584,784)
Passenger facility charges	6,823,983	6,697,614	-	-
Net gain (loss) on disposal of assets	3,501,318	(1,895,415)	-	-
Other expenses	<u>(177,837)</u>	<u>(167,190)</u>	<u>-</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>(1,134,734)</u>	<u>(7,523,890)</u>	<u>(431,889)</u>	<u>(584,409)</u>
Income (loss) before capital contributions and extraordinary item	2,905,893	(3,917,210)	4,443,974	8,675,638
Extraordinary item	-	-	9,185,258	-
Capital contributions	<u>13,575,537</u>	<u>7,137,717</u>	<u>-</u>	<u>-</u>
Change in net position	16,481,430	3,220,507	13,629,232	8,675,638
Net position, beginning of year	<u>295,116,162</u>	<u>291,895,655</u>	<u>9,895,592</u>	<u>1,219,954</u>
Net position, end of year	<u>\$ 311,597,592</u>	<u>\$ 295,116,162</u>	<u>\$ 23,524,824</u>	<u>\$ 9,895,592</u>

See accompanying notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 62,143,436	\$ 59,425,895	\$ -	\$ -
Land sales, lease revenue, and TIF revenues	-	-	4,922,109	2,556,161
Payments to suppliers	(17,051,328)	(18,117,939)	(393,716)	(661,918)
Payments to employees	(7,400,956)	(7,394,890)	-	-
Net cash flows provided by operating activities	<u>37,691,152</u>	<u>33,913,066</u>	<u>4,528,393</u>	<u>1,894,243</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	12,183,367	7,405,476	-	-
Passenger facility charges	6,823,983	6,697,614	-	-
Acquisition and construction of capital assets	(29,258,257)	(23,280,054)	(1,296,538)	(5,656,315)
Proceeds from sale of assets	75,016	494,376	-	-
Proceeds from issuance of debt	-	-	1,019,862	5,145,857
Principal paid on capital debt	(18,715,000)	(17,680,000)	(1,319,873)	(248,076)
Net proceeds received from the Authority	-	-	87,540	260,381
Interest paid on capital debt, net of capitalized interest	(12,897,168)	(13,128,051)	(234,050)	(383,000)
Fees paid on bonds	(172,630)	(200,923)	-	-
Net cash flows used for capital and related financing activities	<u>(41,960,689)</u>	<u>(39,691,562)</u>	<u>(1,743,059)</u>	<u>(881,153)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturities of investments	83,878,868	66,217,935	4,498,506	-
Cash advances to component unit	(87,540)	(260,381)	-	-
Purchase of investments	(88,127,957)	(91,534,965)	(7,399,122)	-
Investment income	<u>646,669</u>	<u>600,574</u>	<u>3,903</u>	<u>375</u>
Net cash flows provided by (used for) investing activities	<u>(3,689,960)</u>	<u>(24,976,837)</u>	<u>(2,896,713)</u>	<u>375</u>
Net increase (decrease) in cash and equivalents	(7,959,497)	(30,755,333)	(111,379)	1,013,465
Cash and equivalents, beginning of year	<u>48,750,191</u>	<u>79,505,524</u>	<u>1,929,724</u>	<u>916,259</u>
Cash and equivalents, end of year	<u>\$ 40,790,694</u>	<u>\$ 48,750,191</u>	<u>\$ 1,818,345</u>	<u>\$ 1,929,724</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2013 and 2012

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	Louisville Regional Airport Authority		Component Unit Louisville Renaissance Zone Corporation	
	June 30,		June 30,	
	2013	2012	2013	2012
Operating income	\$ 4,040,627	\$ 3,606,680	\$ 4,875,863	\$ 9,260,047
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	28,496,850	28,044,865	691,095	525,686
Sale of land to relieve debt	-	-	-	(7,137,290)
Changes in assets and liabilities:				
Fees and rentals receivable	1,048,725	(666,598)	(967,227)	(542,775)
Deferred income	(276,691)	(100,451)	-	-
Supplies and prepaid expenses	(170,293)	398,337	-	-
Accounts payable	4,528,721	2,410,228	(173,195)	(211,425)
Accrued expenses and other	23,213	220,005	-	-
Land	-	-	101,857	-
Net cash provided by operating activities	<u>\$ 37,691,152</u>	<u>\$ 33,913,066</u>	<u>\$ 4,528,393</u>	<u>\$ 1,894,243</u>

NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES

The Authority has retainage and accounts payable related to construction in progress of approximately \$2,305,000 and \$2,650,000 as of June 30, 2013 and 2012, respectively. The Authority recorded a gain on sale of assets of approximately \$3,501,000 as of June 30, 2013 and a loss on sale of assets of approximately \$1,895,000 as of June 30, 2012.

The Authority capitalized interest expense of approximately \$136,000 and \$131,000 in 2013 and 2012, respectively.

The Authority transferred land with a book cost of approximately \$16.0 million to relieve the deposit from the Commonwealth of Kentucky of approximately \$16.2 million.

LRZC financed the purchase of capital assets through accounts payable of approximately \$37,000 and \$161,000 in 2013 and 2012, respectively.

LRZC sold land with a book value of approximately \$2.3 million to relieve loans payable of approximately \$9.2 million and interest charges of approximately \$215,000 in 2012.

See accompanying notes to financial statements.

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 \$529,000 and \$532,000 for fiscal years 2013 and 2012, 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 Position, 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 Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

The Authority has adopted GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34. 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 Position: The Authority's net position is 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 Position: Net position is reported as restricted when constraints placed on 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 Position: Net position whose use by the Authority is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board.

Release of Restricted Net Position: When an expense or outlay is incurred for which both restricted and unrestricted net position is 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, 2013 and 2012, the allowance for uncollectible accounts was \$130,000 and \$160,000, 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 \$136,000 and \$131,000 during 2013 and 2012, respectively.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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.

New Financial Reporting Standards: The GASB has issued the following Statements:

GASB has issued the following statements which were effective for FY 2013 or FY 2012: GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* – an amendment of GASB Statements No. 14 and No. 34 and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for fiscal years beginning after December 15, 2011. The implementation in the current year had no effect on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which are effective for fiscal years beginning after December 15, 2011 and December 15, 2012, respectively. During the year, the Authority implemented GASB Statement No. 63. The Airport has determined that GASB Statement No. 63 had no material effect on its financial statements. The Authority has not yet determined the effect GASB Statement No. 65 may have on its financial statements when adopted next year.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Additionally, GASB has issued the following statements which are effective for years FY 2014 and later: GASB Statement No. 66, *Technical Corrections – 2012*, and GASB Statements No. 67 and No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 69, *Combinations and Disposals of Government Operations*, and GASB Statement No. 70, *Accounting and Financial Reporting for Non-Exchange Financial Guarantees*. The Authority has not yet determined the effect, if any, that the adoption of these statements may have on its financial statements.

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. The Authority's policy regarding custodial credit risk for deposits is for all overnight repurchase agreements to be fully collateralized by U.S. government securities held by the Authority or by the Authority's agent in the Authority's name.

Cash and equivalents consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 3,550	\$ 3,550
Deposits with financial institutions	14,280,178	11,687,715
Repurchase agreements	<u>26,506,966</u>	<u>37,058,926</u>
	<u>\$ 40,790,694</u>	<u>\$ 48,750,191</u>

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

	<u>2013</u>	<u>2012</u>
Covered by federal depository insurance	\$ 500,000	\$ 384,029
Uninsured and collateralized	<u>14,369,334</u>	<u>11,958,327</u>
Bank balance	<u>\$ 14,869,334</u>	<u>\$ 12,342,356</u>
Carrying amount	<u>\$ 14,280,178</u>	<u>\$ 11,687,715</u>

NOTE 3 – INVESTMENTS

At June 30, 2013, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 12,499,412	8/14/2013 through 8/7/2018	Aaa
Federal Home Loan Bank	58,639,743	8/20/2013 through 2/18/2015	Aaa
Freddie Mac	2,990,099	10/15/2013	Aaa
Kentucky Asset/Liability	525,084	4/1/2015	Aaa
Federal Government Money Market	<u>3,108,889</u>		Aaa
	<u>\$ 77,763,227</u>		

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – INVESTMENTS (Continued)

At June 30, 2012, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 13,469,306	10/30/2012 thru 8/7/2018	Aaa
Federal Home Loan Bank	51,263,193	12/28/2012 thru 6/28/2013	Aaa
Freddie Mac	5,971,325	8/28/2012	Aaa
Tennessee Valley Authority	700,853	3/15/2013	Aaa
Federal Government Money Market	<u>2,109,461</u>		Aaa
	<u>\$ 73,514,138</u>		

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

	<u>2013</u>	<u>2012</u>
Unrestricted investments	\$ 25,039,356	\$ 30,278,274
Restricted investments, current	-	1,997,803
Restricted investments, noncurrent	<u>52,723,871</u>	<u>41,238,061</u>
Total investments	<u>\$ 77,763,227</u>	<u>\$ 73,514,138</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 CEO and CFO 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 or the Commonwealth of Kentucky.

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 not limited. At June 30, 2013 and 2012, approximately \$25,039,336 and \$30,278,274 were invested in U.S. Government agency obligations, respectively. Domestic bank obligations may not exceed 35% of invested assets per issuer or 50% of total invested assets for all issuers.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013</u>					
Bond funds	\$ 26,506,966	\$ 36,955,079	\$ -	\$ 2,432,499	\$ 65,894,544
Revolving debt- coverage	-	8,770,735	44,468	-	8,815,203
Land proceeds	3,286,451	-	-	-	3,286,451
PFC funds	<u>1,384,426</u>	<u>6,998,057</u>	<u>-</u>	<u>-</u>	<u>8,382,483</u>
	<u>\$ 31,177,843</u>	<u>\$ 52,723,871</u>	<u>\$ 44,468</u>	<u>\$ 2,432,499</u>	<u>\$ 86,378,681</u>
<u>June 30, 2012</u>					
Bond funds	\$ 38,929,706	\$ 27,427,190	\$ -	\$ 1,040,329	\$ 67,397,225
Revolving debt- coverage	-	8,810,798	48,475	-	8,859,273
Land proceeds	735,342	1,997,803	-	-	2,733,145
PFC funds	<u>339,994</u>	<u>5,000,073</u>	<u>-</u>	<u>-</u>	<u>5,340,067</u>
	<u>\$ 40,005,042</u>	<u>\$ 43,235,864</u>	<u>\$ 48,475</u>	<u>\$ 1,040,329</u>	<u>\$ 84,329,710</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, 2013 and 2012. 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, 2013 and 2012, 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 \$3,283,000 and \$3,189,000 at June 30, 2013 and 2012, respectively.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 285,917,122	\$ 3,441,683	\$ -	\$ 289,358,805
Capital projects in progress:				
Construction projects	39,303,747	25,846,309	(24,398,012)	40,752,044
Land acquisition program	<u>33,048,721</u>	<u>3,413,641</u>	<u>(16,039,508)</u>	<u>20,422,854</u>
Total capital assets not being depreciated	358,269,590	32,701,633	(40,437,520)	350,533,703
Other capital assets:				
Land improvements	422,130,022	19,110,192	-	441,240,214
Buildings	138,497,332	1,383,370	-	139,880,702
Utility systems	41,231,324	263,693	(3,968)	41,491,049
Equipment (excluding automotive)	13,830,232	1,143,950	(381,482)	14,592,700
Vehicle and automotive equipment	9,478,336	1,974,918	(427,888)	11,025,366
Furniture and fixtures	<u>5,036,156</u>	<u>-</u>	<u>(3,482)</u>	<u>5,032,674</u>
Total other capital assets	630,203,402	23,876,123	(816,820)	653,262,705
Less accumulated depreciation for:				
Land improvements	317,637,763	19,475,699	-	337,113,462
Buildings	81,315,757	5,627,666	-	86,943,423
Utility systems	34,536,413	1,012,465	(3,968)	35,544,910
Equipment (excluding automotive)	9,433,530	820,109	(381,482)	9,872,157
Vehicle and automotive equipment	6,886,851	462,330	(427,888)	6,921,293
Furniture and fixtures	<u>4,835,292</u>	<u>67,932</u>	<u>(3,482)</u>	<u>4,899,742</u>
Total accumulated depreciation	<u>454,645,606</u>	<u>27,466,201</u>	<u>(816,820)</u>	<u>481,294,987</u>
Other capital assets, net	<u>175,557,796</u>	<u>(3,590,078)</u>	<u>-</u>	<u>171,967,718</u>
Net capital assets	<u>\$ 533,827,386</u>	<u>\$ 29,111,555</u>	<u>\$ (40,437,520)</u>	<u>\$ 522,501,421</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 284,731,557	\$ 1,185,565	\$ -	\$ 285,917,122
Capital projects in progress:				
Construction projects	29,009,345	17,904,289	(7,609,887)	39,303,747
Land acquisition program	<u>31,689,615</u>	<u>4,346,343</u>	<u>(2,987,237)</u>	<u>33,048,721</u>
Total capital assets not being depreciated	345,430,517	23,436,197	(10,597,124)	358,269,590
Other capital assets:				
Land improvements	419,776,169	2,353,853	-	422,130,022
Buildings	134,886,896	3,610,436	-	138,497,332
Utility systems	41,231,324	-	-	41,231,324
Equipment (excluding automotive)	13,830,232	-	-	13,830,232
Vehicle and automotive equipment	9,311,006	653,340	(486,010)	9,478,336
Furniture and fixtures	<u>5,036,156</u>	<u>-</u>	<u>-</u>	<u>5,036,156</u>
Total other capital assets	624,071,783	6,617,629	(486,010)	630,203,402
Less accumulated depreciation for:				
Land improvements	298,618,592	19,020,886	(1,715)	317,637,763
Buildings	75,793,722	5,522,035	-	81,315,757
Utility systems	33,510,653	1,025,760	-	34,536,413
Equipment (excluding automotive)	8,490,382	943,148	-	9,433,530
Vehicle and automotive equipment	6,988,353	384,508	(486,010)	6,886,851
Furniture and fixtures	<u>4,713,348</u>	<u>121,944</u>	<u>-</u>	<u>4,835,292</u>
Total accumulated depreciation	<u>428,115,050</u>	<u>27,018,281</u>	<u>(487,725)</u>	<u>454,645,606</u>
Other capital assets, net	<u>195,956,733</u>	<u>(20,400,652)</u>	<u>1,715</u>	<u>175,557,796</u>
Net capital assets	<u>\$ 541,387,250</u>	<u>\$ 3,035,545</u>	<u>\$ (10,595,409)</u>	<u>\$ 533,827,386</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7 – LONG-TERM DEBT

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

	<u>2013</u>	<u>2012</u>
1998 Series A Revenue Bonds, semi-annual interest payments at rates ranging from 3.80% to 5.30% through July 1, 2025 and various annual principal payments beginning July 1, 2019 through July 1, 2025, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	\$ 4,430,000	\$ 4,430,000
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.	30,535,000	35,030,000
2001 Series B Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 4.00% to 5.50% through July 1, 2031, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	1,435,000	2,160,000
2002 Series A Revenue Bonds, various annual principal payments with interest payments at 35 day intervals at variable rates (0.386% - 0.498% for year ending June 30, 2013) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	37,450,000	38,650,000
2002 Series B Revenue Bonds, various annual principal payments with interest payments at 35 day intervals at variable rates (0.396% - 0.494% for year ending June 30, 2013) through July 1, 2032, secured by a lien on the proceeds of all Authority Revenue bonds, Bond Funds and Net Revenues.	29,975,000	30,950,000
2003 Series A Revenue Bonds, various annual principal payments with semi-annual interest payments at rates ranging from 2.50% to 5.00% through July 1, 2013, secured by a lien on the proceeds of all Authority Revenue Bonds, Bond Funds and Net Revenues.	1,725,000	3,370,000
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.	4,975,000	5,330,000
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.	87,025,000	92,800,000

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7 – LONG-TERM DEBT (Continued)

	<u>2013</u>	<u>2012</u>
2005 Series A Revenue Bonds, semi-annual interest payments at rates ranging from 4.38% to 5.00% through July 1, 2026 and various annual principal payments beginning July 1, 2018 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.	26,345,000	29,380,000
2011 Series A Revenue Bonds, various annual principal payments with semi-annual 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.	\$ 32,395,000	\$ 32,905,000
2011 Series B Revenue Bonds, with semi-annual interest payments at rates ranging from 3.00% to 4.00% through July 1, 2017 and various annual principal payments beginning July 1, 2013 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>4,265,000</u>
Total debt	308,425,000	327,140,000
Less current portion	<u>19,650,000</u>	<u>18,715,000</u>
	<u>\$ 288,775,000</u>	<u>\$ 308,425,000</u>

Changes in Long-Term Debt: The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 327,140,000	\$ _____ -	\$ (18,715,000)	\$ 308,425,000	\$ 19,650,000

Changes in Long-Term Debt: The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 344,820,000	\$ _____ -	\$ (17,680,000)	\$ 327,140,000	\$ 18,715,000

The total interest incurred for the years ended June 30, 2013 and 2012 was approximately \$12,593,000 and \$13,516,000, respectively. Approximately \$136,000 and \$131,000 was capitalized as a component of the cost of capital assets constructed during 2013 and 2012, respectively. Approximately \$12,457,000 and \$13,385,000 was charged to expense in 2013 and 2012, respectively.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012

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, 2013, are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 19,650,000	\$ 15,380,000	\$ 35,030,000
2015	18,265,000	14,467,000	32,732,000
2016	19,065,000	13,631,000	32,696,000
2017	20,005,000	12,665,000	32,670,000
2018	21,005,000	11,641,000	32,646,000
2019-2023	98,935,000	43,447,000	142,382,000
2024-2028	69,960,000	19,495,000	89,455,000
2029-2033	37,950,000	6,611,000	44,561,000
2034-2038	2,905,000	685,000	3,590,000
2039	<u>685,000</u>	<u>38,000</u>	<u>723,000</u>
	<u>\$ 308,425,000</u>	<u>\$ 138,060,000</u>	<u>\$ 446,485,000</u>

Outstanding Letters of Credit: At June 30, 2013 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, 2013 and 2012.

In connection with the bond agreements, the Authority has to comply with a debt service coverage financial covenant. At June 30, 2013, the Authority was in compliance with this financial covenant.

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.

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, 2013, capital projects in progress include approximately \$20 million related to the Part 150 Land Acquisition Program which consists of total project expenditures to date of approximately \$263 million less \$242 million of costs related to land which has been sold or optioned for sale.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

For land purchased under this program, the FAA requires land no longer needed for noise compatibility purposes be stripped of its residential development rights and sold at fair market value at the earliest practicable time. The portion of the sale proceeds which is proportionate to the FAA's share of land acquisition costs will either, (1) be returned to the FAA, or (2) be reinvested in an approved noise compatibility project as approved by the FAA. At the time of such sales, significant losses on impairment, asset reallocations or gains, may occur. The Authority retains certain rights in perpetuity associated with this land that is sold.

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

During Fiscal 1999, the Authority received an additional \$20,000,000 from the Commonwealth to acquire residential property under its Part 150 Land Acquisition Program. The Authority, in turn, agreed to transfer certain property to the Commonwealth. The Authority has a "Lease in Anticipation of Transfer" with the Commonwealth relating to this property.

On September 3, 2003, the Authority entered into a deed which transferred property to the Commonwealth at a value of \$10,386,337. The deed was filed with the County Clerk of Jefferson County, Kentucky on December 30, 2004. 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. On June 24, 2013, the Authority entered into a deed which transferred property to the Commonwealth at a value of \$16,200,000. The deed was filed with the County Clerk of Jefferson County on June 25, 2013. 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.

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.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

In fiscal 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 Organization's financial position, change in net position or cash flow.

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.

On September 24, 2012, Aero Term, the successor of Airis, elected to refinance the remaining balance of the Airis / Federal Express Special Facility Revenue Bonds through other financing. The bonds are no longer a conduit debt issue of the Authority. At June 30, 2013 and 2012, Special Facility Revenue Bonds outstanding aggregated \$191,400,000 and \$200,265,000, 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, 2013 and 2012 totaled approximately \$105,000 and \$101,000, respectively, and contributions to the 401(k) Plan for the same years were approximately \$148,000 and \$127,000, respectively.

GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from the statement of net position. The Authority, therefore, does not show these assets and liabilities on the statements of net position.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 \$8,225,000 and \$7,967,000, out of a total payroll of approximately \$8,710,000 and \$8,600,000 for the years ended June 30, 2013 and 2012, 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 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 the required minimum 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 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 19.55%, 18.96% and 16.93% of the covered employees' salaries for non-hazardous positions, and 37.60%, 35.76% and 33.25% for a hazardous position for 2013, 2012 and 2011, respectively. The contribution requirements for the year ended June 30, 2013 were approximately \$2,498,000, consisting of \$2,007,000 from the Authority and \$491,000 from employees; The contribution requirements for the year ended June 30, 2012 were approximately \$2,305,000, consisting of \$1,830,000 from the Authority and \$475,000 from employees; and for the year ended June 30, 2011 were approximately \$2,130,000, consisting of \$1,665,000 from the Authority and \$465,000 from employees.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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, 2012. The Commonwealth of Kentucky's Comprehensive Annual Financial Reports should be referred to for additional disclosures related to the CERS (www.kyret.ky.gov).

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 \$72,700 and \$75,800 for each year ending June 30, 2013 and 2012, 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 \$79,000 for 20 employees and \$78,000 for 22 employees during 2013 and 2012, 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 month 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, 2013 and 2012, revenues from these leases were approximately \$13.6 million and \$13.7 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, 2013 and 2012, revenues from such agreements were approximately \$9.7 million and \$9.0 million, respectively. Revenues from contingent rentals that are made up primarily of the excess over MMG and sales only based agreements were \$2.3 million and \$2.2 million for 2013 and 2012, respectively.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 2013 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>
2014	\$ 13,381,358	\$ 7,918,668	\$ 21,300,026
2015	12,555,011	7,906,646	20,461,657
2016	4,777,875	2,510,335	7,288,210
2017	3,199,551	118,600	3,318,151
2018	2,867,591	68,550	2,936,141
Thereafter	<u>15,879,695</u>	<u>-</u>	<u>15,879,695</u>
	<u>\$ 52,661,081</u>	<u>\$ 18,522,799</u>	<u>\$ 71,183,880</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 continued to impose a \$4.50 PFC on enplaning passengers for the years ended June 30, 2013 and 2012.

The FAA has authorized the Authority to collect total net PFC revenue of \$113,175,269 to be applied as follows:

For direct payment on capital project costs	\$ 25,896,329
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>\$ 113,175,269</u>

During the years ended June 30, 2013 and 2012, amounts of approximately \$6,824,000 and \$6,698,000, respectively, were received in passenger facility charges.

NOTE 15 – MAJOR CUSTOMERS

During fiscal years 2013 and 2012, the Authority earned approximately 26% of its operating revenues from one customer in each year.

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 16 – LOUISVILLE RENAISSANCE ZONE CORPORATION NOTES TO FINANCIAL STATEMENTS

Organization: The LRZC entered into an Interlocal Cooperation Agreement with the Louisville Metro Government and the Commonwealth of Kentucky whereby funding will be provided by Tax Incremental Financing (“TIF”). Under this agreement, the LRZC is to acquire property and construct and maintain improvements to accomplish approved public purposes. To date, the LRZC has approval for an initial project totaling \$41.7 million primarily for land acquisition and infrastructure improvements. Upon completion of the initial project, approval for additional projects may be requested based on TIF funding availability.

The Louisville Regional Airport Authority’s (the “Authority”) Board members also serve as the LRZC’s Board. This causes the relationship between the Authority and the LRZC to be related entities resulting in LRZC being defined as a component unit of the Authority. Accordingly, the LRZC financial statements are presented in the Authority’s financial statements as a discretely presented component unit.

Land Held For Sale: As a public property corporation, land may be available for either lease or sale. The book value of land intended to be sold within one year is reclassified from Capital Assets to Land Available for Sale.

Fees Receivable: Receivables represent Tax Increment Financing (TIF) requests submitted to or earned from state and local governments. The LRZC has obtained information from the local government to calculate receivables from TIF revenue through December 31, 2009 and information from the state government to calculate receivables from TIF revenue through December 31, 2010. Additionally TIF receivables have been recorded for estimated TIF revenue earned through calendar year 2012 for which detailed information is not yet available to calculate. Amounts not expected to be collected within one year are reported as long-term receivable. Receivables are reported at fair value and are reduced by the estimated portion that is expected to be uncollectible. For the year ended June 30, 2013, management discounted the amount at an effective rate of approximately 15%. Interest is not normally charged on receivables. As of June 30, 2013, management has estimated all amounts to be fully collectible.

Revenues: LRZC recognizes revenue from land sales upon transfer of title. Revenue from the TIF agreements are recognized when reasonably measurable and determinable based on the terms of the respective agreements.

During Fiscal Year 2013, management determined it had obtained sufficient collection history to reasonably estimate TIF revenue earned through the most recent calendar year. TIF revenue included in operating revenue represents the estimated TIF revenue earned in the most recent calendar year as well as any differences between actual collections and prior estimates. TIF revenue reported as an extraordinary item represents the amount to record the catch-up of revenue for prior years that had not previously been recorded due to uncertainty of amounts or collections, which was deemed to be unusual in nature and an infrequent occurrence.

Investments: At June 30, 2013, the LRZC’s investment balances were as follows:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturity</u>	<u>Rating</u>
Fannie Mae	\$ 2,499,874	8/15/2013	Aaa
Federal Home Loan Bank	400,077	8/13/2013	Aaa
Federal Government Money Market	665		Aaa
	<u>\$ 2,900,616</u>		

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Interest Rate Risk: As a means of managing its exposure to fair value losses arising from increasing interest rates, LRZC is currently limited to investing in U.S. Government obligations and agencies with a stated maturity of not more than one year; however, with CEO and CFO approval, maturity can be two years for the investment.

Credit Risk: LRZC 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, LRZC 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: Investments in U.S. Government Agencies are not limited. At June 30, 2013, approximately \$2,900,616 was invested in U.S. Government agency obligations. Domestic bank obligations may not exceed 35% of invested assets per issuer or 50% of total invested assets for all issuers.

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, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 8,799,469	\$ -	\$ (460,444)	\$ 8,339,025
Construction projects	<u>579,803</u>	<u>1,333,538</u>	<u>-</u>	<u>1,913,341</u>
Total capital assets not being depreciated	9,379,272	1,333,538	(460,444)	10,252,366
Other capital assets:				
Land improvements	9,083,022	-	-	9,083,022
Utility systems	<u>3,114,054</u>	<u>-</u>	<u>-</u>	<u>3,114,054</u>
Total other capital assets	12,197,076	-	-	12,197,076
Less accumulated depreciation	<u>(1,116,122)</u>	<u>(691,095)</u>	<u>-</u>	<u>(1,807,217)</u>
Other capital assets, net	<u>11,080,954</u>	<u>(691,095)</u>	<u>-</u>	<u>10,389,859</u>
Net capital assets	<u>\$ 20,460,226</u>	<u>\$ 642,443</u>	<u>\$ (460,444)</u>	<u>\$ 20,642,225</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 10,664,932	\$ 415,000	\$ (2,280,463)	\$ 8,799,469
Construction projects	<u>605,915</u>	<u>5,402,315</u>	<u>(5,428,427)</u>	<u>579,803</u>
Total capital assets not being depreciated	11,270,847	5,817,315	(7,708,890)	9,379,272
Other capital assets:				
Land improvements	3,654,595	5,428,427	-	9,083,022
Utility systems	<u>3,114,054</u>	<u>-</u>	<u>-</u>	<u>3,114,054</u>
Total other capital assets	6,768,649	5,428,427	-	12,197,076
Less accumulated depreciation	<u>(590,436)</u>	<u>(525,686)</u>	<u>-</u>	<u>(1,116,122)</u>
Other capital assets, net	<u>6,178,213</u>	<u>4,902,741</u>	<u>-</u>	<u>11,080,954</u>
Net capital assets	<u>\$ 17,449,060</u>	<u>\$10,720,056</u>	<u>\$ (7,708,890)</u>	<u>\$ 20,460,226</u>

Long-Term Debt: LRZC has two loans payable to United Parcel Service (UPS) and one note payable to Louisville Paving as listed below:

	<u>2013</u>	<u>2012</u>
Loan payable to UPS to be paid in fourteen annual installments of principal, beginning September 21, 2008 and maturing on September 21, 2021. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	\$ 6,165,266	\$ 5,720,294
Loan payable to UPS to be paid in seven annual installments of principal beginning September 21, 2021 and maturing on September 21, 2027. Repayments on this loan are to be made solely from specified proceeds of LRZC activities.	5,097,889	5,097,889
Loan payable to be paid to Louisville Paving in sixty monthly installments of \$75,062, including interest at 6.5%, beginning March 1, 2012 and maturing on February 1, 2017. Repayments on this loan are secured by an assignment of certain rents under an operating lease.	<u>2,872,420</u>	<u>3,617,403</u>
Total loans payable	14,135,575	14,435,586
Less current portion	<u>1,361,208</u>	<u>1,260,690</u>
Long-term portion	<u>\$ 12,774,367</u>	<u>\$ 13,174,896</u>

(Continued)

LOUISVILLE REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Annual Loan Repayment Requirements: The annual loan repayment requirements to maturity, including principal and interest, as of June 30, 2013, are estimated as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2014	\$ 1,361,208	\$ 169,010	\$ 1,530,218
2015	1,469,692	120,005	1,589,697
2016	1,521,965	67,717	1,589,682
2017	1,275,109	14,377	1,289,486
2018	688,762	-	688,762
2019-2023	3,605,604	-	3,605,604
2024-2028	<u>4,213,235</u>	<u>-</u>	<u>4,213,235</u>
	<u>\$ 14,135,575</u>	<u>\$ 371,109</u>	<u>\$ 14,506,684</u>

Operating Lease of a Lessor: The LRZC entered into an operating lease with Ford Motor Company for 14.593 acres of land and land improvements that commenced on July 7, 2011 with an original term through December 2016 and an option to renew for five years. The lease includes ground rent, improvement rent, and commission rent components. The lease was amended as of April 12, 2012 to include additional improvements. The approximate future minimum lease payments to be received in each of the years remaining under the original term are as follows:

Year ended June 30,	
2014	\$ 1,097,410
2015	1,100,034
2016	1,102,710
2017	<u>483,669</u>
	<u>\$ 3,783,823</u>

Lease revenue recognized during the year ended June 30, 2013 and 2012 was \$1,003,725 and \$693,806, respectively. The net book value of the property subject to the lease was \$3,800,000 and \$4,100,000 at June 30, 2013 and 2012, respectively. The rent related to improvements is the primary source of repayment for the loan payable to be paid to Louisville Paving.

(Continued)

SUPPLEMENTAL INFORMATION

LOUISVILLE REGIONAL AIRPORT AUTHORITY
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Year ended June 30, 2013
 (With comparative totals for 2012)

	2013			2012 Total
	Louisville International	Bowman Field	Total	
Operating revenues				
Landing and field use fees	\$ 19,241,191	\$ 46,338	\$ 19,287,529	\$ 18,543,247
Terminal area	9,663,876	77,421	9,741,297	9,519,598
Apron area	2,144,080	-	2,144,080	2,015,649
Parking and ground transportation	23,252,002	-	23,252,002	22,482,342
Aviation related facility leases	3,174,218	1,280,463	4,454,681	4,550,357
Land leases and other	1,878,558	191,634	2,070,192	2,130,279
Airport services	239,911	30,349	270,260	269,011
Other revenue	<u>152,048</u>	<u>(687)</u>	<u>151,361</u>	<u>682,461</u>
Total operating revenues	59,745,884	1,625,518	61,371,402	60,192,944
Operating expenses				
Operations and general maintenance				
Salaries, wages	7,045,912	381,386	7,427,298	7,489,164
Contracts	3,230,752	36,558	3,267,310	3,313,954
Utilities and fuel supplies	3,109,011	375,511	3,484,522	3,346,017
Supplies and other	994,167	170,831	1,164,998	1,083,800
Reimbursed costs	<u>(546,328)</u>	<u>(2,647)</u>	<u>(548,975)</u>	<u>(543,588)</u>
Total operations and general maintenance	13,833,514	961,639	14,795,153	14,689,347
Administrative, general, planning and engineering	<u>9,469,184</u>	<u>541,575</u>	<u>10,010,759</u>	<u>9,659,417</u>
Total operating expenses before major maintenance and depreciation	23,302,698	1,503,214	24,805,912	24,348,764
Major maintenance	3,866,812	161,200	4,028,012	4,192,635
Depreciation and amortization	<u>27,235,242</u>	<u>1,261,609</u>	<u>28,496,851</u>	<u>28,044,865</u>
Total operating expenses	<u>54,404,752</u>	<u>2,926,023</u>	<u>57,330,775</u>	<u>56,586,264</u>
Operating income (loss)	5,341,132	(1,300,505)	4,040,627	3,606,680
Non-operating revenues (expenses) and capital contributions				
Investment earnings, net	1,173,562	1,453	1,175,015	1,226,404
Interest expense	(12,457,213)	-	(12,457,213)	(13,385,303)
Passenger facility charge	6,823,983	-	6,823,983	6,697,614
Net (loss) gain on disposal of assets	3,501,318	-	3,501,318	(1,895,415)
Other expenses	(177,837)	-	(177,837)	(167,190)
Capital contributions	<u>13,344,645</u>	<u>230,892</u>	<u>13,575,537</u>	<u>7,137,717</u>
Net non-operating revenues (expenses)	<u>12,208,458</u>	<u>232,345</u>	<u>12,440,803</u>	<u>(386,173)</u>
Changes in net position	<u>\$ 17,549,590</u>	<u>\$ (1,068,160)</u>	<u>\$ 16,481,430</u>	<u>\$ 3,220,507</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF AIRPORT PROPERTY, FACILITIES AND EQUIPMENT
June 30, 2013

	Cost				Accumulated Depreciation				Net Balance June 30, 2013	
	Balance July 1, 2012	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2013	Balance July 1, 2012	Provisions	Retirements/ Adjustments		Balance June 30, 2013
Louisville International Airport										
Land	\$ 285,002,154	\$ -	\$ -	\$ 3,441,683	\$ 288,443,837	\$ -	\$ -	\$ -	\$ -	\$ 288,443,837
Land improvements – runways, taxiways, and aprons	305,671,107	-	-	17,925,180	323,596,287	222,483,674	12,773,441	-	235,257,115	88,339,172
Land improvements – ground transportation and other	100,992,975	-	-	935,126	101,928,101	87,466,266	5,885,332	-	93,351,598	8,576,503
Buildings	124,251,753	-	-	1,002,224	125,253,977	72,191,075	5,191,415	588	77,383,078	47,870,899
Utility systems	41,106,788	-	(3,968)	263,693	41,366,513	34,414,672	1,011,820	(3,969)	35,422,523	5,943,990
Equipment (excluding automotive)	13,555,666	-	(381,482)	1,143,950	14,318,134	9,166,749	812,324	(381,482)	9,597,591	4,720,543
Vehicles and automotive equipment	8,657,261	-	(385,756)	1,974,919	10,246,424	6,065,777	462,330	(385,756)	6,142,351	4,104,073
Furniture and fixtures	5,036,156	-	(3,482)	-	5,032,674	4,835,292	67,930	(3,481)	4,899,741	132,933
Capital projects in progress	71,919,747	27,833,282	(12,831,607)	(26,819,582)	60,101,840	-	-	-	-	60,101,840
Total Louisville International Airport	956,193,607	27,833,282	(13,606,295)	(132,807)	970,287,787	436,623,505	26,204,592	(774,100)	462,053,997	508,233,790
Bowman Field										
Land	914,968	-	-	-	914,968	14,490	2,070	-	16,560	898,408
Land improvements – runways, taxiways, and aprons	14,923,405	-	-	249,885	15,173,290	7,360,579	788,028	-	8,148,607	7,024,683
Land improvements – ground transportation and other	542,536	-	-	-	542,536	312,754	26,830	-	339,584	202,952
Buildings	14,245,579	-	-	381,146	14,626,725	9,124,682	435,663	-	9,560,345	5,066,380
Utility systems	124,536	-	-	-	124,536	121,741	645	-	122,386	2,150
Equipment (excluding automotive)	274,566	-	-	-	274,566	266,781	7,785	-	274,566	-
Vehicles and automotive equipment	821,074	-	(42,132)	-	778,942	821,074	-	(42,132)	778,942	-
Construction in progress	432,721	1,426,684	-	(786,347)	1,073,058	-	-	-	-	1,073,058
Total Bowman Field	32,279,385	1,426,684	(42,132)	(155,316)	33,508,621	18,022,101	1,261,021	(42,132)	19,240,990	14,267,631
Total Louisville International Airport and Bowman Field	\$ 988,472,992	\$ 29,259,966	\$ (13,648,427)	\$ (288,123)	\$ 1,003,796,408	\$ 454,645,606	\$ 27,465,613	\$ (816,232)	\$ 481,294,987	\$ 522,501,421

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF INSURANCE COVERAGE
June 30, 2013

	<u>Expiration Date</u>	<u>Amount of Coverage</u>
Chartis Aviation/National Union Fire Insurance Company of Pittsburg:		
General airport liability	07/31/2013	\$ 250,000,000
Optional war risk and other perils	07/31/2013	150,000,000
Optional TRIA	07/31/2013	250,000,000
Affiliated FM Insurance Co:		
All risk property	07/31/2013	500,000,000
Starr Indemnity and Liability Co:		
Public officials' liability covering board members and all employees	07/31/2013	10,000,000
Chubb Insurance Group/Federal Insurance Co:		
Blanket travel accident	07/31/2014	125,000
KEMI:		
Worker's compensation	07/31/2013	Statutory Limitations
Employer's liability	07/31/2013	1,000,000
Fidelity and Deposit Co. of Maryland		
Fidelity and crime covering board members and all employees	07/31/2014	
Employee dishonesty		500,000
Forgery/alteration		100,000
Theft		100,000
Travelers Insurance Company:		
Fiduciary liability	08/01/2014	1,000,000
Automobile coverage	07/31/2013	1,000,000
All risk unlicensed equipment	07/31/2013	8,848,233
US Fire Insurance Co:		
Accidental policy covering airport volunteers	01/01/2014	15,000 per person
Axis Surplus Insurance Co.:		
Media professional liability	03/15/2014	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, 2013 and the submission of these statements.

OTHER REQUIRED INFORMATION

INDEPENDENT AUDITOR'S 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, in accordance with the 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 Louisville Regional Airport Authority (the "Authority") and the discretely presented component unit of the Louisville Renaissance Zone Corporation (the "LRZC"), which comprise the statements of net position, the related statements of revenues and expenses and changes in net position, cash flows, and the related notes to the financial statements for the year ended June 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

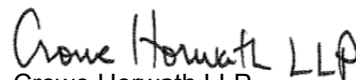
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely 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 the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Crowe Horwath LLP

Louisville, Kentucky
October 10, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

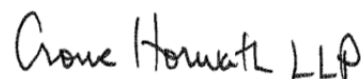
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 10, 2013 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.


Crowe Horwath LLP

Louisville, Kentucky
October 10, 2013

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

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, 2013	Accumulated Expenditures
<u>U.S. Department of Transportation</u>						
Direct Programs:						
Federal Aviation Administration						
Airport Improvement						
	20.106	3-21-0031-84	Taxiway A (Phase III), Various Airfield Projects & Purchase of Equipment	\$ 6,834,772	\$ 1,082,444	\$ 6,834,772
	20.106	3-21-0031-88	Acquire Land	5,000,000	76,832	4,076,832
	20.106	3-21-0031-90	Taxiway A (Phase IV), Various Airfield Projects and Purchase of Equipment	13,101,152	7,735,931	11,924,593
	20.106	3-21-0031-91	Taxiway A (Phase IV), Various Airfield Projects and Purchase of Equipment	6,628,193	515,060	515,060
	20.106	3-21-0031-92	Various Airfield Projects	1,570,480	1,570,480	1,570,480
	20.106	3-21-0031-93	Extend Taxiway Echo	8,808,855	1,517,534	1,517,534
	20.106	3-21-0031-94	Sound Insulation	180,000	56,656	56,656
Bowman Field						
	20.106	3-21-0032-18	Taxiway Lima (Phase II) and Acquire Easement	1,330,000	227,828	1,330,000
	20.106	3-21-0032-19	Acquire Easement	68,073	3,064	5,097
	20.106	3-21-0032-21	Acquire Easement	<u>50,000</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Transportation				<u>43,571,525</u>	<u>12,785,829</u>	<u>27,831,024</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, 2013

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, 2013	Accumulated Expenditures
<u>U.S. Department of Homeland Security</u>						
	97.090	HSTS0208HSLR259	Law Enforcement Officer Reimbursement Program	\$ 643,641	\$ 45,909	\$ 615,860
	97.090	HSTS0208HSLR280	Law Enforcement Officer Reimbursement Program	262,800	55,236	55,236
	97.072	HSTS0208HCAN449	TSA National Explosives Detection Canine Team	<u>1,186,261</u>	<u>326,249</u>	<u>1,122,528</u>
				<u>2,092,702</u>	<u>427,394</u>	<u>1,793,624</u>
Pass-Through Funds:						
Federal Emergency Management Agency/Commonwealth of Kentucky Emergency Management						
	97.036	FEMA-1818DRKY	Public Disaster Assistance (Ice Storm)	<u>456,631</u>	-	<u>410,968</u>
				<u>456,631</u>	-	<u>410,968</u>
Total U.S. Department of Homeland Security				<u>2,549,333</u>	<u>427,394</u>	<u>2,204,592</u>
Total Expenditures of Federal Awards.				<u>\$ 46,120,858</u>	<u>\$ 13,213,223</u>	<u>\$ 30,035,616</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, 2013

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, 2013

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, 2013

PART II: FINANCIAL STATEMENT FINDINGS

There were no findings for the year ended June 30, 2013.

PART III: FEDERAL AWARD FINDINGS

There were no findings for the year ended June 30, 2013.

PART IV: PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no findings for the year ended June 30, 2012.

INDEPENDENT AUDITOR'S 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

Report on Compliance of Passenger Facility Charges

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"), that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2013.

Management's Responsibility

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. Management of the Airport is also responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Authority's compliance based on our audit of the types of compliance requirements referred to above. 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.

Opinion on Passenger Facility Charge Program

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 its passenger facility charge program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, 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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration. Accordingly, this report is not suitable for any other purpose.

Report on 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 10, 2013 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 Guide and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charges collected and expended is fairly stated in all material respects, in relation to the financial statements as a whole.


Crowe Horwath LLP

Louisville, Kentucky
October 10, 2013

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
Year ended June 30, 2013

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	\$ 86,210,726	\$ 745,889	\$ 59,153,697
	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	2,479,014	2,479,014	-	-	1,758,212
	12-07-C-00-SDF	<u>2,250,000</u>	<u>2,250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals		<u>\$ 113,175,269</u>	<u>\$ 113,175,269</u>	<u>\$ 86,210,726</u>	<u>\$ 745,889</u>	<u>\$ 78,570,798</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

Summary of Auditor's Results

We have issued an unqualified opinion, dated October 10, 2013 on the financial statements of Louisville Regional Airport Authority as of and for the year ended June 30, 2013.

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 10, 2013 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, 2013

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.