TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2015

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON
COUNTY METRO GOVERNMENT)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Transit Authority of River City
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit Authority of River City (TARC), a component unit of Louisville/Jefferson County Metro Government, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements as listed in the table of contents.

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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TARC as of June 30, 2015, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matter

As discussed in Note 2, TARC restated its July 1, 2014 net position, liabilities, and deferred outflows of resources for the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

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 9, the schedule of changes in TARC's net pension liability and schedule of TARC contributions for the Employee's Amended Retirement Plan on pages 31 and 32, and the schedule of TARC's proportionate share of the net pension liability and schedule of TARC contributions for the County Employees' Retirement System – Non-hazardous on pages 33 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise TARC's basic financial statements. The schedule of revenues, expenditures and changes in net position – budget to actual on page 37 is presented for purpose of additional analysis and are not a required part of the basic financial statements.

The schedule of revenues, expenditures and changes in net position – budget to actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedule of revenues, expenditures and changes in net position – budget is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, on our consideration of TARC's internal control over financial reporting and our on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TARC's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
November 9, 2015

The management of the Transit Authority of River City (TARC) presents this narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2015.

In FY2015, TARC continued with major capital improvements, thanks to grant funding, while facing ongoing operating revenue challenges to meet the current and growing demand for public transportation.

TARC, which celebrated 40 years as Louisville's public transportation provider, saw a year of major upgrades primarily resulting from federal grants. A fleet of 10 all-electric Wi-Fi equipped ZeroBus vehicles – one of the largest fleets of its kind in the country - began circulating in downtown Louisville in place of diesel-powered trolleys. TARC also rolled out 12 new clean-diesel coaches in FY15, also equipped with Wi-Fi. Significant progress was made on the new electronic fare collection system that will allow passengers to pay for rides using "tap and go" smartcards. TARC offered more online options to track buses in real time, and provided increased security on buses.

While major improvements occurred, and more are on the way with grant funding, operating revenue shortfalls prevent TARC from making significant progress in addressing service needs. Limited operating revenue threatens TARC's ability to maintain existing service let alone build a network that provides the service Louisville deserves and needs. TARC, in fact, cannot sustain existing service because of limited operating revenue.

Operating funding is not keeping pace with expenses to cover the local share of federal grants and increasing costs for items such as paratransit, maintenance, health insurance and pensions. The budget is further strained because the amount of federal funding for the capital costs of operations relating to maintenance, tire leasing and contracting service, is also falling short of covering expenses.

TARC estimates total occupational tax revenue – the key source of operating funding - for FY2015 at $48.7 million, 4% percent over FY 14. For FY2016, TARC is projecting an increase of 4% percent to $50.7 million in that source of funding.

For the second year in a row in FY15 TARC did not raise fares or cut service. However, to help balance the FY16 operating budget, service reductions projected to save $1.2 million annually are scheduled to take effective Aug. 16, 2015.

These reductions – which decrease frequency of service on TARC's three most heavily used routes (#4-Fourth Street, #18-Dixie and Preston highways and #23-Broadway and Bardstown Road) – come at a time of growing ridership and increased requests from employers for transit service to their operations in outlying areas of the metropolitan region, requests that are often beyond TARC's financial capability without impacting existing service levels.

Ridership increased by 0.9 percent in FY14, with 14,965,789 passengers or 48,583 average weekday trips. Ridership also increased slightly in FY13 following a robust year of growth in FY12.

The three routes slated for decreased service carry 40 percent of TARC's total ridership. Ridership increased dramatically, by 10-20 percent, on two of the routes after frequency levels were increased starting in 2011 with federal Congestion Mitigation and Air Quality program funds. The federal funding, allocated through the Kentucky Transportation Cabinet, is available for only up to three years for a single service improvement.

Through financial challenges, TARC remains focused on its mission to explore and implement transportation opportunities that enhance the social, economic and environmental well-being of the Greater Louisville community. More environmentally-friendly vehicles, and additional service in response to needs of employers and social service agencies have been among initiatives in FY15 that highlight TARC's commitment to its mission.

FY15 also included planning for more efficient service. TARC received $4.75 million from the Metropolitan Planning Organization, KIPDA, to improve technology and communications with passengers, for example. The funding will go toward automatic annunciators and passenger counters on buses and improved transit access along Preston Highway.

TARC continues to make a host of improvements with $20 million in Ohio River Bridges Project funding for capital improvements and communications and public outreach programs. In FY2015, 12 new paratransit "cutaway" vehicles were purchased with the project funding, and ongoing communications initiatives include web site upgrades, media and public events, advertising and texting services. Improvements underway but not yet completed include a significant modernization of TARC's 29th street maintenance facility to replace a 60-year-old heating system and antiquated bus painting operation. Also in the planning phase are transit and customer service facility improvements at the Nia Center on Broadway at 29th Street, a major public transportation customer service and transfer point in the system; a new design and structure installation for downtown stop and shelters on the all-electric ZeroBus routes; park-and-ride locations; and additional van and paratransit vehicle purchases.

Safety and security were also a focus in FY2015, with camera systems added to more buses so that nearly the entire fleet is now equipped with cameras. Security staff was also increased in FY15 with additional part-time officers who are uniformed with arrest powers.

TARC continues to play a major role in a multi-model planning initiative called MoveLouisville under the leadership of Mayor Greg Fischer and with city, elected officials and other partners. TARC hosted a series of public forums at Union Station for partner and community input on the plan which could lead to significant proposals on building a transportation system for the future.

With funding from the federal Transit Investments in Greenhouse Gas and Energy Reduction (TIGGER) program, TARC's historic Union Station headquarters has been undergoing major energy efficiency improvements expected to save $70,000 annually in operational costs. A new heating and air conditioning system at Union Station is scheduled for FY16 as part of these improvements.

TARC also continues to work with community partners and others to address public transportation needs and funding opportunities, focusing more and more on trying to secure increased operating and capital funding at the local, state and federal levels.

In FY2015, Louisville Metro provided $500,000 toward the downtown all-electric ZeroBus investment, and committed another $400,000 to help cover costs for an additional five all-electric buses that will arrive in FY2016 as a result of a federal grant.

TARC efforts include building support for state legislation that is a first step in giving local communities the ability to temporarily increase sales taxes for projects including public transportation projects. Efforts are also focused on building support at the state level for a dedicated source of funding for public transportation. Meanwhile, TARC continues to actively monitor federal legislation that impacts public transportation including advocacy for a long-term, sustainable federal transportation bill.

Overview of the Financial Statements

This annual report consists of three parts: Management Discussion and Analysis (this section), Financial Statements and Supplementary Information. The Financial Statements include notes that provide additional information relating to TARC's financial condition. Readers are encouraged to read the notes to better understand the financial statements.

Required Financial Statements

Statement of Net Position

The statement of net position includes all of TARC's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of TARC and assessing the liquidity and financial flexibility of the organization.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position identifies the revenues generated and the expenses incurred during the fiscal year. This statement helps the user to assess TARC's financial performance during the fiscal years covered by the Statement.

Statement of Cash Flows

The statement of cash flows provides information relating to TARC's cash receipts and cash expenditures during the fiscal year. The statement reports cash receipts, cash payments and net changes in cash, resulting from operations and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

Budgetary Controls

TARC operates its general activities in accordance with a budget adopted by the Board and approved by the Metro Louisville Council.

Presentation

The 2014 financial statement information does not include the impact of GASB 68/71 implementation.

Financial

Table 1
Condensed Statements of Net Position

	2015	2014	Change
ASSETS			
Current assets	$ 15,717,054	$ 18,619,852	$ (2,902,798)
Capital assets, net	72,227,846	62,552,028	9,675,818
Other investments	31,000	31,590	(590)
Total assets	87,975,900	81,203,470	6,772,430
Deferred outflows of resources	3,914,959	-	3,914,959
Total assets and deferred outflows of resources	$ 91,890,859	$ 81,203,470	$ 10,687,389
LIABILITIES			
Current liabilities	$ 14,085,214	$ 16,900,841	$ (2,815,627)
Long-term liabilities	45,116,406	2,255,009	42,861,397
Total liabilities	59,201,620	19,155,850	40,045,770
Deferred inflows of resources	4,626,612	-	4,626,612
Total liabilities and deferred inflows of resources	63,828,232	19,155,850	44,672,382
Net investment in capital assets	71,871,615	62,047,620	9,823,995
Unrestricted net position	(43,808,988)	-	(43,808,988)
Total net position	$ 28,062,627	$ 62,047,620	$ (33,984,993)

TARC's total net position decreased by $33,984,993 and its total liabilities increased by $40,045,770. Both of these changes were primarily due to the implementation of GASB 68/71.

Capital Assets

Table 2
Summary of changes in capital assets

	Balance at June 30, 2014	Additions	Disposals	Balance at June 30, 2015
Land and improvements	$ 3,177,782	$ -	$ -	$ 3,177,782
Buildings	36,451,188	584,550	-	37,035,738
Coaches	87,653,642	15,714,737	5,050,165	98,318,214
Office equipment	6,649,929	174,079	325,248	6,498,760
Other equipment	14,564,402	2,027,397	361,514	16,230,285
	148,496,943	18,500,763	5,736,927	161,260,779
Less depreciation	85,944,915	8,824,945	5,736,927	89,032,933
Total	$ 62,552,028	$ 9,675,818	$ -	$ 72,227,846

TARC's investment in capital assets, net of depreciation, increased by $9,675,818. The increase is primarily due to the purchase of new coaches. Depreciation expense for FY 2015 was $8,824,945. Generally, capital asset purchases are completed with federal, state and/or local funding.

Revenues

Table 3
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014	Dollar Change	Percent Change
Passenger transportation	$ 11,033,064	$ 11,077,533	$ (44,469)	-0.40%
Special fares	1,541,195	1,309,758	231,437	17.67%
Interest, advertising, and other income	750,989	765,729	(14,740)	-1.92%
Total operating revenues	13,325,248	13,153,020	172,228	1.31%
Labor	26,684,126	25,318,079	1,366,047	5.40%
Depreciation	8,824,945	8,257,550	567,395	6.87%
Other operating expenses	49,507,939	47,425,016	2,082,923	4.39%
Total operating expenses	85,017,010	81,000,645	4,016,365	4.96%
Mass Transit Trust Fund and interest	53,327,759	44,700,651	8,627,108	19.30%
Federal Transit Administration	26,771,153	34,267,456	(7,496,303)	-21.88%
Indiana Department of Revenue	1,154,317	1,187,466	(33,149)	-2.79%
Louisville Metro	509,743	-	509,743	0.00%
Kentucky Transportation Cabinet	500,000	425,000	75,000	17.65%
Kentucky Regional Planning and Development Agency	43,125	43,250	(125)	-0.29%
Total non-operating revenues and capital contributions	82,306,097	80,623,823	1,682,274	2.09%
Change in net position	10,614,335	12,776,198	(2,161,863)	-16.92%
Net position, beginning of year (restated)	17,448,292	49,271,422	(31,823,130)	-64.59%
Net position, end of year	$ 28,062,627	$ 62,047,620	$ (33,984,993)	-54.77%

TARC's operating revenues increased 1.31 % from FY 2014. TARC receives funding from sources other than operating revenue. TARC has a dedicated funding source through the Mass Transit Trust Fund ("MTTF") and also receives federal and state funding (Kentucky and Indiana). The MTTF contributed $48,239,858 for FY 2015 and $39,793,989 for FY 2014 for TARC's operating expenses and $5,087,901 for FY 2015 and $4,906,662 for FY 2014 for capital related purchases. The federal funding included funding for operations and capital purchases of $26,771,153 for FY 2015 and $34,267,456 for FY 2014.

Expenses

Expenses excluding depreciation were $76,192,065 for FY 2015 and $72,743,095 for FY 2014. This change represents an increase of 4.74%.

TARC is a labor-intensive industry and the cost of labor and benefits comprise the bulk of TARC's expenses. Labor and fringe benefits costs were $47,669,571 for FY 2015 and $45,835,726 for FY 2014. TARC experienced increases in both labor and health care costs. Materials and supplies expenses decreased 4.74% in FY 2015 compared to FY 2014. Casualty and insurance expenses increased by 14.05% in FY 2015 compared to FY 2014. Purchased Transportation increased 9.46%, $13,654,453 for FY 2015 from $12,474,082 for FY 2014. The bulk of purchased transportation is utilized to supply TARC 3 service, a service required by the Americans with Disabilities Act.

Results of Operations

TARC has made a commitment to taxpayers of this community to provide reliable and safe transportation. The economy has a direct effect on TARC's funding sources. TARC has made every effort to streamline its administrative staff. Also, the hiring and training of bus drivers is paramount in keeping operating costs at a manageable level. While there are no government-imposed limits on the balance of the MTTF, TARC's Board of Directors passed a motion that requires Board approval for the balance to go below $10,000,000. Currently, the MTTF balance is $10,636,295

Requests for Additional Information

This report is intended to provide readers with a general overview of TARC's finances and to provide information regarding the receipts and uses of funds. If you need clarification regarding a statement(s) made in the report or need additional information, please contact the Transit Authority of River City, Attention: Finance Department, 1000 West Broadway, Louisville, Kentucky 40203.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
STATEMENT OF NET POSITION
June 30, 2015

ASSETS	
Current assets:	
Cash	$ 11,696,228
Accounts and grants receivable	
Trade	444,605
Mass Transit Trust Fund	79,592
Louisville/Jefferson County Metro Government	34,800
Indiana Department of Transportation	1,154,317
Federal Department of Transportation	499,190
Materials and supplies inventory, net	1,226,806
Prepaid expenses	581,516
Total current assets	15,717,054
Noncurrent assets:	
Capital assets not being depreciated	3,177,782
Depreciable capital assets, net	69,050,064
Other investments	31,000
Total noncurrent assets	72,258,846
Total assets	87,975,900
DEFERRED OUTFLOWS OF RESOURCES	
Changes in pension assumptions - TARC Employee's Plan	9,687
Pension - Employer contributions subsequent to measurement dates	3,905,272
Total deferred outflows of resources	3,914,959
Total assets and deferred outflows of resources	$ 91,890,859
LIABILITIES	
Current liabilities:	
Current portion of capital lease obligation	$ 150,852
Due to Louisville Metro Government – Mass Transit Trust Fund	3,685,865
Accounts payable and other liabilities	4,786,157
Compensated absences	2,950,000
Estimated liability for uninsured liability claims	1,100,000
Estimated liability for uninsured workers' compensation claims	1,300,000
Unearned revenue	112,340
Total current liabilities	14,085,214
Noncurrent liabilities:	
Capital lease obligation, less current portion	205,379
Compensated absences	667,975
Estimated liability for uninsured liability claims	874,000
Estimated liability for uninsured workers' compensation claims	220,655
Net pension liability:	
TARC Employee's Amended Retirement Plan	2,742,397
County Employee Retirement System	40,406,000
Total net pension liability	43,148,397
Total noncurrent liabilities	45,116,406
Total liabilities	59,201,620

See accompanying notes to financial statements.

DEFERRED INFLOWS OF RESOURCES	
Pension - Differences in actual and expected pension experience - TARC Employee's Plan	116,612
Pension - Difference between CERS projected and actual investment earnings	4,510,000
Total deferred inflows of resources	4,626,612
Total liabilities and deferred inflows of resources	63,828,232
NET POSITION	
Net investment in capital assets	71,871,615
Unrestricted	(43,808,988)
Total net position	28,062,627
Total liabilities, deferred inflows of resources and net position	$ 91,890,859

See accompanying notes to financial statements.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2015

Operating revenues	
Passenger fares	$ 11,033,064
Special transit fares	1,541,195
Advertising	577,995
Interest	1,052
Other revenue	171,942
Total operating revenues	13,325,248
Operating expenses	
Labor	26,684,126
Fringe benefits, budget basis	20,985,445
Less: pension adjustments	(739,278)
Net fringe benefits	20,246,167
Services	2,790,500
Development costs	1,135,050
Materials and supplies	8,608,386
Utilities	694,958
Casualty and insurance	1,859,107
Miscellaneous	511,501
Rentals and purchased transportation	13,654,453
Interest	7,817
Depreciation	8,824,945
Total operating expenses	85,017,010
Loss from operations	(71,691,762)
Non-operating revenues (expenses)	
Mass Transit Trust Fund and interest	48,239,858
Federal Transit Administration	488,880
Indiana Department of Revenue	1,154,317
Kentucky Regional Planning and Development Agency	43,125
	49,926,180
Income (loss) before capital contributions	(21,765,582)
Capital contributions:	
Mass Transit Trust Fund and interest	5,087,901
Louisville Metro	509,743
Kentucky Transportation Cabinet	500,000
Federal Transit Administration and Pass-Through Entities	26,282,273
Total capital contributions	32,379,917
Change in net position	10,614,335
Net position, beginning of year (as restated)	17,448,292
Net position, end of year	$ 28,062,627

See accompanying notes to financial statements.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

Cash flows from operating activities	
Receipts from passengers and service contracts	$ 13,033,600
Payments to suppliers	(27,528,655)
Payments to employees	(47,515,955)
Net cash used by operating activities	(62,011,010)
Cash flows from non-capital financing activities	
Mass transit trust fund operational receipts	44,525,096
Contributions received from governmental agencies (subsidies)	11,458,495
Net cash provided from non-capital financing activities	55,983,591
Cash flows from capital and related financing activities	
Payments on capital lease obligation	(155,994)
Mass transit trust fund Capital subsidies	5,827,843
Purchases of capital assets	(18,598,643)
Capital grants from governmental agencies	18,532,660
Net cash used by capital financing activities	5,605,866
Cash flows from investing activities	
Interest received	1,052
Net increase (decrease) in cash and cash equivalents	(420,501)
Cash and cash equivalents, beginning of year	12,116,729
Cash and cash equivalents, end of year	$ 11,696,228
Reconciliation of loss from operations to cash used by operations:	
Loss from operations	$ (71,691,762)
Adjustments to reconcile change in net position to net cash used by operating activities	
Depreciation	8,824,945
Net pension liability, deferred outflows and deferred inflows	(739,278)
(Increase) decrease in:	
Trade accounts receivable	774,418
Inventories	(1,545)
Prepaid expenses	(44,405)
Increase (decrease) in:	
Accounts payable and other liabilities	1,958,370
Accrued compensated absences	54,075
Estimated liability for uninsured liability claims	(25,200)
Estimated liability for uninsured workers' compensation claims	(55,615)
Unearned revenue	(1,065,013)
Net cash used by operating activities	$ (62,011,010)

See accompanying notes to financial statements.

NOTE 1 - NATURE OF ORGANIZATION

The Transit Authority of River City ("TARC") is a public corporation created by joint proceedings of the City of Louisville and Jefferson County Fiscal Court pursuant to KRS Chapter 96A of the Commonwealth of Kentucky to provide public transportation for Louisville, Kentucky and its metro areas. TARC is considered a discretely presented component unit of Louisville/Jefferson County Metro Government for financial statement reporting purposes. In order to measure the costs of providing mass transportation services, the revenues from those services and required subsidies, TARC has adopted the accounting methods appropriate for a governmental enterprise fund. TARC is a government entity and exempt from federal and state income taxes.

Budgetary Controls: Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that the budget omits depreciation expense and accounts for the principal portion of the capitalized lease payments as an expense. Appropriated budgets are adopted on an annual basis. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects. Legal budgetary control is established at the fund level (i.e. expenditures for a fund may not exceed the total appropriation amount). TARC is authorized to transfer budgeted amounts within the fund; however, any revisions that alter the total expenditures must be approved by Louisville/Jefferson County Metro Government Council. TARC's management prepares the annual budget and submits it to the Board of Directors (the "Board") for approval. This has historically been done in April or May of each year. The Board-approved budgets for the 2015 fiscal year was submitted to and approved by Louisville/Jefferson County Metro Government Council in June 2014.

Concentration of Funding: TARC relies on local funding from the Mass Transit Trust Fund for 56% of total revenue in 2015. The Mass Transit Trust fund administer the proceeds of the Louisville-Jefferson County Metro Government ("Metro Government") occupational license tax authorized by the electorate to finance a mass transportation program in Metro Louisville. The assets of the Fund are restricted to finance the operating deficits and capital expenditures approved in the Annual Budget by the Metro Government Council for TARC.

TARC also relies on federal assistance for operations and capital acquisitions. Federal revenues represented approximately 28% of total revenues in 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements of TARC have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units by the Governmental Accounting Standards Board ("GASB"). TARC operated as an enterprise fund and all activities are accounted for using the economic resources measurement focus and the accrual basis of accounting.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Financial Reporting Standards: In 2015, TARC adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and* Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These Statements require TARC to record the excess of the total pension liability over the fiduciary net position of the pension plans as a net pension liability on the Statement of Net Position. The change in accounting for pensions, as discussed in Note 9 and Note 10, resulted in the restatement at July 1, 2014:

	Beginning Balance	As Restated	GASB 68 Adjustment
Statement of Net Position:			
Net pension liability	-	48,714,100	48,714,100
Deferred outflows	-	4,114,772	4,114,772
Statements of Revenues, Expenses and Changes in Net Position:			
Net position	62,047,620	17,448,292	(44,599,328)

At June 30, 2015, the total net pension liability was $43,148,397. Total deferred outflows of resources and deferred inflows of resources were $3,914,959 and $4,626,612, respectively. Total pension expense was $3,885,000. The Statement of Net Position and Notes 9 and 10 include more information about the individual pension plans.

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application.* The objective is to address accounting and financial reporting issues related to fair value measurements and provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. It is effective for TARC's fiscal year ended June 30, 2016. Management has not determined what impact, if any, this statement will have on its financial statements.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* This Statement establishes requirements for those pensions and pension plans that are not administered through a trust not covered by Statements 67 and 68. It is effective for TARC's fiscal year ended June 30, 2016. Management has not determined what impact, if any, this statement will have on its financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The Statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts. It follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities. It is effective for TARC's fiscal year ended June 30, 2016. Management has not determined what impact, if any, this statement will have on its financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. This Statement is effective for TARC's fiscal year ended June 30, 2018. Management has not determined what impact, if any, this statement will have on its financial statements.

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. This Statement is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement is effective for TARC's fiscal year ended June 30, 2017. Management has not determined what impact, if any, this statement will have on its financial statements.

Cash and Cash Equivalents: TARC considers all highly liquid investments (including restricted investments) purchased with an original maturity of three months or less to be cash equivalents.

Prepaid Expenses: Prepaid expenses consist of normal operating expenses for which payment is due in advance such as insurance and are expensed when the benefit is received.

Accounts Receivable: TARC uses the allowance for bad debts method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the current status of existing receivables. Management has recorded an allowance for doubtful accounts of $25,000 at June 30, 2015.

Materials and Supplies inventory: Inventory consists of fuel, tires, repair parts and supplies. No general administrative expenses are included in the inventory valuation. Expenses are recorded as the materials are consumed. Inventory is valued at the lower of cost or market using the first-in, first-out method.

Capital Assets: Capital assets are stated at cost and depreciated over their estimated useful lives using the straight-line method. TARC's depreciation policy requires that all qualifying assets with costs in excess of $500 to be capitalized. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are five to forty years for land improvements, forty years for buildings, twelve years for coaches and capitalized vehicles, five years for other equipment, and five years for office equipment. TARC has acquired certain assets with funding provided by federal assistance from the FTA grant programs. TARC holds title to these assets; however, the federal government retains an interest in these assets should TARC no longer use the assets for mass transit purposes. TARC periodically reviews the carrying values of property and equipment for impairment whenever adverse events or changes in circumstances indicate the carrying value of the asset may not be recoverable.

Self-Insurance: TARC is self-insured for workers' compensation and liability claims up to varying deductible amounts ranging from $150,000 to $500,000 per occurrence for workers' compensation and $300,000 per occurrence for liability claims. Other liability claims incurred prior to January 1, 1987 and workers' compensation claims in excess of the self-insured amounts are covered by varying amounts of insurance.

TARC participates in the Louisville Area Governmental Self Insurance Trust (the "Trust"). The Trust provides insurance coverage on liability claims made in excess of each member's deductible amount. The amount of coverage available to TARC could be limited by the total assets of the Trust. At June 30, 2015, TARC had no significant claims that are payable from the Trust's assets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in TARC's liability for uninsured workers' compensation and uninsured liability claims for the year ended June 30, 2015 are as follows:

	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance	Due Within One Year
At June 30, 2015:					
Uninsured Worker's Compensation	$1,576,270	$1,227,718	$1,283,333	$1,520,655	$1,300,000
At June 30, 2014:					
Uninsured Worker's Compensation	$1,586,327	$1,068,430	$1,078,487	$1,576,270	
At June 30, 2015:					
Uninsured Liability Claims	$1,999,200	$1,859,107	$1,884,307	$1,974,000	$1,100,000
At June 30, 2014:					
Uninsured Liability Claims	$2,185,200	$ 705,298	$ 891,298	$1,999,200	

There have been no significant reductions in insurance coverage from the previous year. Settlement amounts have not exceeded insurance coverage in any of the past three fiscal years.

Net Position: GASB requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These net position classifications are defined as follows:

- Net investment in capital assets - This component consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Compensated Absences: Accrued compensated absences represent vested or accumulated sick time and vacation leave that is expected to be liquidated with expendable available financial resources. Full-time employees who have a continuous service record of one year or longer are entitled to an annual vacation from one to six weeks, based on a predetermined schedule. TARC's policy permits employees to accumulate earned but unused vacation. Employees can receive payment for earned but unused vacation leave up to 240 hours. For bargaining employees, if the employee's predetermined schedule is changed by TARC's management, TARC is required to reschedule the employee's vacation time, which may carry the time over to the following year. In the event the non-bargaining employee has not taken his or her vacation by the end of the calendar year then his or her vacation time can be taken, paid or lost as deemed prudent by TARC's management.

All full-time active employees earn sick days at the rate of 5/6 of a day per month, 10 days per year, up to a maximum of 145 days. Upon retirement, the following two options are available for the unused sick day accumulation:

a. TARC will buy back all accumulated sick days at 100% of the employee's current pay rate, or
b. If the employee is a member of TARC's retirement plan, the unused sick days can be considered as time worked to either advance a normal retirement date or to increase service credits.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in compensated absences are summarized as follows for the year ended:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
At June 30, 2015:					
Compensated absences	$3,563,900	$4,126,357	$4,072,282	$3,617,975	$2,950,000

Unearned Revenue: Advance tickets sales that have not been redeemed through the fare box are shown as unearned revenue. Unearned revenue at June 30, 2015 consists of $112,340 in unearned ticket revenue.

Net Pension Liability: TARC has recorded a net pension liability reflecting the difference between the total pension liabilities and the fiduciary net positions of the single employer defined benefit plan and the County Employees Retirement System plan. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the single employer defined benefit plan and the County Employees Retirement System plan and additions to deductions from the single employer defined benefit plan and the County Employees Retirement System plan fiduciary net position have been determined on the same basis as they are reported by the single employer defined benefit plan and the County Employees Retirement System plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources and Deferred Outflows of Resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period. TARC's activities are related to recognition of changes in its defined benefit plans' net pension liability that will be amortized in future periods.

Operating Revenues and Expenses: Operating revenues and expenses generally result from providing services in connection with ongoing operations. Revenues are recorded as income in a manner consistent with the timing of the provided service. Operating expenses include the cost of delivering services, administrative expenses and depreciation expenses on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fare Revenues: Passenger fares are recorded as revenue at the time such services are performed and revenues pass through the fare box. Sales of 10 ride tickets and 10 ride special tickets are recorded initially as unredeemed fares and recognized as income upon passage through the fare box. All other fare products are considered revenue when purchased.

Capital and Operating Grants: Certain expenditures for capital acquisitions, improvements and development of an urban mass transportation system have received significant federal funding through the Federal Transit Administration (FTA). The balance of such expenditures is funded through various grants and receipts from the Mass Transit Trust Fund ("MTTF"). Funds provided by governmental authorities for capital and operating assistance are recorded when earned.

(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

A summary of cash, certificate of deposit and investments at June 30, 2015 is as follows:

	Cash and Cash Equivalents
Operating accounts:	
Cash in bank	$ 10,206,287
U.S. Government money market	1,489,941
Total cash and cash equivalents	11,696,228
Certificate of deposit	31,000
Total	$ 11,727,228

The bank balance of cash and cash equivalents and certificate of deposit as of June 30, 2015 was $12,141,961. The difference representing outstanding checks and deposits.

Custodial Credit Risk: Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, TARC may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. TARC's investment policy dictates that all cash and investments maintained in any financial institution named as a depository be collateralized and the collateral held in the name of TARC. TARC's cash deposits at June 30, 2015, were entirely covered by FDIC insurance or by pledged collateral held by TARC's agent bank in TARC's name.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. TARC's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments are made based upon prevailing market conditions at the time of the transaction. TARC reviews its cash and investment needs in order to maintain adequate liquidity to meet its cash flow needs. Assets categorized as short-term operating funds will be invested in investments maturing in 12 months or less.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the 'prudent investor' standard to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely and (c) reasonable action is taken to control any adverse developments. TARC's investment policy requires investment in instruments authorized in KRS 66.480(a)-(d).

Concentration of Credit Risk: TARC's investment policy requires diversification of the overall portfolio to eliminate the risk of loss from an over-concentration of assets in a specific class of security, a specific maturity, and/or a specific issuer.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. TARC is not exposed to this risk and its investment policy does not provide for investments in foreign currency denominated securities.

(Continued)

NOTE 4 - CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2015 are summarized as follows:

	Balance at July 1, 2014	Additions	Retirements	Balance at June 30, 2015
Capital assets not depreciated:				
Land	$ 84,097	$ -	$ -	$ 84,097
Land improvements	3,093,685	-	-	3,093,685
	3,177,782	-	-	3,177,782
Depreciable capital assets:				
Buildings	36,451,188	584,550	-	37,035,738
Coaches	87,653,642	15,714,737	5,050,165	98,318,214
Office and computer equipment	6,649,929	174,079	325,248	6,498,760
Other equipment	14,564,402	2,027,397	361,514	16,230,285
	148,496,943	18,500,763	5,736,927	161,260,779
Less accumulated depreciation for:				
Buildings	$ 18,085,144	$ 1,239,121	$ -	$ 19,324,265
Coaches	52,012,052	5,357,166	5,050,165	52,319,053
Office and computer equipment	5,293,075	397,917	325,248	5,365,744
Other equipment	10,554,214	1,830,741	361,514	12,023,441
	85,944,915	8,824,945	5,736,927	89,032,933
Capital assets, net	$ 62,552,028	$ 9,675,818	$ -	$ 72,227,846

NOTE 5 – LINE OF CREDIT BORROWINGS

In a prior year, TARC entered into a borrowing agreement with Fifth Third Bank. This agreement established an unsecured line-of-credit whereby TARC can borrow up to $10,000,000. The interest rate is Libor plus 1.80% (1.99% at June 30, 2015) and expires November 2015. There were no draws or payments on the line of credit during the fiscal year. There was no outstanding balance for this line of credit as of June 30, 2015.

NOTE 6 - CAPITAL LEASE

TARC entered into an agreement with Fifth Third Bank to lease twenty paratransit vehicles under a capital lease. The lease agreement contains a bargain purchase option at the end of the lease term. Amortization of assets held under capital leases is included with depreciation expense. Total assets under capital lease were $746,890, net of accumulated amortization of $398,335 at June 30, 2015.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of June 30, 2015:

Year Ending June 30	
2016	$ 155,995
2017	155,995
2018	51,998
Total Minimum Lease Payments	363,988
Less amount representing interest	(7,757)
Present Value of Lease Payments	356,231
Current Portion of Long-term Capital Lease Obligations	150,852
Long-term Capital Lease Obligation, Less Current Portion	$ 205,379

NOTE 7 - DUE TO LOUISVILLE METRO GOVERNMENT - MASS TRANSIT TRUST FUND

The majority of TARC's funding is from an occupational tax levied on residents of Jefferson County, Kentucky. A tax of 0.2% of taxable income is levied annually. The taxes are collected by the Revenue Commission of the Louisville Metro Government and deposited into the Mass Transit Trust Fund (MTTF). TARC is authorized to draw funds from the Mass Transit Trust Fund for operating and capital expenditures.

For the year ended June 30, 2015, TARC recorded non-operating revenues of $48,239,858 and capital contributions of $5,087,901. TARC may receive authorization to draw amounts in excess of originally authorized amounts in order to manage cash flow during the year. Any such excess draws are recorded as a payable back to the MTTF. At June 30, 2015, $3,685,865 was recorded as a payable to the MTTF.

(Continued)

NOTE 8 - COMMITMENTS AND CONTINGENCIES

TARC has entered into a contract for purchased transportation service which expires September 30, 2017. Purchased transportation services expense for the year ended June 30, 2015 was $13,654,453. TARC has a contract that expires March 2016 with a vendor for the use of bus tires. The monthly charge to operations is based on mileage placed on the tires. Tire usage expense for the year ended June 30, 2015 was $619,077.

TARC is dependent upon the availability of diesel fuel. Increases in the cost of fuel may, in the future, adversely affect the profitability of TARC. There is no assurance that diesel fuel prices will not increase. To alleviate possible fuel cost increases, TARC periodically enters into fixed unit cost fuel contracts with fuel suppliers to purchase fuel at or below current market prices. In August 2014, TARC entered into an agreement with a fuel supplier to provide diesel fuel at a fixed price up to 2,000,000 gallons. The price for purchases in excess of 2,000,000 gallons is based on the Oil Price Information Service's (OPIS) spot prices. OPIS is an independent third-party that provides daily spot price assessments for refined oil products.

Expenditures financed by federal and state grants are subject to audit by the granting agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although TARC expects such amounts, if any, to be immaterial.

TARC is subject to various legal actions and general asserted and unasserted claims arising in the ordinary course of its business. Litigation is subject to many uncertainties; the outcome of individual litigated matters is not predictable with assurance. While it is reasonably possible that some of these foregoing matters may be decided unfavorably to TARC within the next year, it is the opinion of management that the ultimate liability, if any, with respect to these matters will not materially affect the financial position of TARC.

NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS

General Information about the Pension Plan: All full-time and eligible part-time employees of TARC participate in the County Employees Retirement System (the CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 78.520. The Board of Trustees (the Board) of KRS administers the CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs. More specifically, within the CERS, the TARC's employees participate in the Non-Hazardous portion of the Plan. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statues provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. The CERS issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Benefits Provided: The information below summarizes the major retirement benefit provisions of CERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Members whose participation began before 8/1/2004:

Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.20% times final average compensation times years of service depending on participation and retirement dates. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004, but before 9/1/2008:

Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

Service Credit	Benefit Factor
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Members whose participation began on or after 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5% of creditable compensation, and the member's employer contributes 4.00% of creditable compensation, which is a portion of the total employer contribution, into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

Contributions: TARC was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

For the fiscal years ended June 30, 2015 and 2014, participating employers contributed 17.67% and 18.89% as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

TARC has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2015, 2014, and 2013. Total current year contributions recognized by the Plan were 3,825,610 for the year ended June 30, 2015

Members whose participation began before 9/1/2008:

Nonhazardous contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Nonhazardous contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Members whose participation on or after 1/1/2014

Nonhazardous contribution equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Members are entitled to a full refund of contributions and interest on the member's portion of the hypothetical account, however, the 1% contributed to the insurance fund is non-refundable.

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

Discount rate assumptions:

(a) **Discount rate**: The discount rate used to measure the total pension liability was 7.75%.

(b) **Projected cash flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The statutorily determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

(c) **Long term rate of return**: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis prepared as of June 30, 2008, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

(d) **Municipal bond rate**: The discount rate determination does not use a municipal bond rate.

(e) **Periods of projected benefit payments**: Projected future benefit payments for all current plan members were projected through 2116. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

(f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.00%	8.45%
International equity	22.00%	8.85%
Emerging market equity	5.00%	10.50%
Private equity	7.00%	11.25%
Real estate	5.00%	7.00%
Core U.S. fixed income	10.00%	5.25%
High-Yield U.S. fixed income	5.00%	7.25%
Non-U.S. fixed income	5.00%	5.50%
Commodities	5.00%	7.75%
Treasury Inflation Protected Securities	5.00%	5.00%
Cash	1.00%	3.25%
Total	100.00%	

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 7.75% based on a blending of the factors described above.

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents TARC's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 7.75 percent, as well as what TARC's allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
TARC's net position liability - Nonhazardous	$53,171,608	$ 40,406,000	$29,127,307

Employer's portion of the collective Net Pension Liability: TARC's proportionate share of the net pension liability, as indicated in the prior table, is $40,406,000, or approximately 1.3%. The liability was distributed based on 2014 actual employer contributions to the plan.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Measurement date: June 30, 2014 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013 using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service costs), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2013, is shown in the GASB 67 report for CERS submitted on November 17, 2014.

Changes in assumptions and benefit terms: There were no changes in assumptions or benefit terms since the prior measurement date.

Changes since measurement date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension expense: TARC recognized pension expense of $3,234,000 related to the CERS during 2015.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period. The table below provides a summary of the deferred inflows and outflows as of the Measurement Date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual investment earnings on plan investments	$ -	$ 4,510,000
Contributions subsequent to the measurement date	3,825,610	-
Total	$ 3,825,610	$ 4,510,000

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2016. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over five years with remaining amortization as follows.

Year Ending June 30:	
2016	$ 1,127,500
2017	1,127,500
2018	1,127,500
2019	1,127,500

Pension plan fiduciary net position: Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

(Continued)

NOTE 10 – DEFINED BENEFIT PENSION PLAN – SINGLE EMPLOYER

General Information about the Pension Plan: TARC's Employees' Amended Retirement Plan (the Plan) is a single employer defined benefit plan that provides pensions for specific employees of TARC. The Plan was closed to new entrants as of September 1, 1991. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). ERISA). TARC has established a Pension Board, which consists of five members which include management and union representatives.

Benefits Provided: At June 30, 2015, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	87

All full-time employees, who were employed by TARC prior to September 1, 1991, were eligible to participate in the Plan beginning with the first full month of service. Benefits vested after five years of service and are based on a monthly rate per year of service with monthly maximum benefits. Benefit payments are established or may be amended by the TARC Pension Board. The Plan also provides death and disability benefits. Effective September 1, 2010, the Plan elected an annual 2% increase, at March 1 each year, in monthly benefit payments for the years 2011-2016.

Contributions: TARC contributes to the Plan an amount needed to maintain the Plan in a sound condition as determined periodically on the basis of an actuarial valuation. Contribution requirements are established or may be amended by the TARC Pension Board. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

The actuarially determined contribution amount is based upon the sum of gross normal cost plus funding of past service costs over 10 years, less anticipated employee contributions. The actuarially determined contribution amount as of June 30, 2015 was approximately $444,000. The Plan recognized $358,971 of employer contributions as of June 30, 2015. During their employment with TARC, eligible employees were required to contribute an amount per hour that was agreed to in the bargaining agreement. Employee contributions were determined using the following amounts per hour:

March 1990 to August 1991	$0.3754
September 1991 to December 2004	$0.4254

The final employee eligible to contribute into this Plan retired in 2004; therefore, there were no employee contributions to the Plan after that time.

Net Pension Liability: TARC's net pension liability was measured as of January 1, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total pension liability in the January 1, 2015 actuarial valuation was determined used the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.0%
Mortality rates	RP-2000 Mortality Table projected to 2015

Assumptions and methods used in the actuary report are consistent with the prior year valuation other than the Mortality assumption which was projected to 2015 as opposed to 2014. Total impact of this change was $9,687 as of June 30, 2015.

(Continued)

NOTE 10 – DEFINED BENEFIT PENSION PLAN – SINGLE EMPLOYER (Continued)

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equities	60%	8.5
Fixed Income	40	4.8
Total	100%	

Discount Rate: The discount rate used to measure the total pension liability was 7.0 percent. Based on projected future contributions, benefit payments and investment returns, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the discount rate assumed that TARC would contribute the actuarially determined contribution rate of projected compensation over the remaining 10 year amortization period of the unfunded actuarial accrued liability.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at January 1, 2014	$ 5,045,747	$ 1,939,419	$ 3,106,328
Changes for the year:			
Interest	322,907	-	322,907
Differences between expected and actual experience	(116,612)	-	(116,612)
Contributions—employer	-	468,338	(468,338)
Net investment income	-	171,041	(171,041)
Benefit payments, including refunds of employee contributions	(799,005)	(799,005)	-
Assumption changes	9,687	-	9,687
Administrative expense	-	(59,466)	59,466
Net changes	(583,023)	(219,092)	(363,931)
Balances at January 1, 2015	$ 4,462,724	$ 1,720,327	$ 2,742,397

(Continued)

NOTE 10 – DEFINED BENEFIT PENSION PLAN – SINGLE EMPLOYER (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of TARC, calculated using the discount rate of 7.0 percent, as well as what TARC's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
TARC's net position liability	$ 2,952,231	$ 2,742,397	$ 2,551,109

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources: For the year ended June 30, 2015, TARC recognized pension expense of approximately $651,000 related to the Plan.

At June 30, 2015, TARC reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 116,612
Changes of assumptions	9,687	-
Contributions subsequent to the measurement date	79,662	-
Total	$ 89,349	$ 116,612

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2016.

Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 10 year period.

Pension plan fiduciary net position: Detailed information about the pension plans' fiduciary net position is available in the separately issued audited pension plan financial reports. A copy of the separately issued audit report may be requested from the Director of Finance, 1000 W. Broadway, Louisville, KY 40203.

(Continued)

REQUIRED SUPPLEMENTARY INFORMATION

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TARC'S NET PENSION LIABILITY -
EMPLOYEES' AMENDED RETIREMENT PLAN
June 30, 2015

	2015
Total pension liability	
Interest	$ 322,907
Differences between expected and actual experience	(116,612)
Changes of assumptions	9,687
Benefit payments, including refunds	(799,005)
Net change in total pension liability	(583,023)
Total pension liability, beginning	5,045,747
Total pension liability, ending	$ 4,462,724
Plan fiduciary net position	
Contributions – employee	$ 468,338
Net investment income	171,041
Benefit payments, including refunds of employee	(799,005)
Administrative expense	(59,466)
Net change in plan fiduciary net position	(219,092)
Plan fiduciary net position, beginning	1,939,419
Plan fiduciary net position, ending	$ 1,720,327
TARC's net pension liability, ending	$ 2,742,397
Plan fiduciary net position as a percentage of the total pension liability	38.55%

The amounts presented for each fiscal year were determined as of the January 1 year-end that occurred within the fiscal year.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, TARC is presenting information for those years for which information is available.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S CONTRIBUTIONS
EMPLOYEES' AMENDED RETIREMENT PLAN
June 30, 2015

Actuarially determined contribution	$ 444,125
Contributions in relation to the actuarially determined contribution	(468,338)
Annual contribution deficiency (excess)	$ (24,214)
The Authority's contributions as a percentage of statutorily required contribution for pension	105.45%

Notes to Schedule

Valuation date:	January 1, 2015
Actuarial cost method:	Entry age normal cost method
Amortization method:	Level Dollar
Remaining amortization period:	10 years
Asset valuation method:	Market value less accrued expenses
Inflation:	2.0%
Salary increases:	Not applicable, as all beneficiaries are retired and the plan is closed to new entrants.
Investment rate of return:	7.00%
Retirement age:	Not applicable, as all beneficiaries are retired and the plan is closed to new entrants.
Mortality:	RP-2000 Mortality Table projected to 2015

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, TARC is presenting information for those years for which information is available.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'SPROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEES RETIREMENT SYSTEM - NON-HAZARDOUS
June 30, 2015

	2015
TARC's proportion of the net pension liability	1.3%
TARC's proportionate share of the net pension liability	$ 40,406,000
TARC's covered employee payroll	$ 30,655,572
TARC's proportion of the net pension liability as a percentage of its covered employee payroll	131.806%
Plan fiduciary net position as a percentage of the total pension liability	66.801%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, TARC is presenting information for those years for which information is available.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
June 30, 2015

	2015
Statutorily required contribution	$ 3,825,610
Contributions in relation to the statutorily required contribution	(3,825,610)
Annual contribution deficiency (excess)	$ -
TARC's contributions as a percentage of statutorily required contribution for pension	100%
TARC's covered employee payroll	$ 30,655,572
Contributions as a percentage of its covered employee payroll	12.479%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, TARC is presenting information for those years for which information is available.

SUPPLEMENTARY INFORMATION

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
Year Ended June 30, 2015

	Budget	Actual	Actual to GAAP Differences	Actual Amounts GAAP Basis
Operating revenues				
Passenger transportation	$ 11,636,297	$ 11,033,064	$ -	$ 11,033,064
Special fares	1,292,801	1,541,195	-	1,541,195
Advertising	452,242	577,995	-	577,995
Interest and other	126,850	172,994		172,994
Total operating revenues	13,508,190	13,325,248	-	13,325,248
Operating expenditures				
Labor	26,558,719	26,684,126	-	26,684,126
Fringe benefits, budget basis	21,792,372	20,985,445	-	20,985,445
Less: pension adjustments	-	-	(739,278)	(739,278)
Net fringe benefits	21,792,372	20,985,445	(739,278)	20,246,167
Services	3,119,250	2,790,500	-	2,790,500
Development costs	-	-	1,135,050	1,135,050
Materials and supplies	9,144,403	8,608,386	-	8,608,386
Utilities	659,000	694,958	-	694,958
Casualty and insurance	1,904,418	1,859,107	-	1,859,107
Miscellaneous	690,050	511,501	-	511,501
Rentals and purchased transportation	13,082,264	13,654,453	-	13,654,453
Interest	7,816	7,817	-	7,817
Depreciation	-	-	8,824,945	8,824,945
Total operating expenditures	76,958,292	75,796,293	9,220,717	85,017,010
Operating loss before capital outlay and subsidies	(63,450,102)	(62,471,045)	(9,220,717)	(71,691,762)
Capital outlay	(26,563,279)	(18,500,763)	18,500,763	-
Subsidies				
Mass Transit Trust Fund and interest	49,478,441	53,327,759	-	53,327,759
Federal Transit Administration and Pass-Through entities	38,870,474	26,771,154	-	26,771,154
Kentucky Transportation Cabinet	450,000	500,000	-	500,000
Other	1,214,466	1,707,184	-	1,707,184
Total subsidies	90,013,381	82,306,097	-	82,306,097
Change in net position	$ -	$ 1,334,289	$ 9,280,046	$ 10,614,335

The operating budget for 2015, as shown above, represents the originally adopted budget for TARC. No amendments were made to the budget during the year ended June 30, 2015.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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*

Board of Directors
Transit Authority of River City
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 business-type activities of the Transit Authority of River City (TARC), a component unit of Louisville/Jefferson County Metro Government, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements, and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TARC'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TARC's internal control. Accordingly, we do not express an opinion on the effectiveness of TARC'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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TARC'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

Crowe Horwath LLP

Louisville, Kentucky
November 9, 2015

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

Board of Directors
Transit Authority of River City
Louisville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Transit Authority of River City's (TARC) 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 TARC's major federal programs for the year ended June 30, 2015. TARC'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 TARC'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 TARC'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 on compliance for each major federal program. However, our audit does not provide a legal determination of TARC's compliance.

Opinion on Each Major Federal Program

In our opinion, TARC 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, 2015.

(Continued)

Report on Internal Control Over Compliance

Management of TARC 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 TARC'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 TARC'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 business-type activities of TARC as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements. We issued our report thereon dated November 9, 2015, which contained unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinion 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

Crowe Horwath LLP

Louisville, Kentucky
November 9, 2015

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Grantor/ Program or Cluster Title	CFDA Number	Grant Number for Pass-Through	Federal Expenditures
Department of Transportation			
Federal Transit Administration			
Direct Programs:			
Federal Transit Cluster:			
Capital and Operating Assistance			
Capital Investment	20.500		$ 4,373,017
Formula Grants	20.507		19,074,633
Total Federal Transit Cluster			23,447,650
Transit Services Programs:			
Job Access - Reverse Commute			
Grant (JARC) Grants	20.516		469,733
New Freedom Program	20.521		296,226
Total Transit Services Programs Cluster			765,959
Clean Fuels Grant	20.519	KY-39-0001-00	4,337,079
Total Directly Received from the Federal Transit Administration			28,550,688
Pass-through Commonwealth of Kentucky			
Pass-through programs:			
Highway Planning and Construction Grants:			
Kentucky Transportation Cabinet	20.205	KIPDA-VP15	252,665
Total Passed through the Commonwealth of Kentucky			252,665
Total Expenditures of Federal Awards			**28,803,353**

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs received by the Transit Authority of River City (TARC). TARC's reporting entity is defined in Note 1 to the audited financial statements.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards has been prepared 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 preparation of the financial statements.

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements				
Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiencies identified not considered to be material weaknesses?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No
Federal Awards				
Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiencies identified not considered to be material weaknesses?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?		Yes	X	None Reported

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
20.500	Federal Transit Cluster
20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$ 864,101			
Auditee qualified as low-risk auditee?	X	Yes		No

SECTION 2 – FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None reported

SECTION 3 – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(a).

None reported

SECTION 4 – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

There were no outstanding findings of questioned costs remaining from prior years.