

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

FINANCIAL STATEMENTS
June 30, 2017

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

FINANCIAL STATEMENTS
June 30, 2017

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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, 2017, 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, 2017, 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)

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 30 and 31, 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 32 and 33 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 34 is presented for purpose of additional analysis and is 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 relates 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 September 19, 2017, on our consideration of TARC's internal control over financial reporting and on our 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

Louisville, Kentucky
September 19, 2017

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

Financial Highlights and Current Known Facts, Decision and Conditions

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, 2017.

In FY2017, TARC continued to face significant operating revenue challenges preventing service enhancements to meet community needs for public transportation in Greater Louisville. While FY18 promises to be a year of significant positive developments, including a new electronic fare collection system, limited operating revenue threatens TARC's ability to maintain and improve service. TARC, in fact, cannot sustain existing service because of limited operating revenue.

Service upgrades, including the region's first Bus Rapid Transit line under development on Dixie Highway, are made possible primarily through federal funding for capital upgrades, and do not include additional operating revenue.

TARC continues to focus on securing increased operating and capital funding at the local, state and federal levels. Efforts include participation in a statewide Kentucky Infrastructure Coalition which is seeking to secure dedicated state funding, including funding for public transportation, during an anticipated legislative tax reform effort. TARC is also exploring possible options for increasing local funding.

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. Another development on the horizon which also could impact operations is the discontinuance of state toll credits which have been used at times to help cover the local funding match required for federal grants awarded to TARC for such necessities as replacement buses.

Total occupational tax revenue, the major source of TARC operating funds, was budgeted at \$53.7 million for FY2017. It is budgeted at \$56.9 million for FY2018, an increase of 5.5 percent.

Regardless of 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, additional service in response to needs of employers and social service agencies have been among initiatives in FY2017 that highlight TARC's commitment to its mission. For example, TARC added service, at times on short notice, to address seasonal employment spikes at major distribution centers. TARC also was successful in securing Congestion Mitigation and Air Quality (CMAC) funding to operate a circulator service providing access to jobs in the Riverport industrial park in southwest Jefferson County. In addition, TARC committed to extend the all-electric ZeroBus route on the Fourth Street corridor to provide direct access to Churchill Downs.

In efforts to address passenger and general public needs, TARC completed surveys of local, express route and TARC 3 passengers, as well as the general public. Funds were also secured to begin a comprehensive operational analysis plan to help determine best options for service routing in the future, focusing on how to achieve the most efficient and beneficial operation.

For the fourth fiscal year in row, TARC did not raise fares in FY2017. Service levels were maintained. TARC upgraded technology in FY2017 to the benefit of passengers, expanding free Wi-Fi to all TARC buses.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

Financial Highlights and Current Known Facts, Decision and Conditions (Continued)

With a continued focus on safety and security, TARC also completed a fleet-wide upgrade of an on-board camera system for buses.

TARC continues to place an emphasis on the importance of team members and passengers to show dignity and respect. Efforts include a streamlined complaint management process, continued conflict resolution training, enhanced security measures and communications.

One key capital funding source, the four-year \$20 million capital improvement and communications program with Ohio River Bridges Project funding, concluded in FY2017. In the final year of the program, TARC authorized exterior improvements to the Nia Center bus turnaround area including shelters and stops and completed a new customer service area and kiosk inside the building. Funds were also authorized toward a new heating, air conditioning and ventilation system at Union Station, new content management system was completed for the TARC website. TARC also took possession of seven vans for the Ticket-To-Ride vanpool program. TARC also authorized local, express and TARC 3 passenger surveys and a survey of the general public. An advertising campaign focused on cross-river travel and targeted low income communities and the general public.

Federal funding remains important for TARC to maintain and improve services, and usually federal grants require only 20 percent in local/state matching funds. However, without help in covering the local match, TARC is forced to find funds from within its limited operating budget, which negatively impacts service. At times, improvements with grant funding can be delayed pending availability of local matching funds.

With funding challenges limiting the ability to provide needed service and to continue implement capital improvements in FY2018, TARC will explore innovative, workable solutions, additional funding sources and focus on ways to increase operating revenue.

TARC is part of the city's multi-model planning initiative called MoveLouisville which could lead to significant proposals for building a transportation system for the future. The BRT line on Dixie Highway, for example, is the first MoveLouisville initiative to be developed as part of an overall Dixie Highway improvement project.

TARC is engaged with partners and Congressional representatives to continue to advocate for increased levels for public transportation. TARC's partners make it possible to provide and improve service through new strategies and technologies.

The University of Louisville, Humana, UPS and Louisville Metro continue to be important partnerships and active supporters of TARC's efforts to position public transportation as an environmental initiative.

TARC in FY2017 added another major partner, Jefferson Community Technical College. Effective Aug. 1, 2017, all JCTC students, faculty and staff will be able to ride any TARC bus on any route fare-free by showing their school-issued photo I.D. with a TARC sticker attached, under a partnership agreement. This agreement followed a successful pilot program in which students who were provided bus passes far surpassed their peers without bus passes in retention and graduation rates, demonstrating the importance of public transportation to access educational and career path opportunities.

TARC will continue to focus efforts on the expansion of these types of partnerships which underscore the importance of a strong public transportation system for a successful, competitive regional city.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

Financial

Table 1
Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
ASSETS			
Current assets	\$ 11,474,657	\$ 19,687,426	\$ (8,212,769)
Capital assets, net	79,318,966	74,034,270	5,284,696
Other investments	<u>31,000</u>	<u>31,000</u>	<u>-</u>
Total assets	90,824,623	93,752,696	(2,928,073)
Deferred outflows of resources	<u>15,661,137</u>	<u>11,696,248</u>	<u>3,964,889</u>
Total assets and deferred outflows of resources	<u>\$ 106,485,760</u>	<u>\$ 105,448,944</u>	<u>\$ 1,036,816</u>
LIABILITIES			
Current liabilities	\$ 11,746,872	\$ 17,747,898	\$ (6,001,026)
Long-term liabilities	<u>69,790,261</u>	<u>59,935,417</u>	<u>9,854,844</u>
Total liabilities	81,537,133	77,683,315	3,853,818
Deferred inflows of resources	<u>-</u>	<u>308,724</u>	<u>(308,724)</u>
Total liabilities and deferred inflows of resources	<u>81,537,133</u>	<u>77,992,039</u>	<u>3,545,094</u>
Net investment in capital assets	79,267,161	71,728,891	7,538,270
Unrestricted net position	<u>(54,318,534)</u>	<u>(44,271,986)</u>	<u>(10,046,548)</u>
Total net position	<u>24,948,627</u>	<u>27,456,905</u>	<u>(2,508,278)</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 106,485,760</u>	<u>\$ 105,448,944</u>	<u>\$ 1,036,816</u>

(Continued)

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

Capital Assets

Table 2
Summary of changes in capital assets

	Balance at <u>July 1, 2016</u>	<u>Additions</u>	Retirements <u>(Adjustments)</u>	Balance at <u>June 30, 2017</u>
Land	\$ 3,177,782	\$ -	\$ -	\$ 3,177,782
Buildings	39,697,086	894,908	148,239	40,740,233
Coaches	104,482,243	11,784,612	(5,284,261)	110,982,594
Office and computer equipment	6,135,784	562,077	(46,820)	6,651,041
Other equipment	<u>16,735,131</u>	<u>1,124,611</u>	<u>(568,056)</u>	<u>17,291,686</u>
	170,228,026	14,366,208	(5,750,898)	178,843,336
Accumulated depreciation	<u>96,193,756</u>	<u>9,238,325</u>	<u>(5,907,711)</u>	<u>99,524,370</u>
Capital assets, net	<u>\$ 74,034,270</u>	<u>\$ 5,127,883</u>	<u>\$ 156,813</u>	<u>\$ 79,318,966</u>

TARC's investment in capital assets, net of depreciation, increased by \$5,284,696. The increase is primarily due to the purchase of new coaches. Depreciation expense for FY 2017 was \$9,786,448. Generally, capital asset purchases are completed with federal, state and/or local funding.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

Revenues

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

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Passenger transportation	\$ 10,545,044	\$ 11,043,487	\$ (498,443)	(4.51)%
Special fares	1,718,913	1,602,629	116,284	7.26%
Interest, advertising, and other income	<u>924,800</u>	<u>722,815</u>	<u>201,985</u>	<u>27.94%</u>
Total operating revenues	13,188,757	13,368,931	(180,174)	(1.35)%
Labor	58,619,855	52,817,809	5,802,046	10.99%
Depreciation	9,786,448	9,402,233	384,215	4.09%
Other operating expenses	<u>27,457,323</u>	<u>30,249,337</u>	<u>(2,792,014)</u>	<u>9.23%</u>
Total operating expenses	95,863,626	92,469,379	3,394,247	3.67%
Mass Transit Trust Fund and interest	55,879,015	50,898,376	4,980,639	9.79%
Federal Transit Administration	22,581,896	24,808,784	(2,226,888)	(8.98)%
Indiana Department of Revenue	1,178,679	1,180,296	(1,617)	(0.14)%
Louisville Metro	-	431,250	(431,250)	(100.00)%
Kentucky Transportation Cabinet	500,000	500,000	-	0.00%
Kentucky Regional Planning and Development Agency	27,000	27,000	-	0.00%
Other	<u>-</u>	<u>649,020</u>	<u>(649,020)</u>	<u>(100.00)%</u>
Total non-operating revenues and capital contributions	<u>80,166,590</u>	<u>78,494,726</u>	<u>1,671,864</u>	<u>2.13%</u>
Change in net position	(2,508,279)	(605,722)	(1,902,557)	314.10%
Net position, beginning of year	<u>27,456,905</u>	<u>28,062,627</u>	<u>(605,722)</u>	<u>(2.16)%</u>
Net position, end of year	<u>\$ 24,948,626</u>	<u>\$ 27,456,905</u>	<u>\$ (2,508,279)</u>	<u>(9.14)%</u>

TARC's operating revenues decreased 1.35% from FY2016. 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 \$51,077,933 for FY 2017 and \$46,238,378 for FY2016 for TARC's operating expenses and \$4,801,082 for FY 2017 and \$4,659,989 for FY2016 for capital related purchases. The federal funding included funding for operations and capital purchases of \$22,581,896 for FY 2017 and \$24,808,784 for FY2016.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2017

Expenses

Expenses excluding depreciation were \$86,077,177 for FY 2017 and \$83,067,146 for FY2016. This change represents an increase of 3.62%.

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 \$58,619,855 for FY2017 and \$52,817,809 for FY2016. TARC experienced increases in both labor and health care costs. Materials and supplies expenses decreased 26.4% in FY 2017 compared to FY2016. Casualty and insurance expenses decreased by 57.3% in FY 2017 compared to FY2016. Purchased Transportation increased 4.7%, \$15,018,800 for FY 2017 from \$14,339,659 for FY2016. 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 \$13,965,706.

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/
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STATEMENT OF NET POSITION
June 30, 2017

ASSETS

Current assets:

Cash	\$ 6,075,296
Accounts and grants receivable	
Trade	808,616
Louisville Metro Government - Mass Transit Trust Fund	1,489,686
Louisville Metro Government - other	34,209
Department of Transportation	1,176,430
Materials and supplies inventory, net	1,215,392
Prepaid expenses	<u>675,028</u>
Total current assets	11,474,657

Noncurrent assets:

Capital assets not being depreciated	3,177,782
Depreciable capital assets, net	<u>76,141,184</u>
Total capital assets	79,318,966
Other investments	<u>31,000</u>
Total noncurrent assets	<u>79,349,966</u>
Total assets	90,824,623

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows of resources	<u>15,661,137</u>
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Total assets and deferred outflows of resources

\$ 106,485,760

LIABILITIES

Current liabilities:

Current portion of capital lease obligation	\$ 51,805
Accounts payable and other liabilities	6,155,681
Compensated absences	2,176,000
Estimated liability for uninsured liability claims	758,163
Estimated liability for uninsured workers' compensation claims	2,379,943
Unearned revenue	<u>225,280</u>
Total current liabilities	11,746,872

Noncurrent liabilities:

Compensated absences	1,492,868
Estimated liability for uninsured liability claims	602,437
Estimated liability for uninsured workers' compensation claims	419,990
Net pension liability:	
County Employee Retirement System	64,540,703
TARC Pension Plan	<u>2,734,263</u>
Total net pension liability	<u>67,274,966</u>
Total noncurrent liabilities	<u>69,790,261</u>

Total liabilities	<u>81,537,133</u>
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NET POSITION

Net investment in capital assets	79,267,161
Unrestricted	<u>(54,318,534)</u>
Total net position	<u>24,948,627</u>

Total liabilities, deferred inflows of resources and net position

\$ 106,485,760

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, 2017

Operating revenues	
Passenger fares	\$ 10,545,044
Special transit fares	1,718,913
Advertising	630,177
Interest	18,924
Other revenue	199,391
Recoveries	<u>76,308</u>
Total operating revenues	13,188,757
Operating expenses	
Labor	28,648,143
Fringe benefits, budget basis	24,861,032
Plus: pension adjustments	<u>5,110,680</u>
Net fringe benefits	29,971,712
Services	2,953,484
Development costs	1,094,359
Materials and supplies	5,935,509
Utilities	864,947
Casualty and insurance	1,019,256
Miscellaneous	568,547
Rentals and purchased transportation	15,018,800
Interest	2,420
Depreciation	<u>9,786,448</u>
Total operating expenses	<u>95,863,625</u>
Loss from operations	(82,674,868)
Non-operating revenues (expenses)	
Mass Transit Trust Fund and interest	51,077,933
Mass Transit Trust Fund capital assistance for operating	2,803,155
Federal Transit Administration	9,725,063
Indiana Department of Revenue	1,178,679
Kentucky Regional Planning and Development Agency	<u>27,000</u>
	<u>64,811,830</u>
Loss before capital contributions	(17,863,038)
Capital contributions:	
Mass Transit Trust Fund and interest	1,997,927
Kentucky Transportation Cabinet	500,000
Federal Transit Administration and Pass-Through Entities	<u>12,856,833</u>
Total capital contributions	<u>15,354,760</u>
Change in net position	(2,508,278)
Net position, beginning of year	<u>27,456,905</u>
Net position, end of year	<u>\$ 24,948,627</u>

See accompanying notes to financial statements.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
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STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

Cash flows from operating activities	
Receipts from passengers and service contracts	\$ 12,638,390
Payments to suppliers	(26,442,891)
Payments to employees	<u>(52,751,631)</u>
Net cash used by operating activities	(66,556,132)
Cash flows from non-capital financing activities	
Federal assistance	15,968,706
State assistance	1,205,679
Mass transit trust fund operational receipts	<u>43,551,989</u>
Net cash provided from non-capital financing activities	60,726,374
Cash flows from capital and related financing activities	
Payments on capital lease obligation	(153,574)
Government Federal subsidies	21,045,867
Government other local subsidies	488,597
Mass transit trust fund capital subsidies	4,801,082
Purchases of capital assets	<u>(14,484,291)</u>
Net cash used by capital financing activities	11,697,681
Cash flows from investing activities	
Interest activity	<u>(18,925)</u>
Net increase (decrease) in cash and cash equivalents	5,848,998
Cash and cash equivalents, beginning of year	<u>226,298</u>
Cash and cash equivalents, end of year	<u>\$ 6,075,296</u>
Reconciliation of loss from operations to cash used by operations:	
Loss from operations	\$ (82,674,868)
Adjustments to reconcile change in net position to net cash used by operating activities	
Depreciation and development costs	10,880,807
Net pension liability, deferred outflows and deferred inflows	5,110,680
(Increase) decrease in:	
Trade accounts receivable	(473,662)
Inventories	52,704
Prepaid expenses	42,261
Accounts payable and other liabilities	667,777
Accrued compensated absences	11,931
Estimated liability for uninsured liability claims	(882,650)
Estimated liability for uninsured workers' compensation claims	632,181
Unearned revenue	<u>76,707</u>
Net cash used by operating activities	<u>\$ (66,556,132)</u>

Noncash investing, capital and related financing activities

TARC financed the purchase of capital assets through accounts payable of approximately \$418,000 in 2017.

See accompanying notes to financial statements.

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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 2017 fiscal year was submitted to and approved by Louisville/Jefferson County Metro Government Council in June 2016.

Concentration of Funding: TARC relies on local funding from the Mass Transit Trust Fund for 59.51% of total revenue in 2017. The Mass Transit Trust fund administers 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 26.36% of total revenues in 2017.

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.

(Continued)

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of Accounting Standards: The Authority adopted the following accounting standards during the year:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*.
- GASB Statement No. 77, *Tax Abatement Disclosures*.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*.
- GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*,

Adoption of these statements did not have a significant impact on the Board's financial position or results of operations.

Recent Accounting Pronouncements: The GASB has issued the following statements not yet required to be adopted by the Board that management believes may be relevant to their operations.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016. The provisions of this Statement are effective for reporting periods beginning after December 15, 2016.
- GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019.

The Board's management has not yet determined the effect, if any, these statements will have on the Board's financial statements.

(Continued)

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017.

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 per occurrence for workers' compensation and 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 is self-insured for cyber property and liability claims per occurrence for third party liability coverages and data breach crisis management, first party network business interruption and extra expenses property coverages, and first party data breach crisis management property coverages to replace, recreate, restore or repair damaged programs, software or electronic data. Excess coverage can be purchased through Louisville Area Governmental Self-Insurance Trust.

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, 2017, TARC had no significant claims that are payable from the Trust's assets.

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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, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
At June 30, 2017:					
Uninsured worker's compensation	<u>\$ 2,167,752</u>	<u>\$ 3,120,556</u>	<u>\$ 2,488,374</u>	<u>\$ 2,799,934</u>	<u>\$ 2,379,943</u>
At June 30, 2016:					
Uninsured worker's compensation	<u>\$ 1,520,655</u>	<u>\$ 2,266,873</u>	<u>\$ 1,619,776</u>	<u>\$ 2,167,752</u>	
At June 30, 2017:					
Uninsured liability claims	<u>\$ 2,243,250</u>	<u>\$ 1,019,256</u>	<u>\$ 1,901,906</u>	<u>\$ 1,360,600</u>	<u>\$ 758,163</u>
At June 30, 2016:					
Uninsured liability claims	<u>\$ 1,974,000</u>	<u>\$ 1,859,107</u>	<u>\$ 1,589,857</u>	<u>\$ 2,243,250</u>	

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.

(Continued)

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
At June 30, 2017:					
Compensated absences	\$ 3,656,937	\$ 4,272,608	\$ 4,260,677	\$ 3,668,868	\$ 2,176,000

Unearned Revenue: Advance tickets sales that have not been redeemed through the fare box are shown as unearned revenue. Unearned revenue at June 30, 2017 was \$225,280.

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 Outflows of Resources and Deferred Inflows of Resources: These deferred amounts represent a consumption(outflow) or acquisition (inflow) of net position that applies to a future period(s). TARC's activities are related to recognition of changes in its defined benefit plans' net pension liability that will be amortized to expense 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.

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NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

A summary of cash, certificate of deposit and investments at June 30, 2017 is as follows:

	Cash and Cash <u>Equivalents</u>
Operating accounts:	
Cash in bank	\$ 4,585,355
U.S. Government money market	<u>1,489,941</u>
Total cash and cash equivalents	6,075,296
Certificate of deposit	<u>31,000</u>
Total	<u>\$ 6,106,296</u>

The bank balance of cash and cash equivalents and certificate of deposit as of June 30, 2017 was \$5,839,943. 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, 2017, 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)

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June 30, 2017

NOTE 4 - CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2017 are summarized as follows:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Retirements (Adjustments)</u>	<u>Balance at June 30, 2017</u>
Land	\$ 3,177,782	\$ -	\$ -	\$ 3,177,782
Buildings	39,697,086	894,908	148,239	40,740,233
Coaches	104,482,243	11,784,612	(5,284,261)	110,982,594
Office and computer equipment	6,135,784	562,077	(46,820)	6,651,041
Other equipment	<u>16,735,131</u>	<u>1,124,611</u>	<u>(568,056)</u>	<u>17,291,686</u>
	170,228,026	14,366,208	(5,750,898)	178,843,336
Accumulated depreciation for:				
Buildings	20,665,545	1,299,627	(19,169)	21,946,003
Coaches	57,518,353	6,378,304	(5,108,448)	58,788,209
Office and computer equipment	5,072,008	398,030	(224,379)	5,245,659
Other equipment	<u>12,937,850</u>	<u>1,162,364</u>	<u>(555,715)</u>	<u>13,544,499</u>
	<u>96,193,756</u>	<u>9,238,325</u>	<u>(5,907,711)</u>	<u>99,524,370</u>
Capital assets, net	<u>\$ 74,034,270</u>	<u>\$ 5,127,883</u>	<u>\$ 156,813</u>	<u>\$ 79,318,966</u>

NOTE 5 – LINE OF CREDIT BORROWINGS

TARC entered into a borrowing agreement with Fifth Third Bank that established an unsecured line-of-credit whereby TARC can borrow up to \$6,000,000. The interest rate is Libor plus 1.80% (2.27% at June 30, 2017) and expires November 2017. 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, 2017.

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 \$746,890 at June 30, 2017. Future minimum payments required under the lease together with their present value as of June 30, 2017 are as follows:

Year ending June 30	
2018	<u>\$ 51,998</u>
Total minimum lease payments	51,998
Less amount representing interest	<u>(193)</u>
Present value of lease payments - current	<u>51,805</u>

(Continued)

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NOTE 7 - 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 MTTF funds for operating and capital expenditures.

For the year ended June 30, 2017, TARC recorded revenues of \$51,077,933 and \$4,801,082 for capital contributions and capital assistance for operating from MTTF. 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 (or under) draws are recorded as a payable/receivable back to the MTTF. At June 30, 2017, TARC was owed \$1,489,686 from the MTTF held at Louisville Metro Government.

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, 2017 was \$15,018,800. TARC has a contract that expires March 2018 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, 2017 was \$656,401.

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.

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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 statutes 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.

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.

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

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.

<u>Service Credit</u>	<u>Benefit Factor</u>
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.

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.

(Continued)

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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

For the fiscal years ended June 30, 2017 and 2016, participating employers contributed 18.68% and 17.06% 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, 2017, 2016, and 2015. Total current year contributions recognized by the Plan were \$4,476,502 for the year ended June 30, 2017.

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.

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, 2015., An expected total pension liability was determined at June 30, 2016 using standard roll-forward techniques. The following actuarial assumptions were applied to all periods included in the measurement:

Price Inflation	3.25 percent
Salary increases	Based on years of service, including inflation of 4%
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total pension liability was 7.50%.
- (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 27-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, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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.
- (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 2117.
- (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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Private equity	10%	8.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Cash equivalent	2%	-0.25%
Total	<u>100.00%</u>	

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 7.50% based on a blending of the factors described above.

(Continued)

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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

(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 7.50 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 (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
TARC's net position liability - Nonhazardous	\$ 80,428,167	\$ 64,540,703	\$ 50,921,983

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 \$64,540,703, or approximately 1.31%. The net pension liability was distributed based on 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2016 is the actuarial valuation date upon which the total pension liability is based, respectively. No update procedures were used to determine the total pension liability.

Changes in Assumptions and Benefit Terms since Prior Measurement Date: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on TARC's proportionate share of the collective net pension liability

Pension Expense: TARC recognized pension expense of approximately \$5,196,078 related to the CERS.

Deferred Outflows and Deferred Inflows: 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. 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. Deferred inflows and outflows as of the Measurement Date include:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 281,769	\$ -
Change of assumptions	3,419,021	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	1,357,989	-
Differences between expected and actual investment earning on plan investments	6,067,485	-
	11,126,264	-
Contributions subsequent to the measurement date	4,476,502	-
Total	<u>\$ 15,602,766</u>	<u>\$ -</u>

(Continued)

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

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$4,476,502 will be recognized as a reduction of net pension liability in the year ending June 30, 2017. The remainder of the deferred outflows of resources are amortized over five years with remaining amortization as follows:

Year ending June 30:	
2018	\$ 4,326,307
2019	3,087,614
2020	2,364,377
2021	1,347,966

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

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). TARC has established a Pension Board, which consists of five members which include management and union representatives.

NOTE 10 – DEFINED BENEFIT PENSION PLAN – SINGLE EMPLOYER

Benefits Provided: At June 30, 2017, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	71
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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 ranging from \$710 to \$890 based on retirement or termination date. 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, 0% increase for year 2017, annual 2% increase at March 1 each year, in monthly benefit payments for years 2018-2019.

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, 2017 was approximately \$426,241. The Plan recognized approximately \$438,660 of employer contributions as of June 30, 2017. During their employment with TARC, eligible employees were required to contribute an amount per hour that was agreed to in the bargaining agreement.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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NOTE 10 – DEFINED BENEFIT PENSION PLAN – SINGLE EMPLOYER (Continued)

Employee contributions were determined using the following amounts per hour:

March 1990 to August 1991	\$ 0.375
September 1991 to December 2004	\$ 0.425

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, 2017 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, 2017 actuarial valuation was determined used the following actuarial assumptions, applied to all periods included in the measurement:

Cost of living adjustment	2.0%
Investment rate of return	7.0%

Mortality rates were based on RP-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with projected improvements after year 2006 under Projection Scale MP-2016 (male and female scales), 2018-2019.

Actuarial valuation method was based on the Entry Age Normal Cost Method, with the unfunded actuarial liability amortized over 10 years and a future liability changes amortized over average expected future lifetime.

Asset valuation method based on the market value adjusted for accruals.

Provision for expenses based on the replacement of prior year's expenses paid from the trust.

Changes in Assumptions: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described in the summary of actuarial assumptions. The changes are noted below:

- Cost of living adjustment from 2.0% for all years after current applicable contract to 0.00% until February 28, 2018 and 2.0% per annum thereafter.
- The provision for expenses changed from \$55,000 to a replacement of prior year's expenses paid from the trust.
- The mortality table changed from the RP-2000 Mortality Table projected to 2016 with scale AA with no collar adjustment to the RP-2014 Generational Mortality Table (Blue Collar) adjusted to 2006 with projected improvements after year 2006 under Projection Scale MP-2016 (male and female scales).

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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	60%	3.3
Fixed income	<u>40%</u>	4.8
Total	<u>100%</u>	

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:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balances at January 1, 2016	<u>\$ 4,175,452</u>	<u>\$ 1,337,736</u>	<u>\$ 2,837,716</u>
Changes for the year:			
Interest	270,473	-	270,473
Differences between expected and actual experience	9,170	-	9,170
Contributions – employer	-	438,660	(438,660)
Net investment income	-	77,165	(77,165)
Benefit payments, including refunds of employee contributions	(679,756)	(679,756)	-
Assumption changes	87,324	-	87,324
Administrative expenses	-	(45,405)	45,405
Net changes	<u>(312,789)</u>	<u>(209,336)</u>	<u>(103,453)</u>
Balances at December 31, 2016	<u>\$ 3,862,663</u>	<u>\$ 1,128,400</u>	<u>\$ 2,734,263</u>

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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	\$ 2,934,923	\$ 2,734,263	\$ 2,552,796

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources: For the year ended June 30, 2017, TARC recognized pension expense of approximately \$85,399 related to the Plan.

At June 30, 2017, TARC reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual investment earnings on plan investments	\$ 58,371	\$ -
Total	<u>\$ 58,371</u>	<u>\$ -</u>

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.

REQUIRED SUPPLEMENTARY INFORMATION

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TARC'S NET PENSION LIABILITY -
EMPLOYEES' AMENDED RETIREMENT PLAN
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Interest	\$ 270,473	\$ 286,547	\$ 322,907
Differences between expected and actual experience	9,170	(192,112)	(116,612)
Changes of assumptions	87,324	356,697	9,687
Benefit payments, including refunds	<u>(679,756)</u>	<u>(738,404)</u>	<u>(799,005)</u>
Net change in total pension liability	(312,789)	(287,272)	(583,023)
Total pension liability, beginning	<u>4,175,452</u>	<u>4,462,724</u>	<u>5,045,747</u>
Total pension liability, ending	<u>\$ 3,862,663</u>	<u>\$ 4,175,452</u>	<u>\$ 4,462,724</u>
Plan fiduciary net position			
Contributions – employee	\$ 438,660	\$ 419,912	\$ 468,338
Net investment income	77,165	(19,825)	171,041
Benefit payments, including refunds of employee	(679,756)	(738,404)	(799,005)
Administrative expense	<u>(45,405)</u>	<u>(44,274)</u>	<u>(59,466)</u>
Net change in plan fiduciary net position	(209,336)	(382,591)	(219,092)
Plan fiduciary net position, beginning	<u>1,337,736</u>	<u>1,720,327</u>	<u>1,939,419</u>
Plan fiduciary net position, ending	<u>\$ 1,128,400</u>	<u>\$ 1,337,736</u>	<u>\$ 1,720,327</u>
TARC's net pension liability, ending	<u>\$ 2,734,263</u>	<u>\$ 2,837,716</u>	<u>\$ 2,742,397</u>
Plan fiduciary net position as a percentage of the total pension liability	29.21%	32.04%	38.55%
Covered-employee payroll	\$ -	\$ -	\$ -
Authority's net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A

The amounts presented for each fiscal year were determined as of the December 31 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/
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S CONTRIBUTIONS
EMPLOYEES' AMENDED RETIREMENT PLAN
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 423,077	\$ 444,125	\$ 444,125
Contributions in relation to the actuarially determined contribution	<u>426,241</u>	<u>419,912</u>	<u>468,338</u>
Annual contribution deficiency (excess)	<u>\$ (3,164)</u>	<u>\$ 24,213</u>	<u>\$ (24,213)</u>
TARC's covered employee payroll	\$ -	\$ -	\$ -
The Authority's contributions as a percentage of its covered employee payroll	N/A	N/A	N/A

Notes to Schedule

Valuation Date:	January 1, 2017
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-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with protected mortality improvements after year 2006 under protection scale MP-2016

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
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEES RETIREMENT SYSTEM - NON-HAZARDOUS
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
TARC's proportion of the net pension liability	1.311%	1.280%	1.250%
TARC's proportionate share of the net pension	\$ 64,540,703	\$ 55,052,957	\$ 40,406,000
TARC's covered payroll	\$ 31,443,815	\$ 30,004,788	\$ 30,655,572
TARC's proportion of the net pension liability as a percentage of its covered payroll	205.257%	183.481%	131.806%
Plan fiduciary net position as a percentage of the total pension liability	55.503%	59.968%	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.

Since prior measurement date, the demographic and economic assumptions that affect the measurement of total pension liability have not been updated.

TRANSIT AUTHORITY OF RIVER CITY
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 4,476,502	\$ 3,905,260	\$ 3,825,610
Contributions in relation to the statutorily required contribution	<u>(4,476,502)</u>	<u>(3,905,260)</u>	<u>(3,825,610)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TARC's contributions as a percentage of statutorily required contribution for pension	100%	100%	100%
TARC's covered payroll	\$ 32,089,620	\$ 31,443,315	\$ 30,004,788
Contributions as a percentage of its covered payroll	13.95%	12.42%	12.75%

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, 2017

	Budget	Actual	Actual to GAAP Differences	Actual Amounts GAAP Basis
Operating revenues				
Passenger transportation	\$ 11,143,780	\$ 10,545,044	\$ -	\$ 10,545,044
Special fares	1,541,530	1,718,913	-	1,718,913
Advertising	540,000	630,177	-	630,177
Interest	1,477	18,924	-	18,924
Other revenue	123,523	199,391	-	199,391
Recoveries	<u>60,000</u>	<u>76,308</u>	-	<u>76,308</u>
Total operating revenues	13,410,310	13,188,757	-	13,188,757
Operating expenditures				
Labor	27,926,487	28,648,143	-	28,648,143
Fringe benefits, budget basis	24,596,034	24,861,032	-	24,861,032
Less: pension adjustments	<u>-</u>	<u>-</u>	<u>5,110,680</u>	<u>5,110,680</u>
Net fringe benefits	24,596,034	24,861,032	5,110,680	29,971,712
Services	3,575,189	2,953,484	-	2,953,484
Development costs	2,016,331	1,094,359	-	1,094,359
Materials and supplies	6,177,896	5,935,509	-	5,935,509
Utilities	870,000	864,947	-	864,947
Casualty and insurance	2,270,506	1,019,256	-	1,019,256
Miscellaneous	657,750	568,547	-	568,547
Rentals and purchase transportation	15,233,985	15,018,800	-	15,018,800
Interest	2,420	2,420	-	2,420
Depreciation	<u>7,083,669</u>	<u>9,786,448</u>	-	<u>9,786,448</u>
Total operating expenditures	90,410,267	90,752,945	5,110,680	95,863,625
Operating loss before capital outlay and subsidies	(76,999,957)	(77,564,188)	(5,110,680)	(82,674,868)
Subsidies				
Mass Transit Trust Fund and interest	54,179,910	55,879,015	-	55,879,015
Federal Transit Administration and Pass-Through entities	36,975,719	22,581,896	-	22,581,896
Kentucky Transportation Cabinet	450,000	500,000	-	500,000
Other	<u>1,210,288</u>	<u>1,205,679</u>	-	<u>1,205,679</u>
Total subsidies	<u>92,815,917</u>	<u>80,166,590</u>	-	<u>80,166,590</u>
Change in net position	<u>\$ 15,815,960</u>	<u>\$ 2,602,402</u>	<u>\$ (5,110,680)</u>	<u>\$ (2,508,278)</u>

The operating budget for 2017, as shown above, represents the originally adopted budget for TARC. No amendments were made to the budget during the year ended June 30, 2017.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

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		KY-90-X207,215,222, 228, 2016-007,021, 2017-008 KY-95-X010, X004, X014, X015, 2016-017	\$ 14,617,523
Formula Grants	20.507		
Capital Investment Grants	20.500	KY-04-0040, 04-0047	6,586,215
Bus and Bus Facilities Formula Program	20.526	KY-34-0008, 2016-0006,015	<u>1,901,136</u>
Total Federal Transit Cluster			<u>23,104,874</u>
Transit Services Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	KY-16-XO09	651,473
Job Access - Reverse Commute Grant (JARC) Grants	20.516	JARC 37-X019, 37-X020	628
New Freedom Program	20.521	FDM 57-X015	<u>82,753</u>
Total Transit Services Programs Cluster			<u>734,854</u>
Public Transportation Research, Technical Assistance and Training	20.514	KY-26-005	414,923
Clean Fuels Grant	20.519	KY-58-008	6,544
Capital Assistance Program for Reducing Consumption and Greenhouse Gas Emissions	20.523	KY-88-0001	<u>192,253</u>
Total Directly Received from the Federal Transit Administration			<u>24,453,448</u>
Total Expenditures of Federal Awards			<u>\$ 24,453,448</u>

The following shows subrecipient activity for the year:

<u>CFDA #</u>	<u>Amount</u>
20.500	\$ 119,172
20.526	<u>36,079</u>
	155,251
20.513	148,301
20.521	<u>64,789</u>
	<u>213,090</u>
Total subrecipient activity	<u>\$ 368,341</u>

See accompanying notes to schedule of expenditures of federal awards.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

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 (the "Schedule") includes the federal award activity of TARC under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). TARC has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of TARC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of TARC.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 Transit Authority of River City (TARC), a component unit of Louisville/Jefferson County Metro Government, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements, and have issued our report thereon dated September 19, 2017.

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.

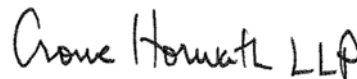
(Continued)

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

Louisville, Kentucky
September 19, 2017

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 THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on each of TARC's major federal programs for the year ended June 30, 2017. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

(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 the Uniform Guidance, 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.

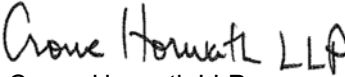
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of TARC as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements. We issued our report thereon dated September 19, 2017, which contained an 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 the Uniform Guidance 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

Louisville, Kentucky
September 19, 2017

TRANSIT AUTHORITY OF RIVER CITY
 (A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2017

PART I: 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 deficiency identified not considered to be material weaknesses?	_____	Yes	_____ X _____	None Reported

Noncompliance material to financial statements noted?

	_____	Yes	_____ X _____	No
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	_____ X _____	No
Significant deficiency identified not considered to be material weakness(es)?	_____	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 2CFR200.516(a)?

	_____	Yes	_____ X _____	No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
20.500 20.507 20.526	Total Federal Transit Cluster consisting of: Capital Investment Grants Formula Grants Bus and Bus Facilities Formula Program

Dollar threshold used to distinguish between Type A and Type B programs \$ 750,000

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 – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SUMMARY OF PRIOR YEAR FINDINGS
Year ended June 30, 2017

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