Louisville Renaissance Zone Corporation

(a component unit of Louisville Regional Airport Authority)

Financial Report

June 30, 2022

Contents

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Independent Auditor's Report

To the Board of Directors
Louisville Renaissance Zone Corporation

We have audited the financial statements of the business-type activities of Louisville Regional Airport Authority (the "Authority") and its discretely presented component unit, Louisville Renaissance Zone Corporation (the "Corporation"), as of and for the year ended June 30, 2022, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 25, 2022, which contained an unmodified opinion on the financial statements of the business-type activities of the Authority and its discretely presented component unit. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 25, 2022.

In Relation to Opinion on Accompanying Financial Schedules

The accompanying schedule of full accrual net position and schedule of full accrual revenue, expenses, and changes in net position of Louisville Renaissance Zone Corporation are presented for the purpose of additional analysis and are 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 basic 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

October 25, 2022

Louisville Renaissance Zone Corporation

Schedule of Full Accrual Net Position

	June 30, 2022
Assets	
Current assets:	
Cash and cash equivalents (Note 2)	$ 21,081,699
Investments (Note 2)	10,004,007
Fees receivable - Net	12,374,503
Leases receivable	207,569
Total current assets	43,667,778
Noncurrent assets:	
Leases receivable	720,255
Fees receivable	11,000,000
Capital assets:	
Assets not subject to depreciation (Note 3)	31,409,249
Assets subject to depreciation - Net (Note 3)	15,635,576
Total noncurrent assets	58,765,080
Total assets	102,432,858
Liabilities - Current liabilities - Accounts payable	3,210,722
Deferred Inflows of Resources - Leases	924,602
Net Position	
Net investment in capital assets	43,854,980
Unrestricted	54,442,554
Total net position	**$ 98,297,534**

See notes to financial schedules.

Louisville Renaissance Zone Corporation

Schedule of Full Accrual Revenue, Expenses, and Changes in Net Position

	Year Ended June 30, 2022
Operating Revenue	
TIF revenue	$ 7,248,813
Lease revenue	254,890
Total operating revenue	7,503,703
Operating Expenses	
Management and general	276,620
Depreciation	1,392,298
Total operating expenses	1,668,918
Operating Income	5,834,785
Nonoperating Revenue	
Investment income - Net	60,599
Interest income - Leases	7,153
Total nonoperating revenue	67,752
Change in Net Position	5,902,537
Net Position - Beginning of year	92,394,997
Net Position - End of year	**$ 98,297,534**

See notes to financial schedules.

Note 1 - Significant Accounting Policies

Reporting Entity

Louisville Renaissance Zone Corporation (the "Corporation") is governed by an 11-member board of directors that consists of the same individuals as the Louisville Regional Airport Authority (the "Authority") board. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial schedules.

The Corporation is a nonstock, nonprofit public property corporation set up to carry out the public purposes of the Authority to promote and develop aviation and air transportation 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 Corporation is a component unit of the Authority.

The development area overseen by the Corporation is bordered at the north by Fern Valley Road, at the east by I-65, at the south by I-265, and at the west by CSX railroad. This area is being developed for commercial or industrial uses.

The Corporation entered into an interlocal cooperation agreement with the government of the Louisville metropolitan area and the Commonwealth of Kentucky whereby funding will be provided by TIF. Under this agreement, the Corporation is to acquire property and construct and maintain improvements to accomplish approved public purposes. The Corporation has approval for an initial project totaling $41.7 million primarily for land acquisition and infrastructure improvements. In 2018, approval was received for an additional project totaling $30.5 million primarily for further infrastructure improvements. Upon completion of these projects, approval for additional projects may be requested based on TIF funding availability.

Basis of Accounting

The schedules of the Corporation presented in this report reflect the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments

Investments are reported at amortized cost. Short-term investments are reported at cost, which approximates fair value. Investments are stated at fair value. Investments are made only in government-backed securities. All investments are held in the Corporation's name.

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 at the time that land is initially acquired is classified as land held for sale.

Note 1 - Significant Accounting Policies (Continued)

Fees Receivable

Fees receivable represent TIF requests submitted to or earned from state and local governments. At June 30, 2022, fees receivable include TIF revenue calculated based on detailed information obtained from the state and local governments through December 31, 2018. Additionally TIF receivables have been recorded for estimated TIF revenue earned through calendar year 2021 for both state and local 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, 2022, management has estimated all amounts to be fully collectible.

Capital Assets

Capital assets, which include land, construction projects, land improvements, and utility systems, are reported in the schedule of full accrual net position. Capital assets are defined by the Corporation as assets with an initial individual cost of more than $50,000 and an estimated useful life of three years or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 Corporation is depreciating land improvements and utility systems over periods of 10 to 20 years. The assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Net Position

Net position of the Corporation is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Revenue

The Corporation recognizes revenue from land sales upon transfer of title. Revenue from the TIF agreements is 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.

Use of Estimates

The preparation of the accompanying financial schedules requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial schedules and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Leases

The Corporation is a lessor for a noncancelable lease of land. The Corporation recognizes a lease receivable and a deferred inflow of resources in the financial statements.

Note 1 - Significant Accounting Policies (Continued)

At the commencement of a lease, the Corporation initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Corporation determines the discount rate it uses to discount the expected lease receipts to present value, lease term, and lease receipts. The Corporation uses its incremental borrowing rate at lease inception as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The Corporation monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Note 2 - Deposits and Investments

The Corporation's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation's investment policy states that all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Corporation's agents in the Corporation's name. The balances of each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. The Corporation'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 Corporation or by the Corporation's agent in the Corporation's name. Repurchase agreements are recorded at cost.

Covered by federal depository insurance	$ 250,000
Uninsured and collateralized	20,883,735
Total	$ 21,133,735

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation does not have a policy for custodial credit risk. At June 30, 2022, the Corporation did not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Corporation's investment policy follows Kentucky Revised Statute 66.480, and, as such, interest rate risk is minimized due to the limitations contained within this statute.

Note 2 - Deposits and Investments (Continued)

Credit Risk

The Corporation's investment policy minimizes credit risk by investing only in investments allowed by the Kentucky Revised Statute 66.480.

Concentration of Credit Risk

The Corporation's investment policy minimizes concentration of credit risk by limiting uncollateralized certificates of deposit, bankers' acceptances, commercial paper, equity securities, and corporate bonds to 20 percent of invested assets per category or 40 percent of total invested assets for shares of mutual funds, equity securities, and corporate bonds combined, with certain limited exceptions. At the time the investment is made, no more than 5 percent of invested assets shall be invested in any one issuer. At June 30, 2022, approximately $10,000,000 was invested in U.S. government agency obligations.

Note 3 - Capital Assets

Capital asset activity for the Corporation for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Additions	Disposals and Reclassifications	Balance June 30, 2022
Capital assets not being depreciated:				
Land	$ 7,739,076	$ -	$ 1,369,080	$ 9,108,156
Construction in progress	3,554,218	22,431,553	(3,684,678)	22,301,093
Total capital assets not being depreciated	11,293,294	22,431,553	(2,315,598)	31,409,249
Capital assets being depreciated:				
Land improvements	22,167,437	-	203,552	22,370,989
Utility systems	3,665,309	-	2,022,955	5,688,264
Total capital assets being depreciated	25,832,746	-	2,226,507	28,059,253
Accumulated depreciation	11,044,356	1,392,298	(12,977)	12,423,677
Net capital assets being depreciated	14,788,390	(1,392,298)	2,239,484	15,635,576
Net capital assets	$ 26,081,684	$ 21,039,255	$ (76,114)	$ 47,044,825

Construction Commitments

The Corporation has active construction projects at year end. The projects primarily include the South Park Road widening, Minors Lane widening, industrial speculative building, and interchange final design projects. At year end, the Corporation's commitments with contractors were approximately $4,900,000.

Note 4 - Leases

The Corporation, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for short-term leases. As lessor, the asset underlying the lease is not unrecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods.

Note 4 - Leases (Continued)

The Corporation leases land to a third party. Payments are received monthly for a fixed monthly fee and the lease contains an annual escalation clause. The lease term expires in December 2026, and the lease does not contain an early termination provision.

The Corporation has adopted the following policies to assist in determining lease treatment according to the requirements of GASB Statement No. 87 (GASB 87):

- The maximum possible lease term(s) is noncancelable by both lessee and lessor and is more than 12 months.
- The term of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the likelihood of renewal. The term of the lease will exclude possible termination periods that are not deemed to be reasonably certain, given all available information, regarding the likelihood of exercise.
- For the fiscal year ended June 30, 2022, all leases with associated receivables are based on fixed payments and do not have variable payment components included in the receivable.

During the year ended June 30, 2022, the Corporation recognized the following related to its lessor agreements:

Lease revenue	$	206,122
Interest income related to its leases		7,153
Revenue from variable payments not previously included in the measurement of the lease receivable		16,122

Future principal and interest payment requirements related to the Corporation's lease receivable at June 30, 2022 are as follows:

Years Ending	Principal	Interest	Total
2023	$ 207,569	$ 5,705	$ 213,274
2024	209,027	4,247	213,274
2025	210,495	2,779	213,274
2026	211,973	1,301	213,274
2027	88,760	106	88,866
Total	$ 927,824	$ 14,138	$ 941,962