

Louisville Regional Airport Authority®

2006 Annual Report

CHOICE



Making Louisville International Airport and Bowman Field the airports-of-choice for the entire region continues to be our goal. To achieve this goal, the Louisville Regional Airport Authority (LRAA) has undertaken numerous improvements in its customer service, marketing and physical plants. The Fiscal Year 06 (FY06) annual report demonstrates we are achieving our goal and our successes are building upon themselves.

For instance, travelers from across the region continue to drive over 100 miles to take advantage of lower fares and access to top destinations. Our customer satisfaction scores are in the ninetieth percentile. And, in FY06, total passengers at Louisville International Airport increased over 5%, operations grew by more than 4% and freight/express by 9%.

These successes came at a time of significant upheaval in the aviation industry, which makes them more impressive.

We have high expectations that the coming year will be equally or more successful.

This positive attitude is personified by the colorful airplane character that we introduced in January 2006 and that is quickly becoming a fixture in airport advertising and community outreach efforts. You will see more of this friendly image as we continue our airport-of-choice initiatives.

We welcome your suggestions for enhancements to Louisville International Airport or Bowman Field. Please send them to us at Iraa@flylouisville.com.



A handwritten signature in black ink that reads "J. D. Nichols".

J. D. Nichols
Chairman of the Board



A handwritten signature in black ink that reads "C.T. Skip Miller".

C.T. Skip Miller
Executive Director

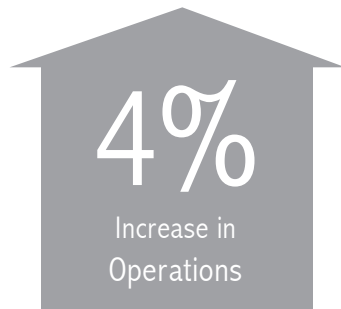
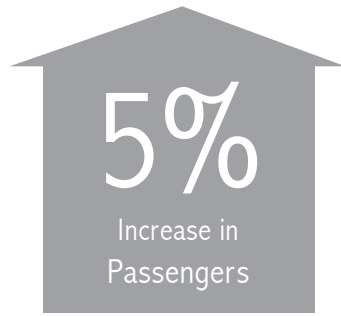
People have a CHOICE.

They are choosing Louisville International Airport.

Here's why.

SERVICE





Louisville International Airport posted positive gains during FY06. Compared to FY05, total passengers increased over 5%, operations climbed by more than 4% and freight/express over 9%.

Recognizing the passenger demand at Louisville International, Delta added flights to Atlanta; US Airways to Charlotte, Philadelphia and Washington, DC; and Continental to Cleveland.

Air service growth is also attributable to continually improving customer service and enhancing amenities at Louisville International.

The FY06 findings strongly affirmed that our customer satisfaction initiatives are working. Ninety-five percent of respondents said they were “satisfied” or “very satisfied” that Louisville International was meeting their needs. Ninety-four percent said they would “probably” or “definitely” recommend Louisville International Airport to others.

The market research also affirmed that Louisville International is reaching its goal of being the airport-of-choice in the region. Although slightly over 50% of travelers flying from Louisville International list it as their “home airport,” 88% list Louisville International as the airport in the region from which they depart most often.



WEB/REWARDS



FY06 saw the transformation of Louisville International Airport's Web-site into a more sales and service-oriented site. In October, the Web-site was re-launched at www.flylouisville.com with an airport booking engine, making Louisville International the first airport in the nation with its own online rewards program, and the largest in the U.S. to introduce its own air travel booking engine.



Three months later, the airport introduced FlyLouisville.com Rewards, the nation's first airport-sponsored on-line frequent flyer program with a colorful animated airplane mascot designed to introduce the program. The FlyLouisville Rewards allow travelers who purchase flights from the site to earn points toward discounted parking, gifts, food and club passes at Louisville International Airport.



During the year, the airport promoted its new Web-site and frequent flyer program in partnership with Continental, Southwest and American Airlines at the Louisville Bats and Louisville Fire games.

Louisville International also added First Class Seats (automated over-stuffed leather massage chairs); opened Brighton's Collectibles and Explore Kentucky shops; and continued installing TV's in the gate areas.



1st

Airport in the Nation
with its own
Online Rewards
Program

HOSPITALITY



Southern hospitality is one of the key components of our airports-of-choice campaign. It is most evident at Louisville International's information booth, located in baggage claim, from which the airport's volunteer Ambassadors served over 65,000 customers in FY06.



From October 2004 through April 2006, approximately 50 Ambassadors donated nearly 110,000 hours of personal customer service. And, this number does not account for other airport volunteers, such as Derby Belle greeters, holiday choral groups, and aviation student interns.

The Greater Louisville Convention and Visitors Bureau also partnered with the LRAA to install a full-color LED Welcome Wall at the entrance to baggage claim to showcase Louisville's attractions and provide personalized greetings for conventions and meetings. A "junior" Welcome Wall in the Arrivals corridor also provides video highlights of area points of interest and a personal welcome from Mayor Abramson.

In FY06, Louisville International Airport travelers awarded both the Travelers Choice and Travelers Progress Awards for calendar year 2005 (CY05) to USAirways for both the best and most improved airline service, respectively.

Louisville International Airport customers also awarded Young's Shoe Service the Customers Choice Award for CY05 for best non-airline customer service at Louisville International Airport and the Paradies Shops' CNBC Store the Customer's Progress Award in CY05 for most improved non-airline service.

65,000
served at
information booth



PARTNERS



Louisville International's FlyLouisville campaign extends beyond passengers to our airport business partners. And, FY06 was a success for them and us, both.

Louisville International Airport celebrated the dedication of Chautauqua Airlines' new Maintenance Facility and Crew Base in April 2006 as it became the anchor tenant for the Louisville International Commerce Centre. The Chautauqua facility, with six bays covering approximately 9.85 acres, generates 300 new jobs.



The LRAA continued or began construction on the West Runway Extension, the Southwest Perimeter Road, the In-Line Baggage Building, and TSA offices. Preparations for safety zone improvements on Runway 11/29 began for compliance with recent FAA and Congressional safety initiatives.



In May 2006, UPS announced a \$1 billion expansion of its WorldportSM facility at Louisville International that would make it easier for packages to "FlyLouisville" worldwide. WorldportSM II will add 1.1 million square feet to the existing 4 million square foot facility and generate approximately 5,000 new jobs by 2010 with a total annual economic impact of approximately \$745 million. Louisville International is partnering with UPS to make the land available for the airline's continuing growth.

The WorldportSM II expansion follows the July, 2005 dedication of the UPS Global Operations Center in the former Edgewood neighborhood; construction of UPS's Louisville Air Freight Facility on the southern end of the airport; and planning to accommodate Group VI aircraft in the coming years.

The LRAA's sister organization, the Louisville Renaissance Zone Corporation (RZ), entered into a preliminary agreement with UPS to provide for the initial development of the Minors Lane Redevelopment Area, an 800-acre sub-area of the RZ. The Minors Lane Redevelopment Area was identified as the first RZ area for redevelopment. This development allows for a new bridge and road providing direct access from the Outer Loop to the new area, as well as for a 60-acre site for the relocation of UPS's Ashbottom Hub sortation center. This will both pave the way for the development of this prime industrial area and for the expansion of WorldportSM.

\$1 billion
expansion of WorldportSM

BOWMAN FIELD





With over 105,000 landings and take-offs in FY06, Bowman Field serves a vital function as an essential reliever airport for Louisville International. The \$1.7 million reconstruction of Taxiways F & H was completed and the \$2.4 million reconstruction of Runway 14/32 began.

In FY06, Bowman Field undertook a number of other initiatives. It co-sponsored a Sport Pilot Safety Seminar in September 2005.

While functioning as a busy general aviation airport, Bowman Field also is a unique community resource. Bowman hosted a number of community events throughout the year, including the Adam Matthews' BalloonFest, the 5th largest balloon fest in the U.S.; the Taste of Louisville; Business First's Best of Louisville Awards; and the Juvenile Diabetes Walk for the Cure.



105,000

landings and take-offs

WORKFORCE





The LRAA understands the importance a well-educated and well-prepared workforce plays in the Authority's ability to retain and attract aviation businesses and industry, which is why the LRAA partners with a number of organizations to train today's students to become tomorrow's aviation employees.

During FY06, such educational opportunities included co-sponsoring summer aviation camps with the Organization of Black Airline Pilots and the Aviation Museum of Kentucky; providing job-shadowing and community service opportunities for high school students; co-sponsored Shawnee High School's Flight and Aircraft Mechanic students recognition program; and co-hosted an aviation-focused teacher in-service with the Kentucky Historical Society and Kentucky Department of Education at Bowman Field.

Aviation education
experiences for over
325
students



NEIGHBORS



The Authority's voluntary residential relocation program made great strides in FY06. Both Kentucky state government and the federal government were valuable partners in this effort. The state provided a \$5 million appropriation and the federal government provided a \$9 million appropriation to move additional families.



By June 30, 2006, 1,938 families had been voluntarily relocated from the most noise-impacted areas around the airport through either the traditional program (1,533 families who chose a home using LRAA-provided funds) or the Heritage Creek program (405 families who chose to swap their noise-impacted home for a brand new one of comparable size and style in Heritage Creek). There were 221 families remaining who were eligible for voluntary relocation, of which 29 had offers in hand to purchase their home and 75 indicated they were not presently interested in relocating.

The relocation program also reached a milestone on March 4, 2006 when the City of Heritage Creek/Minor Lane Heights dedicated its new City Hall in the LRAA-developed Heritage Creek subdivision.

In addition, NOISE (National Organization to Insure a Sound-controlled Environment) awarded the Louisville Regional Airport Authority the 2005 Mary E. Griffin Airport Operator of the Year Award for our strong commitment to mitigating the effects of aircraft noise on residents living near the airport.

The City of Heritage Creek/Minor Lane Heights named LRAA Board Member Mary Rose Evans an Honorary Resident for her extraordinary efforts in securing funding for the airport's voluntary residential relocation program and her support of Heritage Creek as an innovative alternative option for families relocating due to aircraft noise.

And, as part of our ongoing commitment to a healthier Louisville, the Authority conducted an air emission baseline inventory at Louisville International Airport to assist in balancing aviation needs with impacts on the human and natural environments and to implement changes that will avoid or minimize effects on environmental quality as we move into the future.

Although we were soaring high in FY06, we are reaching for even higher altitudes in FY07.

1,938

families relocated

FINANCIALS



LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET ASSETS

	June 30	
	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets, unrestricted		
Cash and equivalents	\$12,828,685	\$13,057,807
Investments, at amortized cost plus accrued interest	26,938,093	5,578,613
Fees and rentals receivable	4,756,881	3,875,000
Supplies and prepaid expenses	<u>631,732</u>	<u>626,276</u>
Total unrestricted current assets	45,155,391	23,137,696
Current assets, restricted		
Cash and equivalents	36,078,497	33,325,884
Grants receivable	<u>2,351,736</u>	<u>-</u>
Total restricted current assets	<u>38,430,233</u>	<u>33,325,884</u>
Total current assets	83,585,624	56,463,580
Noncurrent assets, unrestricted		
Capital assets not being depreciated	452,672,429	452,294,787
Depreciable capital assets, net	236,660,457	256,275,499
Deferred bond cost, net of accumulated amortization of \$4,081,113 in 2006 and \$3,628,968 in 2005	<u>17,606,909</u>	<u>16,869,231</u>
Total unrestricted noncurrent assets	706,939,795	725,439,517
Noncurrent assets, restricted		
Cash – PFC Fund	3,025,444	2,583,714
Cash and cash equivalents	4,934,998	31,415,272
Investments, at amortized cost plus accrued interest	<u>44,561,239</u>	<u>19,305,032</u>
Total restricted noncurrent assets	<u>52,521,681</u>	<u>53,304,018</u>
Total noncurrent assets	<u>759,461,476</u>	<u>778,743,535</u>
Total assets	<u>\$843,047,100</u>	<u>\$835,207,115</u>

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET ASSETS – CONTINUED

	June 30	
	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities (payable from unrestricted current assets)		
Accounts payable	\$3,932,474	\$3,684,401
Accrued expenses and other	857,274	820,811
Deferred income	<u>724,642</u>	<u>19,514</u>
Total unrestricted current liabilities	5,514,390	4,524,726
Current liabilities (payable from restricted assets)		
Current portion of bonds payable	15,025,000	14,330,000
Accounts payable	3,618,685	1,694,773
Accrued interest	<u>8,920,573</u>	<u>9,044,036</u>
Total restricted current liabilities	<u>27,564,258</u>	<u>25,068,809</u>
Total current liabilities	<u>33,078,648</u>	<u>29,593,535</u>
Long-term debt		
Bonds payable	<u>405,230,000</u>	<u>407,355,000</u>
Other liabilities		
Deposit from UPS Land Option	3,500,000	3,500,000
Unamortized bond premium, net	10,627,098	9,078,224
Deposit from Commonwealth of Kentucky	19,813,663	19,813,663
Deferred revenue	72,103	79,617
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>38,396,464</u>	<u>36,855,104</u>
Total liabilities	476,705,112	473,803,639
Commitments and contingencies		
NET ASSETS		
Invested in capital assets, net of related debt	342,529,411	349,519,173
Restricted for debt service	14,474,945	12,382,270
Restricted for capital projects	3,025,444	2,583,714
Unrestricted net assets (deficit)	<u>6,312,188</u>	<u>(3,081,681)</u>
Total net assets	<u>\$366,341,988</u>	<u>\$361,403,476</u>

Go to flylouisville.com for the full annual audit.

LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year ending June 30	
	<u>2006</u>	<u>2005</u>
Operating revenues		
Rentals and concessions	\$38,094,109	\$34,229,253
Landing and field use fees	<u>17,724,110</u>	<u>16,824,551</u>
Total operating revenues	55,818,219	51,053,804
Operating expenses		
Operations and maintenance	14,674,622	13,391,554
Administrative, general, planning and engineering	<u>9,496,643</u>	<u>9,294,494</u>
Operating expenses before depreciation and amortization	24,171,265	22,686,048
Depreciation and amortization	<u>28,646,631</u>	<u>27,648,088</u>
Total operating expenses	<u>52,817,896</u>	<u>50,334,136</u>
Operating income	<u>3,000,323</u>	<u>719,668</u>
Non-operating revenues (expenses)		
Investment earnings, net	4,728,473	2,706,650
Interest expense	(14,107,177)	(14,843,404)
Passenger facility charges	6,019,344	4,841,197
Settlement of lawsuit	1,589,194	-
Net loss on disposal of assets and other revenue (expense)	<u>(2,181,994)</u>	<u>(561,313)</u>
Net non-operating expenses before asset realization adjustment	<u>(3,952,160)</u>	<u>(7,856,870)</u>
Loss before asset realization adjustment and capital contributions	(951,837)	(7,137,202)
Net loss on asset realization adjustment	<u>(51,005,837)</u>	<u>-</u>
Loss before capital contributions	(51,957,674)	(7,137,202)
Capital contributions	<u>56,896,186</u>	<u>32,511,865</u>
Increase in net assets	4,938,512	25,374,663
Net assets, beginning of year	<u>361,403,476</u>	<u>336,028,813</u>
Net assets, end of year	<u>\$366,341,988</u>	<u>\$361,403,476</u>

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LOUISVILLE REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

	Year ending June 30	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Receipts from customers and users	\$57,223,146	\$50,518,227
Payments to suppliers	(16,886,080)	(16,040,264)
Payments to employees	(7,006,105)	(7,186,995)
Net cash provided by operating activities	<u>33,330,961</u>	<u>27,290,968</u>
Cash flows from capital and related financing activities		
Capital contributions	34,103,437	32,511,865
Passenger facility charges	6,019,344	4,841,197
Acquisition and construction of capital assets	(50,299,999)	(49,939,940)
Proceeds from sale of assets	11,086,868	48,262
Proceeds from issuance of debt	47,870,000	-
Principal paid on capital debt	(49,300,000)	(12,990,000)
Interest paid on capital debt, net of capitalized interest	(14,230,640)	(14,458,202)
Fees paid on bonds	(211,737)	(226,486)
Issuance costs of capital debt	(1,189,823)	(100,302)
Cash flows used for capital and related financing activities	<u>(16,152,550)</u>	<u>(40,313,606)</u>
Cash flows from investing activities		
Proceeds from maturities of investments	49,382,693	22,413,722
Purchase of investments	(65,856,445)	(16,995,807)
Investment income	<u>5,922,223</u>	<u>3,168,924</u>
Net cash (used) provided for investing activities	<u>(10,551,529)</u>	<u>8,586,839</u>
Net increase (decrease) in cash and cash equivalents	6,626,882	(4,435,799)
Cash and cash equivalents, beginning of year	<u>80,382,677</u>	<u>84,818,476</u>
Cash and cash equivalents, end of year	<u>\$87,009,559</u>	<u>\$80,382,677</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$3,000,323	\$719,668
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	28,646,631	27,648,088
Settlement of lawsuit	1,589,194	-
Changes in assets and liabilities:		
Fees and rental receivable	(881,881)	380,420
Deferred income	697,614	287,855
Supplies and prepaid expenses	(5,456)	(52,704)
Accounts payable	248,073	(1,637,368)
Accrued expenses and other	<u>36,463</u>	<u>(54,991)</u>
Net cash provided by operating activities	<u>\$33,330,961</u>	<u>\$27,290,968</u>

Noncash Investing, Capital and Financing Activities:

The Authority has retainage and accounts payable related to construction in progress of approximately \$5,894,000 and \$3,323,000 as of June 30, 2006 and 2005, respectively. During 2006, the Authority recorded donated land valued at approximately \$22,365,000. The Authority has written down approximately \$51,006,000 of land assets and recorded an additional loss on sale of assets of \$1,971,000. These noncash transactions have been excluded from the above statements.

Board Members



J.D. Nichols,
Chairman



Phil Lynch,
Vice Chairman



Robert L. Knust,
Secretary/Treasurer



The Honorable Jerry Abramson,
Mayor of Louisville



P. Richard Anderson, Jr.



Mary Rose Evans



Earl F. Jones, Jr.



Elaine M. Musselman



Norman E. Risen



Gail L. Strange



Jeffrey S. Sullivan



**LOUISVILLE
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AIRPORT
AUTHORITY®**

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