LOUISVILLE RENAISSANCE ZONE CORPORATION
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2019

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Crowe LLP
Independent Member Crowe Global

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 statement of financial position as of June 30, 2019, and the related statement 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the LRZC has adopted ASU 2016-14 - Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities for the year ended June 30, 2019. Our opinion is not modified with respect to these matters.

Other Matters

Prior-Year Comparative Information

We have previously audited LRZC's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crowe LLP

Crowe LLP

Louisville, Kentucky
October 16, 2019

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Summarized Financial Information as of June 30, 2018)

	2019	2018
ASSETS		
Current assets		
Cash and equivalents	$ 1,837,180	$ 1,126,514
Investments	31,859,840	27,675,228
Land held for sale	758,727	217,382
Fees receivable, net	4,756,822	3,631,371
Total current assets	39,212,569	32,650,495
Long-term assets		
Fees receivable	9,100,000	7,700,000
Capital assets not being depreciated	9,351,615	10,566,401
Depreciable capital assets, net	17,161,589	18,586,111
Total long-term assets	35,613,204	36,852,512
Total assets	$ 74,825,773	$ 69,503,007
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable – Authority	$ 11,252	$ 18,230
Accounts payable and accrued expenses	74,451	165,747
Contribution payable	216,285	-
Loans payable – current	-	1,656,926
Total current liabilities	301,988	1,840,903
Net assets		
Without donor restrictions	74,523,785	67,662,104
Total liabilities and net assets	$ 74,825,773	$ 69,503,007

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2019
(With Summarized Financial Information for the year ended June 30, 2018)

	2019	2018
Operating revenues		
TIF revenue	$ 6,970,466	$ 3,530,000
Lease revenue	202,983	199,481
Land sales, net of costs, and other	819,658	2,851,891
Total operating revenues	7,993,107	6,581,372
Operating expenses		
Program services	1,725,743	1,386,006
Management and general	107,362	130,293
Total expenses	1,833,105	1,516,299
Operating income	6,160,002	5,065,073
Non-operating revenues (expenses)		
Interest revenue	701,679	338,438
Total non-operating revenues (expenses)	701,679	338,438
Change in net assets	6,861,681	5,403,511
Net assets, beginning of year	67,662,104	62,258,593
Net assets, end of year	$ 74,523,785	$ 67,662,104

See accompanying notes to financial statements.

LOUISVILLE RENAISSANCE ZONE CORPORATION
STATEMENT OF CASH FLOWS
Year ended June 30, 2019
(With Summarized Financial Information for the year ended June 30, 2018)

	2019	2018
Cash flows from operating activities		
Land sales, lease revenue, and TIF revenue	$ 6,316,553	$ 7,948,095
Cash paid to suppliers and others	(338,560)	(500,769)
Net cash provided by operating activities	5,977,993	7,447,326
Cash flows from financing activities		
Payments on loans payable	(1,656,925)	(3,440,964)
Additions to capital assets	(120,491)	(3,639,581)
Net (payments to) borrowings from the Authority	(6,978)	1,665
Net cash used for financing activities	(1,784,394)	(7,078,880)
Cash flows from investing activities		
Interest income	701,679	338,438
Purchase of investments	(39,742,026)	(31,535,969)
Proceeds from maturities of investments	35,557,414	26,882,922
Net cash used for investing activities	(3,482,933)	(4,314,609)
Net change in cash and equivalents	710,666	(3,946,163)
Cash and equivalents, beginning of year	1,126,514	5,072,677
Cash and equivalents, end of year	$ 1,837,180	$ 1,126,514
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 6,160,002	$ 5,065,073
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,369,557	1,317,172
Changes in assets and liabilities:		
Fees receivable	(2,525,451)	(89,036)
Accounts payable	(91,296)	(210,182)
Contributions payable	216,285	-
Accrued expenses and other	-	(91,460)
Land	848,896	1,455,759
Net cash provided by operating activities	$ 5,977,993	$ 7,447,326

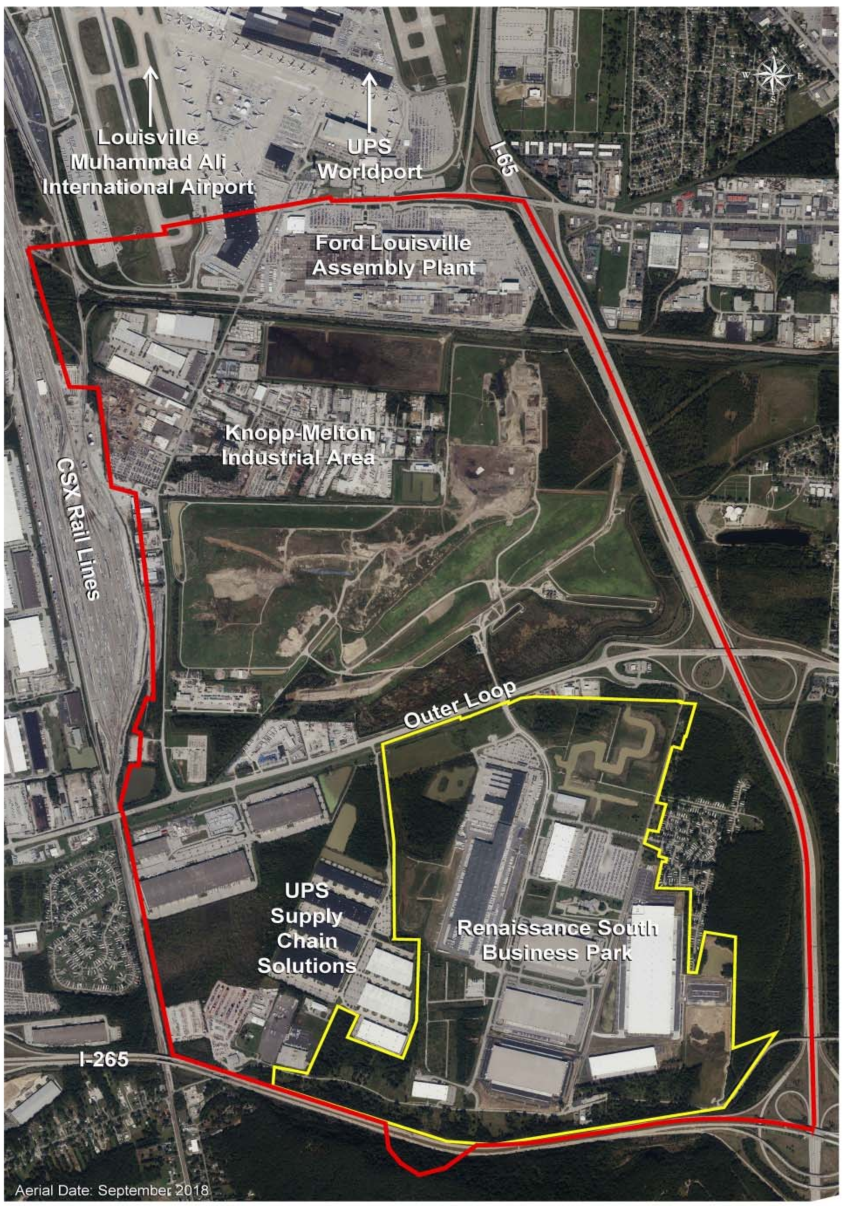
Noncash capital and financing activities

LRZC financed the purchase of capital assets through accounts payable of approximately $54,000 in 2019.

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 carry out the public purposes of the Louisville Regional Airport Authority ("Authority") to promote and develop aviation and air transport, and/or establish, operate or expand any airport or air navigation facilities. This includes identifying, developing, acquiring, financing and accomplishing public projects within the Development Area and serving as the agency of Tax Increment Financing ("TIF") and public project development within the Development Area and for the acquisition and financing of public projects for and on behalf of the Authority. The Development Area overseen by LRZC 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 is being 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 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 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, 2018, 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 two net asset categories according to external (donor) imposed restrictions. A description follows:

- Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the LRZC. Net assets without donor restrictions include undesignated net assets and net assets that are Board designated.

- Net assets with donor restrictions are net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature while others are perpetual in nature.

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, 2019.

Net Assets Classification: The LRZC reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions totaled $74,523,785 at June 30, 2019. There were no net assets with donor restrictions as of June 30, 2019.

The LRZC entered into an agreement with Louisville Regional Airlift Development, Inc. (“LRAD”) as of June 24, 2019 to contribute a portion of financial support towards LRAD’s minimum revenue guarantee program. Their program was established to share upfront risk with airlines who agree to provide nonstop air service between the Louisville Muhammad Ali International Airport and specific key markets. The Board approved designating conditional contributions up to $900,000 towards eligible obligations incurred by LRAD under the program. Of the designated contributions, the amount due to LRAD is approximately $216,000 as of June 30, 2019 based on conditions met during the year. The amount of net assets without donor restrictions designated by the Board remaining was approximately $684,000 as of June 30, 2019.

Functional Allocation of Expenses: The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. All expenses have been allocated among the program services category and management and general category based on the personnel and expenses assigned to the respective activities. The LRZC has no fundraising activities.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statements of activities report certain categories of expenses attributable to the program and supporting functions of the LRZC. The LRZC reports under one program – promote aviation development. The purposes for the program are to accomplish the public purposes of the Authority including public project development within the Development Area to promote aviation and air transport development, establishing, operating or expanding any airport or air navigation facilities, and public project development for and on behalf of the Authority. The table below presents these functional expenses (program and supporting activities) by their natural classification for the year ended June 30, 2019.

	Promote Aviation Development	Management and General	2019 Total	2018 Total
Professional services and contracts	$ 102,783	$ 107,332	$ 210,115	$ 187,796
Contributions	216,285	-	216,285	-
Depreciation	1,369,557	-	1,369,557	1,317,172
Other	37,118	30	37,148	11,331
Total	$ 1,725,743	$ 107,362	$ 1,833,105	$ 1,516,299

Fees Receivable: Receivables represent TIF requests submitted to or earned from state and local governments. At June 30, 2019, fees receivable include TIF revenue calculated based on detailed information obtained from both local and state governments through calendar year 2016. Additionally, TIF receivables have been recorded for estimated TIF revenue earned through calendar year 2018 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, 2019, 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.

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.

Recent Accounting Pronouncements Adopted/Implemented: During the year, LRZC implemented FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (ASU). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses, and investment return. ASU 2016-14 had no impact on net assets.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation, with no effect on total net assets or the change in net assets.

(Continued)

NOTE 2 – INVESTMENTS

At June 30, 2019, LRZC's investment balances were as follows:

Investment Type	Investment Balances	Maturity	Rating
Federal National Mortgage Association	$ 15,232,379	8/28/2019	Aaa
Federal Home Loan Bank	8,541,859	10/29/2019 through 4/30/2020	Aaa
Federal Home Loan Bank-Discount Note	3,042,985	12/17/2019	Aaa
Farmer Mac	5,042,617	2/28/2020	Aaa
	$ 31,859,840		

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's investments are based on a matrix pricing model (Level 2 inputs) for fair value measurement as of June 30, 2019.

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, 2019, approximately $31,900,000 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, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,354,254	$ -	$ (1,389,060)	$ 6,965,194
Construction projects	2,212,147	174,274	-	2,386,421
Total capital assets not being depreciated	10,566,401	174,274	(1,389,060)	9,351,615
Other capital assets:				
Land improvements	22,222,402	-	(54,965)	22,167,437
Utility systems	3,254,054	-	-	3,254,054
Total other capital assets	25,476,456	-	(54,965)	25,421,491
Less accumulated depreciation	(6,890,345)	(1,369,557)	-	(8,259,902)
Other capital assets, net	18,586,111	(1,369,557)	(54,965)	17,161,589
Net capital assets	$ 29,152,512	$ (1,195,283)	$ (1,444,025)	$ 26,513,204

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.

The remaining balance at June 30, 2018 was repaid during the current fiscal year.

(Continued)

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,	
2020	$ 206,978
2021	211,355
2022	93,398
	$ 511,731

Lease revenue recognized during the year ended June 30, 2019 was $202,983. The net book value of the property subject to the lease was approximately $2,622,086 at June 30, 2019.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Authority provides management and construction oversight services to LRZC. The amount due to the Authority was approximately $11,000 at June 30, 2019.

NOTE 7 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2019. Management has performed their analysis through October 16, 2019, the date the financial statements were available to be issued.

(Continued)

NOTE 8 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The LRZC's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Financial assets at year-end:	
Cash	$ 1,837,180
Investments	31,859,840
Fees and rentals receivable, net	13,856,822
Total financial assets	47,553,842
Less amounts not available for general expenditure within one year:	
Cash designated for contribution to LRAD (Note 1)	(900,000)
Fees and rentals receivables due in more than one year	(9,100,000)
Financial assets available to meet general expenditures within one year	$37,553,842

As part of the LRZC's liquidity management, the LRZC invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The intent of the above financial assets is to promote long-term development of aviation and air transportation projects.