LOUISVILLE RENAISSANCE ZONE CORPORATION
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Louisville Renaissance Zone Corporation
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisville Renaissance Zone Corporation (a non-profit corporation) ("LRZC"), a component unit of Louisville Regional Airport Authority ("Authority"), which comprise the statements of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LRZC as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Crowe LLP

Crowe LLP

Louisville, Kentucky
October 17, 2018

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2018
(With Summarized Financial Information as of June 30, 2017)

	2018	2017
ASSETS		
Current assets		
Cash and equivalents	$ 1,126,514	$ 5,072,677
Investments	27,675,228	23,022,181
Land held for sale	217,382	1,048,814
Fees receivable, net	3,631,371	6,192,335
Total current assets	32,650,495	35,336,007
Long-term assets		
Fees receivable	7,700,000	5,050,000
Capital assets not being depreciated	10,566,401	10,929,609
Depreciable capital assets, net	18,586,111	16,516,514
Total long-term assets	36,852,512	32,496,123
Total assets	$ 69,503,007	$ 67,832,130
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable – Authority	$ 18,230	$ 16,565
Accounts payable	165,747	367,623
Accrued expenses and other	-	91,460
Loans payable – current	1,656,926	5,097,889
Total current liabilities	1,840,903	5,573,537
Net assets – unrestricted	67,662,104	62,258,593
Total liabilities and net assets	$ 69,503,007	$ 67,832,130

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF ACTIVITIES
Year ended June 30, 2018
(With Summarized Financial Information as of June 30, 2017)

	2018	2017
Operating revenues		
TIF revenue	$ 3,530,000	$ 3,790,000
Lease revenue	199,481	811,115
Land sales, net of costs, and other	2,851,891	11,520,110
Total operating revenues	6,581,372	16,121,225
Operating expenses		
General and administrative	199,127	830,480
Depreciation	1,317,172	1,204,153
Total expenses	1,516,299	2,034,633
Operating income	5,065,073	14,086,592
Non-operating revenues (expenses)		
Interest revenue	338,438	147,059
Interest expense and loan amortization	-	(833,386)
Total non-operating revenues (expenses)	338,438	(686,327)
Change in net assets	5,403,511	13,400,265
Net assets, beginning of year	62,258,593	48,858,328
Net assets, end of year	$ 67,662,104	$ 62,258,593

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENTS OF CASH FLOWS
Year ended June 30, 2018
(With Summarized Financial Information as of June 30, 2017)

	2018	2017
Cash flows from operating activities		
Land sales, lease revenue, and TIF revenue	$ 7,948,095	$ 16,903,064
Cash paid to suppliers and others	(500,769)	(1,141,546)
Net cash provided by operating activities	7,447,326	15,761,518
Cash flows from financing activities		
Payments on loans payable	(3,440,964)	(2,255,611)
Additions to capital assets	(3,639,581)	(2,651,148)
Net borrowings from the Authority	1,665	2,043
Cash paid for interest	-	(14,377)
Net cash used for financing activities	(7,078,880)	(4,919,093)
Cash flows from investing activities		
Interest income	338,438	147,059
Purchase of investments	(31,535,969)	(32,967,692)
Proceeds from maturities of investments	26,882,922	23,942,830
Net cash used for investing activities	(4,314,609)	(8,877,803)
Net change in cash and equivalents	(3,946,163)	1,964,622
Cash and equivalents, beginning of year	5,072,677	3,108,055
Cash and equivalents, end of year	$ 1,126,514	$ 5,072,677
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 5,065,073	$ 14,086,592
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,317,172	1,204,153
Changes in assets and liabilities:		
Fees receivable	(89,036)	(1,705,955)
Accounts payable	(210,182)	(270,717)
Accrued expenses and other	(91,460)	(40,349)
Land	1,455,759	2,487,794
Net cash provided by operating activities	$ 7,447,326	$ 15,761,518

Noncash capital and financing activities

LRZC financed the purchase of capital assets through accounts payable of approximately $177,000 and $360,000 in 2018 and 2017, respectively.

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Louisville Renaissance Zone Corporation ("LRZC") is a non-stock, non-profit public property corporation set up to oversee an area that is bordered at the north by Fern Valley Road, the east by I-65, the south by I-265, and the west by CSX railroad. The photo below is an aerial view of this area bordered in red. This area can be developed for commercial or industrial uses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, LRZC is to acquire property, construct, and maintain improvements to accomplish approved public purposes. The LRZC has approval for an initial project totaling $41.7 million primarily for land acquisition and infrastructure improvements. In FY 2018, approval was received for an additional project totaling $30.3 million primarily for further infrastructure improvements. Upon completion of these projects, approval for additional projects may be requested based on TIF funding availability.

The Louisville Regional Airport Authority's Board members also serve as LRZC's Board, however LRZC is legally separate from the Authority, there is no financial benefit or burden relationship, activities of the LRZC are managed separately, and LRZC benefits the community. These characteristics support LRZC being defined as a discretely presented component unit in the Authority's financial statements.

General Accepted Accounting Principles: LRZC follows the Financial Accounting Standards Board statements for non-profit organizations. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board ("GASB") recognition criteria and presentation features, as presented in the Authority's financial statements.

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Accounting principles for external financial reporting by non-profit organizations require that resources be classified for accounting and reporting purposes into three net asset categories according to external (donor) imposed restrictions. A description of the three net asset categories follows:

- Unrestricted net assets include the surplus or deficit in expendable funds available for support in the operation of the entity.
- Temporarily restricted net assets include contributions for which donor imposed restrictions have not been met and pledges unavailable for expenditure until collection. There were no temporarily restricted net assets at June 30, 2018.
- Permanently restricted net assets include amounts, which the donors have stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. There were no permanently restricted net assets at June 30, 2018.

Basis of Accounting: The financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and earned, and expenses are recognized in the accounting period in which the liabilities are incurred.

Cash and Equivalents: For purposes of the statements of cash flows, LRZC considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents. The balances of each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. All deposits exceeding the federal insurance coverage level are collateralized with securities held by LRZC's agent in LRZC's name.

Investments: Investments are recorded at fair value. Investments are made only in government-backed securities. All investments are held in the LRZC's name. It is management's intention to reinvest all maturing funds.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Held for Sale.

Capital Assets: Capital assets are recorded at cost or at estimated fair value, if donated, 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 value to the total project. Interest costs are capitalized while development is in progress. Depreciation is provided on all depreciable assets over the estimated useful lives of the respective assets using the straight-line method. LRZC is depreciating land improvements and utility systems over periods of 10 to 20 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. If impaired, the assets are recorded at fair value. The LRZC has a capitalization threshold of $50,000 for all capital assets.

Income Taxes: LRZC is a non-profit corporation created as an agency of the Authority under the provisions of KRS 58.180. Therefore, the entity is exempt from income taxes. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Accounting principles generally accepted in the United States of America prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Due to its tax-exempt status, LRZC is generally not subject to U.S. federal income tax or state income tax. LRZC does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. LRZC recognizes interest and/or penalties related to income tax matters in income tax expense. LRZC has no amounts accrued for interest and penalties as of June 30, 2018.

Fees Receivable: Receivables represent Tax Increment Financing (TIF) requests submitted to or earned from state and local governments. At June 30, 2018, fees receivable include TIF revenue calculated based on detailed information obtained from both local and state governments through December 31, 2015. Additionally, TIF receivables have been recorded for estimated TIF revenue earned through 2016 and 2017 calendar years for both local and state governments for which detailed information is not yet available to calculate. Amounts not expected to be collected within one year are reported as long-term receivables. Receivables are reported at fair value and are reduced by the estimated portion that is expected to be uncollectible. Interest is not normally charged on receivables. As of June 30, 2018, 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.

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management's 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.

NOTE 2 – INVESTMENTS

At June 30, 2018, LRZC's investment balances were as follows:

Investment Type	Investment Balances	Maturity	Rating
Farmer Mac	$ 6,057,948	10/30/2018	Aaa
US Treasury Note	21,617,280	7/1/2018 through 12/15/2018	Aaa
	$ 27,675,228		

Fair Value Measurement: The LRZC categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The LRZC has the following recurring fair value measurements as of June 30, 2018:

- Farmer Mac Bonds of $6,057,948 is valued using a matrix pricing model (Level 2 inputs)
- United States Treasury Notes of $21,617,260 is valued using a matrix pricing model (Level 2 inputs)

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 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.

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: Unrestricted funds invested in U.S. Government Agencies are not limited. At June 30, 2018, approximately $27,700,000, was 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)

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,192,973	$ 1,834,602	$ (1,673,321)	$ 8,354,254
Construction projects	2,736,636	3,648,068	(4,172,557)	2,212,147
Total capital assets not being depreciated	10,929,609	5,482,670	(5,845,878)	10,566,401
Other capital assets:				
Land improvements	18,835,633	3,386,769	-	22,222,402
Utility systems	3,254,054	-	-	3,254,054
Total other capital assets	22,089,687	3,386,769	-	25,476,456
Less accumulated depreciation	(5,573,173)	(1,317,172)	-	(6,890,345)
Other capital assets, net	16,516,514	2,069,597	-	18,586,111
Net capital assets	$ 27,446,123	$ 7,552,267	$ (5,845,878)	$ 29,152,512

NOTE 4 – LOANS PAYABLE

In February 2007, LRZC signed a Loan and Participation Agreement (“Agreement”) with United Parcel Service (“UPS”). Under the Agreement, UPS purchased a 60-acre site within the Minors Lane redevelopment area and relocated a ground sort facility previously located at the Louisville International Airport. The Agreement also contained additional options to purchase land, which have since expired. In addition, UPS agreed to loan LRZC $6.9 million (interest-bearing) for the purchase of property, which has since been paid in full, and $11.2 million (interest-free) for construction of the Phase I projects that include a bridge and various roadway, utility and other public infrastructure improvements. In lieu of paying interest on the infrastructure loan, the Agreement called for LRZC to expend up to $5.6 million to make site improvements on the 60-acre parcel to address floodplain, wetland and other related issues. In 2017, certain cash balances of LRZC reached levels that triggered the advance prepayment obligations under the UPS loans. This caused the full repayment of the construction loan in September 2016 of approximately $1,670,000 and also caused a change in the repayment terms of the in Lieu of Interest loan. Those terms now require payment exclusively from TIF revenues as and when received until paid in full. Management estimates that the LRZC will receive TIF revenues in excess of the remaining loan balance within one-year of the financial statement date that will be applied towards the loan. The financial statements as of June 30, 2018 have been adjusted to classify these amounts subsequently paid or estimated to be paid within one-year as short-term liabilities. The Statements of Financial Position reflect the value of land purchased, construction costs incurred and other liabilities to date. Loans payable consist of the following at June 30:

(Continued)

NOTE 4 – LOANS PAYABLE (Continued)

	2018
Loan payable to UPS under original terms 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 TIF revenues subject to advance repayment as described above.	$ 1,656,926
Less current portion	(1,656,926)
Long-term portion	$ -

Annual Loan Repayment Requirements: The annual loan repayment requirements to maturity, including principal and interest, as of June 30, 2018, are estimated as follows:

	Principal	Interest	Total
Year ended June 30, 2019	$ 1,656,926	$ -	$ 1,656,926

NOTE 5 – OPERATING LEASE OF A LESSOR

LRZC entered into an operating lease with Ford Motor Company for 14.593 acres of land and land improvements that commenced in July 2011 with an original term through December 2016 and an option to renew for five years. The lease was subsequently amended in April 2012, April 2013, and November 2016. Collectively, these amendments increased the land area leased by approximately 5.510 acres, exercised the initial 5-year option extending the term until December 2021, and added an additional 5-year option.

The approximate future minimum lease payments to be received in each of the years remaining under the original term are as follows:

	Total
Year ended June 30,	
2019	$ 202,984
2020	206,978
2021	211,355
2022	93,398
	$ 714,715

Lease revenue recognized during the year ended June 30, 2018 was $199,481. The net book value of the property subject to the lease was approximately $2,883,639 at June 30, 2018.

(Continued)

NOTE 6 – RELATED PARTY TRANSACTIONS

The Authority provides management and construction oversight services to LRZC. The amount due to the Authority was approximately $18,000 at June 30, 2018.

NOTE 7 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2018 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2018. Management has performed their analysis through October 17, 2018, the date the financial statements were available to be issued.