

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

FINANCIAL STATEMENTS
June 30, 2020

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

FINANCIAL STATEMENTS
June 30, 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	9
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	11
STATEMENT OF CASH FLOWS.....	12
NOTES TO FINANCIAL STATEMENTS.....	13
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF CHANGES IN TARC'S NET PENSION LIABILITY - EMPLOYEES' AMENDED RETIREMENT PLAN	37
SCHEDULE OF TARC'S CONTRIBUTIONS – EMPLOYEES' AMENDED RETIREMENT PLAN	38
SCHEDULE OF TARC'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS.....	39
SCHEDULE OF TARC'S CONTRIBUTIONS - COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS	40
SCHEDULE OF TARC'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS.....	41
SCHEDULE OF TARC'S OPEB CONTRIBUTIONS - COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS	42
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION – BUDGET TO ACTUAL.....	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	44
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	45
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.....	46
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	48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	50

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, 2020, 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, 2020, 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, the schedule of changes in TARC's net pension liability and schedule of TARC's contributions for the Employees' Amended Retirement Plan, the schedule of TARC's proportionate share of the net pension liability and schedule of TARC's contributions for the County Employees' Retirement System – Non-hazardous, and the schedule of TARC's proportionate share of the net OPEB liability and schedule of TARC's OPEB contributions for the County Employees' Retirement System – Non-hazardous as listed in the table of contents 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 as listed in the table of contents 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 to actual 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 December 8, 2020, 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 the effectiveness of TARC's 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 LLP

Louisville, Kentucky
December 8, 2020

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2020

Financial Highlights and Current Known Facts, Decisions and Conditions Impacting Future Periods

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, 2020.

In FY 2020, TARC celebrated its 45th year of service while continuing to face financial challenges due primarily to limited operating revenue. Significant adjustments to levels of service were taken to address this concern, however specifically due to the current COVID-19 pandemic and the associated reduction in ridership, it is difficult to accurately project the long-term financial impact on our agency or when pre-pandemic levels of service may be expected to return.

Total occupational tax revenue, the major source of TARC operating funds, was budgeted at \$60.8 million for FY 2020. The actual amount of receipts for FY 2020 was \$56.3 million, a 7% decrease.

Even prior to the effects of COVID-19, sources of operations funding were not keeping pace with overall expenses to cover the required shares of federal grants, and the continued increasing costs of fixed-route service, paratransit, maintenance needs, health insurance and pensions.

In November of FY 2020 TARC received a \$17.3 MM investment from the USDOT through the FTA to upgrade our aging fleet with new, more fuel-efficient buses. This award allows TARC to replace 40 buses already operating past their useful life, and reduce the total number needing to be replaced from 31% to 13%. The grant improves TARC's ability to deliver safe, efficient, and reliable service to the region. Continued advocacy in Frankfort exploring additional avenues of funding support, resulted in the full local 20% match needed in order to receive the grant successfully secured through an agreement with the Kentucky Transportation Cabinet for recently appropriated VW settlement funds.

In January of FY 2020, the region's first Bus Rapid Transit (BRT) line began providing service along one of the city's busiest corridors, traveling via Dixie Highway from the Gene Snyder directly into downtown. The BRT is part of the city's larger New Dixie Highway Project, and a keystone in achieving the project goals of improving safety, mobility, and livability along the corridor. While federal funds were made available for the completion of this project, additional revenue for the daily and long-term operational costs of maintaining and running this service are not included and must be found elsewhere.

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. The final amenities to support and fully recognize the vision of the BRT project will be completed in early FY 2021. These amenities will include digital signs at strategic stops throughout the corridor with information regarding next bus arrivals, relevant delays and detours for each stop, important news and events, as well as audible translation services for this information.

Further efforts to advance TARC's mission include updates to fare services and collection, increasing the convenience of the community to access and utilize public transit. FY 2020 was the first full fiscal year since the changeover from paper tickets and passes to the electronic MyTARC fare card. To continue this positive momentum, mobile ticketing was tested in July of FY 2020. Due to the overwhelming support this pilot test received; system-wide fixed-route implementation was launched shortly after. Updates to the TARC mobile app and ticketing service continue to be released. Interest and use of mobile ticketing continued to grow throughout FY 2020.

Additionally, in December of FY 2020 Kroger made a dedication to help improve mobility across the region by signing on as TARC's primary MyTARC card partner and providing opportunities to purchase and reload the MyTARC fare card at 20 in-store locations strategically chosen throughout the service region.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2020

Financial Highlights and Current Known Facts, Decisions and Conditions Impacting Future Periods (Continued)

This partnership increases the opportunities available to our entire community, making it easier for employees to connect to jobs, students to attend class, and provides the Greater Louisville area access to needed resources each day.

Regardless of ongoing financial challenges, TARC, for the seventh fiscal year in a row, did not raise fares in FY 2020 and service levels were, overall, maintained. But given continued financial constraints, significant service adjustments to create efficiencies and better align service with ridership were proposed in April of FY 2020, and approved by the TARC Board to take effect in August of FY 2021. In the long-term, this service adjustment will prepare TARC for future potential service restructuring, improved performance, and a better use of resources amid a challenging budget climate.

In FY 2021 TARC will explore innovative opportunities and solutions to secure capital improvements, and work to identify additional funding sources to provide the level of service our community deserves. To this effort TARC will continue to actively engage with community businesses and organizations to secure revenue through our Corporate Connections Program—providing public transit incentives to employees and students—and relationships with congressional representatives to advocate for long-term increases in public transit funding.

Community partnerships with TARC have been a significant source of support over the years and have allowed for additional opportunities to provide and improve service for residents of our community. Current partnerships include: University of Louisville, UofL Hospital, Humana, UPS, Jefferson Community and Technical College, Amazon, Kroger, Simmons College and Louisville Metro.

TARC plays an important role in connecting real people to real opportunities. In FY 2021 TARC will focus on financial health, strategic planning, technology upgrades, customer-service enhancements, and work towards re-establishing our important role in the pre-COVID health of our region's economy. Through workforce and economic development, investing in community partnerships, pursuing new developments in transit amenities, and advocating for increased public transit funding, TARC will continue to provide safe, reliable, and innovative transportation to the community we serve while managing costs, and using assets wisely.

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, deferred outflows, liabilities, deferred inflows and the resulting net position, 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 and the resulting change in net position during the fiscal year. This statement helps the user to assess TARC's financial performance during the fiscal years covered by the Statement.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2020

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 operating, non-capital, capital and financing activities, 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.

Financial

**Table 1
Condensed Statements of Net Position**

	<u>2020</u>	<u>2019</u>	<u>Change</u>
ASSETS AND DEFERRED OUTFLOWS			
Current assets	\$ 20,331,038	\$ 23,772,717	\$ (3,441,679)
Capital assets, net	77,318,967	84,709,304	(7,390,337)
Other investments	<u>31,000</u>	<u>31,000</u>	<u>-</u>
Total assets	97,681,005	108,513,021	(10,832,016)
 Deferred outflows of resources	 <u>27,776,190</u>	 <u>23,183,253</u>	 <u>4,592,937</u>
 Total assets and deferred outflows of resources	 <u>\$ 125,457,195</u>	 <u>\$ 131,696,274</u>	 <u>\$ (6,239,079)</u>
 LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
Current liabilities	\$ 19,305,664	\$ 22,527,476	\$ (3,221,812)
Long-term liabilities	<u>118,220,734</u>	<u>106,960,159</u>	<u>11,260,575</u>
Total liabilities	137,526,398	129,487,635	8,038,763
 Deferred inflows of resources	 <u>9,851,103</u>	 <u>6,705,913</u>	 <u>3,145,190</u>
Total liabilities and deferred inflows of resources	 <u>147,377,501</u>	 <u>136,193,548</u>	 <u>11,183,953</u>
 Net Position:			
Net investment in capital assets	76,866,829	79,574,031	(2,707,202)
Unrestricted net position	<u>(98,787,135)</u>	<u>(84,071,305)</u>	<u>(14,715,830)</u>
Total net position	<u>(21,920,306)</u>	<u>(4,497,274)</u>	<u>(17,423,032)</u>
 Total liabilities, deferred inflow of resources and net position	 <u>\$ 125,457,195</u>	 <u>\$ 131,696,274</u>	 <u>\$ (6,239,079)</u>

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2020

Assets and Deferred Outflows of Resources

TARC's total assets and deferred outflows of resources decreased \$6,239,079 from FY 2019. The statement of net position indicates the most significant changes were decreases in cash and cash equivalents and capital assets, as well as increases in accounts receivables and deferred outflows. TARC's accounts receivables increased in large part due to a receivable from the Federal Department of Transportation totaling \$6,101,701. Deferred outflows of resources are comprised of deferred outflows for both pension and Other Post-Employment Benefits (OPEB). Deferred amounts, which are employer pension and OPEB contributions subsequent to the measurement date of the net pension and net OPEB liabilities increased \$4,592,937 from FY 2019.

Liabilities and Deferred Inflows of Resources

TARC's total liabilities and deferred inflows of resources increased \$11,183,953 from FY 2019 due primarily to increases in the CERS pension liability and OPEB-related deferred inflows of resources, offset by a decrease in accounts payable.

Net Position

TARC's liabilities and deferred inflows exceeded its assets and deferred outflows by \$21,920,306 at the end of FY 2020. This represents a decrease of \$17,423,032 from net position at the end of FY 2019.

Capital Assets

Table 2
Summary of changes in capital assets

	Balance at July 1, 2019	Additions	Retirements (Adjustments)	Balance at June 30, 2020
Land	\$ 3,177,782	\$ -	\$ -	\$ 3,177,782
Buildings	49,016,007	94,193	(15,762)	49,094,438
Coaches	115,392,771	533,580	(547,665)	115,378,686
Office and computer equipment	8,926,719	1,220,682	(11,538)	10,135,863
Other equipment	<u>20,492,042</u>	<u>1,710,831</u>	<u>(262,218)</u>	<u>21,940,655</u>
	197,005,321	3,559,286	(837,183)	199,727,424
Accumulated depreciation	<u>112,296,017</u>	<u>10,933,861</u>	<u>(821,421)</u>	<u>122,408,457</u>
Capital assets, net	<u>\$ 84,709,304</u>	<u>\$ (7,374,575)</u>	<u>\$ (15,762)</u>	<u>\$ 77,318,967</u>

TARC's investment in capital assets, net of depreciation, decreased by \$7,390,337. The decrease is primarily due to current year depreciation of existing assets exceeding current year additions. Depreciation expense for FY 2020 was \$10,929,918. Generally, capital asset purchases are completed with federal, state and/or local funding.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2020

Revenues

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

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>
OPERATING REVENUES				
Passenger transportation	\$ 7,228,489	\$ 8,539,905	\$ (1,311,416)	(15.36%)
Special fares	1,771,409	1,939,701	(168,292)	(8.68)
Interest, advertising, and other income	<u>2,132,654</u>	<u>1,276,357</u>	<u>856,297</u>	<u>67.09</u>
Total operating revenues	11,132,552	11,755,963	(623,411)	(5.30)
OPERATING EXPENSES				
Labor, pension and OPEB	65,760,010	64,032,905	1,727,105	2.70
Depreciation	10,929,918	10,164,049	765,869	7.54
Other operating expenses	<u>33,649,931</u>	<u>34,713,791</u>	<u>(1,063,860)</u>	<u>(3.06)</u>
Total operating expenses	110,339,859	108,910,745	1,429,114	1.31
NONOPERATING REVENUES AND CAPITAL CONTRIBUTIONS				
Mass Transit Trust Fund resources	56,533,645	59,903,913	(3,370,268)	(5.63)
Federal Transit Administration	23,220,616	30,919,209	(7,698,593)	(24.90)
Indiana Department of Transportation	1,759,447	1,209,541	549,906	45.46
KIPDA, KTC, and Other	<u>270,567</u>	<u>937,849</u>	<u>(667,282)</u>	<u>(71.15)</u>
Total non-operating revenues and capital contributions	<u>81,784,275</u>	<u>92,970,512</u>	<u>(11,186,237)</u>	<u>(12.03)</u>
Change in net position	<u>(17,423,032)</u>	<u>(4,184,270)</u>	<u>\$ (13,238,762)</u>	<u>316.39%</u>
Net position, beginning of year	<u>(4,497,274)</u>	<u>(313,004)</u>		
Net position, end of year	<u>\$ (21,920,306)</u>	<u>\$ (4,497,274)</u>		

TARC's operating revenues decreased 5.30% from FY 2019. 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 \$52,986,245 for FY 2020 and \$54,345,975 for FY 2019 for TARC's operating expenses and \$3,554,041 for FY 2020 and \$5,557,938 for FY 2019 for capital related purchases. The federal funding included funding for operations and capital purchases of \$23,220,617 for FY 2020 and \$30,919,209 for FY 2019.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2020

Expenses

Expenses excluding depreciation were \$99,409,941 for FY 2020 and \$98,746,696 for FY 2019. This change represents an increase of 0.67%.

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, including pension and OPEB expense, were \$65,760,010 in FY 2020 and \$64,032,905 in FY 2019. TARC experienced increases in both labor and health care costs. Materials and supplies expenses decreased 13.84% in FY 2020 compared to FY 2019. Casualty and insurance expenses increased by 38.81% in FY 2020 compared to FY 2019. Purchased Transportation decreased 2.91%, from \$16,023,819 in FY 2020 to \$16,504,033 in FY 2019. 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, including accruals, is \$14,038,469.

Requests for Additional Information

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

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
STATEMENT OF NET POSITION
June 30, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$ 8,489,397
Accounts and grants receivable, net	
Trade receivables	2,829,324
Grant receivables	6,155,919
Materials and supplies inventory, net	1,521,273
Prepaid expenses	<u>1,335,125</u>
Total current assets	20,331,038

Noncurrent assets:

Capital assets not being depreciated	3,177,782
Depreciable capital assets, net	<u>74,141,185</u>
Total capital assets	77,318,967
Other investments	<u>31,000</u>
Total noncurrent assets	<u>77,349,967</u>
Total assets	<u>97,681,005</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	19,081,595
OPEB related	<u>8,694,595</u>
Total deferred outflows or resources	<u>27,776,190</u>

Total assets and deferred outflows of resources \$ 125,457,195

See accompanying notes to financial statements.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
STATEMENT OF NET POSITION
June 30, 2020

LIABILITIES

Current liabilities:

Current portion of capital lease obligation	\$	135,382
Due to Louisville Metro Government – Mass Transit Trust Fund		6,116,446
Accounts payable and other liabilities		5,145,019
Compensated absences		2,872,000
Estimated liability for uninsured liability claims		815,112
Estimated liability for uninsured workers' compensation claims		2,169,000
Unearned revenue		<u>2,052,705</u>
Total current liabilities		<u>19,305,664</u>

Noncurrent liabilities:

Capital lease, less current portion		262,538
Compensated absences		651,982
Estimated liability for uninsured liability claims		647,688
Estimated liability for uninsured workers' compensation claims		382,528
Net pension liability:		
County Employee Retirement System		92,870,861
TARC Pension Plan		1,200,456
Net OPEB liability		<u>22,204,681</u>
Total net pension liability and net OPEB liability		<u>116,275,998</u>
Total noncurrent liabilities		<u>118,220,734</u>

Total liabilities 137,526,398

Deferred inflows of resources

Pension related		1,987,039
OPEB related		<u>7,864,064</u>
Total deferred inflows of resources		<u>9,851,103</u>

Total liabilities and deferred inflows of resources 147,377,501

NET POSITION

Net investment in capital assets		76,866,829
Unrestricted		<u>(98,787,135)</u>
Total net position		<u>(21,920,306)</u>

Total liabilities, deferred inflows of resources and net position \$ 125,457,195

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, 2020

Operating revenues	
Passenger fares	\$ 7,228,489
Special transit fares	1,771,409
Advertising	624,167
Interest	70,889
Other revenue	1,347,809
Recoveries	89,789
Total operating revenues	<u>11,132,552</u>
Operating expenses	
Labor	28,465,942
Fringe benefits, budget basis	27,363,294
Plus: annual pension adjustments	9,518,228
Plus: annual OPEB adjustments	412,546
Total labor, pension and OPEB	<u>65,760,010</u>
Services	5,547,999
Development costs	687,707
Materials and supplies	6,852,225
Utilities	906,157
Casualty and insurance	3,011,088
Miscellaneous	582,120
Rentals and purchased transportation	16,023,819
Interest	34,873
Depreciation	10,929,918
Loss on disposal	3,943
Total operating expenses	<u>110,339,859</u>
Loss from operations	(99,207,307)
Non-operating revenues	
Mass Transit Trust Fund and interest	52,986,245
Mass Transit Trust Fund capital assistance for operating	3,055,643
Federal Transit Administration	19,826,628
Indiana Department of Transportation	1,759,447
Kentucky Regional Planning and Development Agency/Other	27,000
Total non-operating revenues	<u>77,654,963</u>
Loss before capital contributions	(21,552,344)
Capital contributions:	
Mass Transit Trust Fund and interest	491,757
KIPDA and Other	243,567
Federal Transit Administration and Pass-Through Entities	3,393,988
Total capital contributions	<u>4,129,312</u>
Change in net position	(17,423,032)
Net position, beginning of year	<u>(4,497,274)</u>
Net position, end of year	<u>\$ (21,920,306)</u>

See accompanying notes to financial statements.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2020

Cash flows from operating activities	
Receipts from passengers and service contracts	\$ 11,018,355
Payments to suppliers	(33,438,312)
Payments to employees	<u>(55,905,386)</u>
Net cash used in operating activities	(78,325,343)
Cash flows from non-capital financing activities	
Federal assistance	18,291,262
State assistance	1,786,447
Mass Transit Trust Fund operational receipts	<u>52,963,863</u>
Net cash provided by non-capital financing activities	73,041,572
Cash flows from capital and related financing activities	
Payments on capital lease obligation	(130,132)
Government Federal subsidies	3,695,449
Mass transit trust fund capital subsidies	3,634,732
Proceeds from borrowings on line of credit	3,000,000
Repayments on line of credit borrowings	(3,000,000)
Proceeds from disposal of capital assets	29,318
Purchases of capital assets	<u>(8,942,334)</u>
Net cash used in capital and related financing activities	(1,712,967)
Cash flows from investing activities	
Interest activity	<u>70,889</u>
Net decrease in cash and cash equivalents	(6,925,849)
Cash and cash equivalents, beginning of year	<u>15,415,246</u>
Cash and cash equivalents, end of year	<u>\$ 8,489,397</u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (99,207,307)
Adjustments to reconcile loss from operations to net cash used in operating activities	
Depreciation and development costs	11,617,625
Net pension liability, deferred outflows and deferred inflows	9,518,228
Net OPEB liability, deferred outflows and deferred inflows	412,546
(Increase) decrease in:	
Trade accounts receivable	(1,182,439)
Inventories	(231,558)
Prepaid expenses	(534,807)
Accounts payable and other liabilities	37,533
Accrued compensated absences	(122,508)
Estimated liability for uninsured liability claims	405,500
Estimated liability for uninsured workers' compensation claims	(106,398)
Unearned revenue	<u>1,068,242</u>
Net cash used by operating activities	<u>\$ (78,325,343)</u>

Noncash investing, capital and related financing activities

TARC financed the purchase of capital assets through accounts payable of approximately \$54,218 in 2020.

See accompanying notes to financial statements.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - NATURE OF ORGANIZATION

The Transit Authority of River City ("TARC" or the "Authority") 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 performed in April or May of each year. The Board-approved budgets for the 2020 fiscal year were submitted to and approved by Louisville/Jefferson County Metro Government Council in June 2019.

Concentration of Funding: TARC relied on local funding from the Mass Transit Trust Fund ("MTTF" or the "Fund") for 60.84% of total revenue in 2020. The 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 24.99% of total revenues in 2020.

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 operates 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.

Recent Accounting Pronouncements: In May 2020, GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. As a result of this pronouncement, TARC has postponed adoption of applicable accounting pronouncements covered by GASB Statement No. 95 during the year. The following statements will be evaluated for future implementation, in accordance with the revised effective dates of each statement:

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after June 15, 2021.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The provisions of this Statement are effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*). The provisions of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019. The provisions of this Statement are effective for reporting periods beginning after December 15, 2021.
- GASB Statement No. 92, *Omnibus 2020*, issued January 2020. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* issued March 2020. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* issued May 2020. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* issued June 2020. The provisions of this Statement are effective over a two-year period.

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

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

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

Accounts Receivable: TARC uses the allowance for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables. Management has recorded an allowance for doubtful accounts of \$10,807 at June 30, 2020.

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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.
- Restricted net position – This component consists of any externally restricted funds or enabling legislation.
- 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.”

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.

Changes in TARC's liability for uninsured workers' compensation and uninsured liability claims for the year ended June 30, 2020 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>
Uninsured worker's compensation	<u>\$ 2,657,926</u>	<u>\$ 2,154,984</u>	<u>\$ 2,261,382</u>	<u>\$ 2,551,528</u>	<u>\$ 2,169,000</u>
Uninsured liability claims	<u>\$ 1,057,300</u>	<u>\$ 3,011,088</u>	<u>\$ 2,605,588</u>	<u>\$ 1,462,800</u>	<u>\$ 815,112</u>

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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for uninsured worker's compensation and uninsured liability claims at the TARC level.

Compensated Absences: Accrued compensated absences represent vested or accumulated sick time and vacation leave that is expected to be liquidated with expendable available financial resources. Full-time employees who have a continuous service record of one year or longer are entitled to an annual vacation from one to six weeks, based on a predetermined schedule. TARC's policy permits employees to accumulate earned but unused vacation. Employees can receive payment for earned, but unused vacation leave up to 240 hours. For bargaining employees, if the employee's predetermined schedule is changed by TARC's management, TARC is required to reschedule the employee's vacation time, which may carry the time over to the following year. In the event the non-bargaining employee has not taken his or her vacation by the end of the calendar year then his or her vacation time can be taken, paid or lost as deemed prudent by TARC's management. All full-time active employees earn sick days at the rate of 5/6 of a day per month, 10 days per year, up to a maximum of 145 days. Upon retirement, the following two options are available for the unused sick day accumulation:

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

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, 2020:					
Compensated absences	\$ 3,646,490	\$ 4,825,939	\$ 4,948,447	\$ 3,523,982	\$ 2,872,000

Unearned Revenue: Advance tickets sales or fare media that have not been redeemed through the fare box are shown as unearned revenue. Unearned revenue at June 30, 2020 was \$2,052,705.

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 (CERS) plan and additions to deductions from the single employer defined benefit plan and the CERS plan fiduciary net position have been determined on the same basis as they are reported by the single employer defined benefit plan and the CERS 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.

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
At June 30, 2020:			
TARC Pension Plan	\$ 2,103,200	\$ (902,744)	\$ 1,200,456
CERS	<u>79,592,001</u>	<u>13,278,860</u>	<u>92,870,861</u>
Net pension liability	<u>\$ 81,695,201</u>	<u>\$ 12,376,116</u>	<u>\$ 94,071,317</u>

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
At June 30, 2019:			
Net OPEB liability	\$ 23,202,276	\$ (997,595)	\$ 22,204,681

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 future periods. TARC's activities are related to recognition of changes in its defined benefit plans' net pension liability and net OPEB liability totaling \$9,851,103 of deferred inflows of resources and \$27,776,190 of deferred outflows of resources 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 MTTF. Funds provided by governmental authorities for capital and operating assistance are recorded when earned.

Recent Events: In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. Coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In response, governments and businesses worldwide have restricted access to public facing institutions, those deemed non-essential. These closures have led to significant, adverse changes in macroeconomic conditions – constraints on supply chain, sourcing of inputs and workforce availability. The extent to which the coronavirus impacts results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact; among others.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

A summary of cash, certificate of deposit and investments at June 30, 2020 is as follows:

	<u>Cash and Cash Equivalents</u>
Operating accounts:	
Cash in bank	\$ 4,495,235
U.S. Government money market	<u>3,994,162</u>
Total cash and cash equivalents	8,489,397
Certificate of deposit (Other Investments)	<u>31,000</u>
 Total	 <u>\$ 8,520,397</u>

The bank balance of cash and cash equivalents and certificate of deposit as of June 30, 2020 was \$9,341,941. The difference represents 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, 2020, 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)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 - CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2020 are summarized as follows:

	<u>Balance at July 1, 2019</u>	<u>Additions</u>	<u>Retirements (Adjustments)</u>	<u>Balance at June 30, 2020</u>
Capital Assets, Not Being Depreciated				
Land	\$ 3,177,782	\$ -	\$ -	\$ 3,177,782
Depreciable Capital Assets, Net				
Buildings	49,016,007	94,193	(15,762)	49,094,438
Coaches	115,392,771	533,580	(547,665)	115,378,686
Office and computer equipment	8,926,719	1,220,682	(11,538)	10,135,863
Other equipment	<u>20,492,042</u>	<u>1,710,831</u>	<u>(262,218)</u>	<u>21,940,655</u>
	193,827,539	3,559,286	(837,183)	196,549,642
Accumulated depreciation for:				
Buildings	24,747,117	1,544,385	-	26,291,502
Coaches	65,223,023	7,118,176	(547,665)	71,793,534
Office and computer equipment	6,633,864	790,375	(11,538)	7,412,701
Other equipment	<u>15,692,013</u>	<u>1,480,925</u>	<u>(262,218)</u>	<u>16,910,720</u>
	112,296,017	10,933,861	(821,421)	122,408,457
Total	<u>81,531,522</u>	<u>(7,374,575)</u>	<u>(15,762)</u>	<u>74,141,185</u>
Capital assets, net	<u>\$ 84,709,304</u>	<u>\$ (7,374,575)</u>	<u>\$ (15,762)</u>	<u>\$ 77,318,967</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 \$15,000,000. The interest rate is Libor plus 2.40% (3.07% at June 30, 2020) and expires in November 2020. There were \$3,000,000 of draws and payments on the line of credit during the fiscal year. There was no outstanding balance on the line of credit as of June 30, 2020.

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 in depreciation expense. Total assets under capital lease net of accumulated amortization were \$397,920 at June 30, 2020. Future minimum payments required under the lease together with their present value as of June 30, 2020 are as follows:

Year ending June 30	
2021	\$ 135,382
2022	140,841
2023	<u>121,697</u>
Total minimum lease payments	<u>\$ 397,920</u>

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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 MTTF. TARC is authorized to draw MTTF funds for operating and capital expenditures.

For the year ended June 30, 2020, TARC recorded nonoperating revenues of \$52,986,245 and \$3,554,041 for capital assistance for operations and capital contributions 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) to MTTF. At June 30, 2020, TARC owed \$6,116,446 to MTTF held at Louisville Metro Government.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

TARC entered into a contract for purchased transportation service which expires on December 10, 2024. Purchased transportation services expense for the year ended June 30, 2020 was \$16,023,819. TARC has a contract that expires March 2023 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, 2020 was \$612,007.

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 2017, 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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS

General Information About the Pension and OPEB Plan: All full-time and eligible part-time employees of TARC participate in County Employee Retirement System (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 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.

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. KRS and the Commonwealth have statutory authority to determine Plan benefits and employer contributions.

KRS issues a publicly available financial report that includes financial statements and required supplementary information for 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.

Basis of Accounting: For purposes of measuring the net pension and other post-employment benefits plan (OPEB) liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, pension and OPEB expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. 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.

Pension 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:

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Members whose participation began before 8/1/2004:

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

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

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

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

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

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

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

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

<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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5.00% 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 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75.00% of the amount of the return which exceeds 4.00%. 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.

OPEB 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:

Insurance Tier 1: Participation began before 7/1/2003

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of \$10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 180 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of \$10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

**NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN –
COST SHARING - CERS (Continued)**

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

For the fiscal year ended June 30, 2020, participating employers contributed 24.06% (19.30% allocated to pension and 4.76% allocated to OPEB) 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 year ended June 30, 2020. Total current year contributions recognized by the Plan were \$7,720,338 (\$6,192,956 related to pension and \$1,527,382 related to OPEB) for the year ended June 30, 2020. The OPEB contributions amount does not include the implicit subsidy reported in the amount of \$476,772.

Members whose participation began before 9/1/2008:

Nonhazardous member 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%. Members are entitled to a full refund of contributions with interest.

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

Nonhazardous member 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%. Members are 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 member 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. 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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

PENSION INFORMATION

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation performed as of June 30, 2018. An expected TPL was determined at June 30, 2019 using standard roll-forward techniques. The following actuarial assumptions were applied to all periods included in the measurement:

Price inflation	2.30%
Salary increases	3.30% to 10.30%, varying by service years, including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

The mortality table used for active members is PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is the PUB-2010 General Mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019 (set back 3 years for males). For disabled members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

- (a) **Discount Rate:** The discount rate used to measure the total pension liability was 6.25%.
- (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 24-year amortization period of the unfunded actuarial accrued liability. The actuarial 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 20013 through 2018 is outlined in a report dated April 12, 2019. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of Projected Benefit Payments:** The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

- (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>
Growth:		
US Equity	18.75%	4.30%
Non-US Equity	18.75	4.80%
Private Equity	10.00	6.65%
Specialty Credit/High Yield	15.00	2.60%
Liquidity:		
Core Bonds	13.50	1.35%
Cash	1.00	0.20%
Diversifying Strategies:		
Real Estate	5.00	4.85%
Opportunistic	3.00	2.97%
Real Return	<u>15.00</u>	4.10%
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 6.25% based on a blending of the factors described above.

- (g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents TARC's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 6.25%, 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 1 percentage-point lower (5.25%) or 1 percentage-point higher (7.25%) than the current rate:

	1% Decrease (<u>5.25%</u>)	Current Discount Rate (<u>6.25%</u>)	1% Increase (<u>7.25%</u>)
TARC's net position liability - Nonhazardous	\$ 116,155,105	\$ 92,870,861	\$ 73,463,669

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 \$92,870,861, or approximately 1.32%. The net pension liability was distributed based on 2019 actual employer contributions to the plan. TARC's prior year proportionate share of the net pension liability was \$79,592,001, or approximately 1.31%.

Measurement Date: June 30, 2018 is the actuarial valuation date and June 30, 2019 is the measurement date upon which the total pension liability is based.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Changes in Assumptions and Benefit Terms: Since the prior measurement date, there have been no changes to benefit terms. However, changes in assumptions since the prior measurement date are as follows:

- Annual salary increases were updated based on the 2018 Experience Study
- Annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members
- The assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees.
- The assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003.

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

Pension Expense: TARC was allocated pension expense of \$16,496,921 related to the CERS for the year ended June 30, 2020.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense, they are labeled deferred outflows. 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,371,272	\$ 392,403
Change of assumptions	9,399,585	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	671,340	37,034
Differences between expected and actual investment earning on plan investments	-	1,497,117
	12,442,197	1,926,554
Contributions subsequent to the measurement date	6,192,956	-
Total	<u>\$ 18,635,153</u>	<u>\$ 1,926,554</u>

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$6,192,956 will be recognized as a reduction of net pension liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over two to four years with remaining amortization as follows:

Year ending June 30:	
2021	\$ 6,752,315
2022	2,604,951
2023	1,052,162
2024	<u>106,215</u>
	<u>\$ 10,515,643</u>

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

OPEB INFORMATION

Total OPEB Liability: The total other postemployment benefits plan (“OPEB”) liability was determined by an actuarial valuation as of June 30, 2018. An expected total OPEB liability was determined at June 30, 2019 using standard roll-forward techniques. The following actuarial assumptions were applied to all periods included in the measurement:

Price inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varying by service years, including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

The mortality table used for active members is PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is the PUB-2010 General Mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019 (set back 3 years for males). For disabled members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

**NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN –
COST SHARING - CERS (Continued)**

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total OPEB liability was 5.68%, which decreased from the 5.85% discount rate used in the prior year.
- (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 actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability.
- (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 2013 through 2018 is outlined in a report dated April 12, 2019. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 28, 2019.
- (e) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

- (f) **Assumed Asset Allocations:** 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>
Growth:		
US Equity	18.75%	4.30%
Non-US Equity	18.75	4.80%
Private Equity	10.00	6.65%
Specialty Credit/High Yield	15.00	2.60%
Liquidity:		
Core Bonds	13.50	1.35%
Cash	1.00	0.20%
Diversifying Strategies:		
Real Estate	5.00	4.85%
Opportunistic	3.00	2.97%
Real Return	<u>15.00</u>	4.10%
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 6.25% based on a blending of the factors described above.

- (g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

The following presents TARC's allocated portion of the net OPEB liability of the System, calculated using the discount rate of 5.68%, as well as what TARC's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate for non-hazardous:

	1% Decrease <u>(4.68%)</u>	Current Discount Rate <u>(5.68%)</u>	1% Increase <u>(6.68%)</u>
Net OPEB liability	<u>\$ 29,745,139</u>	<u>\$ 22,204,681</u>	<u>\$ 15,991,846</u>

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

The following presents TARC's allocated portion of the net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the TARC's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for non-hazardous:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 16,513,735</u>	<u>\$ 22,204,681</u>	<u>\$ 29,105,629</u>

Employer's Portion of the Collective OPEB Liability: TARC's proportionate share of the net OPEB liability, as indicated in the prior table, is \$22,204,681 or approximately 1.32%. The net OPEB liability was distributed based on 2019 actual employer contributions to the plan. TARC's prior year proportionate share of the net OPEB liability was \$23,202,276, or approximately 1.31%.

Measurement Date: June 30, 2018 is the actuarial valuation date and June 30, 2019 is the measurement date upon which the total OPEB liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, there have been no changes to benefit terms. However, changes in assumptions since the prior measurement date are as follows:

- Annual salary increases were updated based on the 2018 Experience Study
- Annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members
- The assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees.
- The assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

OPEB Expense: TARC was allocated OPEB expense of \$2,424,174 related to the CERS for the year ended June 30, 2020.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

**NOTE 9 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN –
COST SHARING - CERS (continued)**

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 6,699,666
Change of assumptions	6,570,571	43,937
Changes in proportion and differences between employer contributions and proportionate shares of contributions	119,870	134,227
Differences between expected and actual investment earnings on plan investments	<u>-</u>	<u>986,234</u>
	6,690,441	7,864,064
Contributions subsequent to the measurement date	<u>2,004,154</u>	<u>-</u>
Total	<u>\$ 8,694,595</u>	<u>\$ 7,864,064</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$2,004,154, which includes the implicit subsidy reported of \$476,772, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	\$ (176,436)
2022	(176,436)
2023	137,130
2024	(463,529)
2025	(423,485)
Thereafter	<u>(70,867)</u>
	<u>\$ (1,173,623)</u>

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

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 10 – DEFINED BENEFIT PENSION PLAN – SINGLE EMPLOYER

Benefits Provided: At June 30, 2020, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits

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, 2019, the Plan elected no annual cost of living increases in monthly benefit payments for fiscal years 2020 through 2022.

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 for the 2020 Plan year was \$274,110. The Plan recognized \$595,256 of employer contributions as of June 30, 2020. During their employment with TARC, eligible employees were required to contribute an amount per hour that was agreed to in the bargaining agreement.

Employee contributions were determined using the following amounts per hour:

March 1990 to August 1991	\$ 0.375
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, 2019 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, 2020 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-2019 (male and female scales).

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

- The 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.
- The asset valuation method based on the market value adjusted for accruals.
- The 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:

- The mortality table changed from the RP-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with projected mortality improvements after year 2006 under Projection Scale MP-2018 (male and female scales) to the RP-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with projected mortality improvements after year 2006 under Projection Scale MP-2019 (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.

Assumed Asset Allocations: 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%	4.2%
Fixed income	<u>40</u>	2.8%
Total	<u><u>100%</u></u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.0%. 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.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Changes in the Net Pension Liability:

	<u>Increase (Decrease)</u>		
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) – (b)</u>
Balances at January 1, 2019	\$ 2,974,848	\$ 871,648	\$ 2,103,200
Changes for the year:			
Interest	193,057	-	193,057
Differences between expected and actual experience	(189,015)	-	(189,015)
Contributions – employer	-	595,256	(595,256)
Net investment income	-	132,004	(132,004)
Benefit payments, including refunds of employee contributions	(473,229)	(473,229)	-
Assumption changes	(201,128)	-	(201,128)
Administrative expenses	-	(21,602)	21,602
Net changes	<u>(670,315)</u>	<u>232,429</u>	<u>(902,744)</u>
Balances at December 31, 2019	<u>\$ 2,304,533</u>	<u>\$ 1,104,077</u>	<u>\$ 1,200,456</u>

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 7.00%, 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 (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease	Current	1% Increase
	<u>(6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>(8.00%)</u>
TARC's net pension liability	\$ 1,303,461	\$ 1,200,456	\$ 1,106,242

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources: For the year ended June 30, 2020, TARC recognized a pension benefit of \$219,463 related to the Plan.

(Continued)

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

At June 30, 2020, TARC reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual investment earnings on plan investments	\$ -	\$ 60,485
Contributions subsequent to the measurement date	<u>446,442</u>	<u>-</u>
Total	<u>\$ 446,442</u>	<u>\$ 60,485</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$446,442 will be recognized as a reduction of net pension liability in the year ending June 30, 2021. The deferred outflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5-year period with remaining amortization as follows:

Year ending December 31:	
2021	\$ (18,325)
2022	(19,414)
2023	(6,448)
2024	<u>(16,298)</u>
Total	<u>\$ (60,485)</u>

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/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TARC'S NET PENSION LIABILITY -
EMPLOYEES' AMENDED RETIREMENT PLAN
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability						
Interest	\$ 193,057	\$ 226,086	\$ 250,828	\$ 270,473	\$ 286,547	\$ 322,907
Differences between expected and actual experience	(189,015)	(170,890)	30,844	9,170	(192,112)	(116,612)
Changes of assumptions	(201,128)	(7,517)	(48,849)	87,324	356,697	9,687
Benefit payments, including refunds	<u>(473,229)</u>	<u>(558,697)</u>	<u>(609,620)</u>	<u>(679,756)</u>	<u>(738,404)</u>	<u>(799,005)</u>
Net change in total pension liability	(670,315)	(511,018)	(376,797)	(312,789)	(287,272)	(583,023)
Total pension liability, beginning	<u>2,974,848</u>	<u>3,485,866</u>	<u>3,862,663</u>	<u>4,175,452</u>	<u>4,462,724</u>	<u>5,045,747</u>
Total pension liability, ending	<u>\$ 2,304,533</u>	<u>\$ 2,974,848</u>	<u>\$ 3,485,866</u>	<u>\$ 3,862,663</u>	<u>\$ 4,175,452</u>	<u>\$ 4,462,724</u>
Plan fiduciary net position						
Contributions – employer	\$ 595,256	\$ 461,850	\$ 438,954	\$ 438,660	\$ 419,912	\$ 468,338
Net investment income	132,004	3,683	127,536	77,165	(19,825)	171,041
Benefit payments, including refunds of employee	(473,229)	(558,697)	(609,620)	(679,756)	(738,404)	(799,005)
Administrative expense	<u>(21,602)</u>	<u>(56,761)</u>	<u>(63,697)</u>	<u>(45,405)</u>	<u>(44,274)</u>	<u>(59,466)</u>
Net change in plan fiduciary net position	232,429	(149,925)	(106,827)	(209,336)	(382,591)	(219,092)
Plan fiduciary net position, beginning	<u>871,648</u>	<u>1,021,573</u>	<u>1,128,400</u>	<u>1,337,736</u>	<u>1,720,327</u>	<u>1,939,419</u>
Plan fiduciary net position, ending	<u>1,104,077</u>	<u>871,648</u>	<u>1,021,573</u>	<u>1,128,400</u>	<u>1,337,736</u>	<u>1,720,327</u>
TARC's net pension liability, ending	<u>\$ 1,200,456</u>	<u>\$ 2,103,200</u>	<u>\$ 2,464,293</u>	<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	47.91%	29.30%	29.31%	29.21%	32.04%	38.55%
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A	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/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S CONTRIBUTIONS
EMPLOYEES' AMENDED RETIREMENT PLAN
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 274,110	\$ 423,330	\$ 437,080	\$ 423,077	\$ 444,125	\$ 444,125
Contributions in relation to the actuarially determined contribution	<u>595,256</u>	<u>461,850</u>	<u>438,954</u>	<u>438,660</u>	<u>419,912</u>	<u>468,338</u>
Annual contribution deficiency (excess)	<u>(321,146)</u>	<u>(38,520)</u>	<u>(1,874)</u>	<u>(15,583)</u>	<u>24,213</u>	<u>(24,213)</u>
TARC's covered payroll	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TARC's contributions as a percentage of its covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation Date:	January 1, 2020
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:	2.00%
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-2019

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

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEES RETIREMENT SYSTEM - NON-HAZARDOUS
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TARC's proportion of the net pension liability	1.320%	1.307%	1.309%	1.311%	1.280%	1.250%
TARC's proportionate share of the net pension	\$ 92,870,861	\$ 79,592,001	\$ 76,614,117	\$ 64,540,703	\$ 55,052,957	\$ 40,406,000
TARC's covered payroll	\$ 33,820,338	\$ 32,758,156	\$ 32,089,620	\$ 31,443,315	\$ 30,004,788	\$ 30,655,572
TARC's proportion of the net pension liability as a percentage on its on its covered payroll	274.601%	242.969%	238.750%	205.260%	183.481%	131.806%
Plan fiduciary net position as a percentage of the total pension liability	50.447%	53.542%	53.325%	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.

Changes in Assumptions and Benefit Terms from 2019 to 2020: Since the prior measurement date, annual salary increases were updated based on the 2018 Experience Study; annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study; the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members; the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees; and the assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003

Changes in Assumptions and Benefit Terms from 2018 to 2019: Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 was determined using these updated benefit provisions.

Changes in Assumptions and Benefit Terms from 2017 to 2018: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.50% to 6.25%, (ii) the assumed rate of inflation was reduced from 3.25% to 2.30%, and (iii) payroll growth assumption was reduced from 4.00% to 2.00%.

Note: There were no changes from 2016 to 2017.

Changes in Assumptions and Benefit Terms from 2015 to 2016: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.75% to 7.50%, (ii) the assumed rate of inflation was reduced from 3.50% to 3.25%, (iii) the assumed rate of wage inflation was reduced from 1.00% to 0.75%, (iv) payroll growth assumption was reduced from 4.50% to 4.00%, (v) 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, and (vi) the assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
June 30, 2019

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 6,192,956	\$ 5,416,203	\$ 4,720,629	\$ 4,476,502	\$ 3,905,260	\$ 3,825,610
Contributions in relation to the statutorily required contribution	<u>(6,192,956)</u>	<u>(5,416,203)</u>	<u>(4,720,629)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TARC's contributions as a percentage of statutorily required contribution for pension	100%	100%	100%	100%	100%	100%
TARC's covered payroll	\$ 32,008,931	\$ 33,820,338	\$ 32,758,156	\$ 32,089,620	\$ 31,443,315	\$ 30,004,788
Contributions as a percentage of its covered payroll	19.348%	16.015%	14.411%	13.950%	12.420%	12.750%

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

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
TARC's proportion of the net OPEB liability Non-hazardous	1.320%	1.307%	1.309%
TARC's proportionate share of the net OPEB liability	\$ 22,204,681	\$ 23,202,276	\$ 26,313,427
TARC's covered payroll	\$ 33,820,338	\$ 32,758,156	\$ 32,089,620
TARC's proportion of the net OPEB liability as a percentage of its covered payroll	65.655%	70.829%	82.000%
Plan fiduciary net position as a percentage of the total OPEB liability	60.438%	57.622%	52.400%

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

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Changes in Assumptions and Benefit Terms from 2019 to 2020: Since the prior measurement date, annual salary increases were updated based on the 2018 Experience Study; annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study; the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members; the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees; and the assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003

Changes in Assumptions and Benefit Terms from 2018 to 2019: Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 was determined using these updated benefit provisions.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TARC'S OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 1,527,382	\$ 1,756,426	\$ 1,532,248
Contributions in relation to the statutorily required contribution	<u>(1,527,382)</u>	<u>(1,756,426)</u>	<u>(1,532,248)</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	\$ 32,008,931	\$ 33,820,338	\$ 32,758,156
Contributions as a percentage of its covered payroll	4.772%	5.193%	4.677%

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, 2020

	Budget	Actual	Actual to GAAP Differences	Actual Amounts GAAP Basis
Operating revenues				
Passenger transportation	\$ 9,956,711	\$ 7,228,489	\$ -	\$ 7,228,489
Special fares	2,261,203	1,771,409	-	1,771,409
Advertising	657,000	624,167	-	624,167
Interest	-	70,889	-	70,889
Other revenue	252,000	1,347,809	-	1,347,809
Recoveries	70,000	89,789	-	89,789
Total operating revenues	<u>13,196,914</u>	<u>11,132,552</u>	-	<u>11,132,552</u>
Operating expenditures				
Labor	29,359,823	28,465,942	-	28,465,942
Fringe benefits	27,808,000	27,363,294	-	27,363,294
Plus: pension adjustments	-	-	9,518,228	9,518,228
Plus: OPEB adjustments	-	-	412,546	412,546
Total labor, pension and OPEB	<u>57,167,823</u>	<u>55,829,236</u>	<u>9,930,774</u>	<u>65,760,010</u>
Services	5,339,730	5,547,999	-	5,547,999
Development costs	1,234,500	687,707	-	687,707
Materials and supplies	8,247,825	6,852,225	-	6,852,225
Utilities	984,800	906,157	-	906,157
Casualty and insurance	2,127,136	3,011,088	-	3,011,088
Miscellaneous	752,320	582,120	-	582,120
Rentals and purchase transportation	17,988,510	16,023,819	-	16,023,819
Interest	42,182	34,873	-	34,873
Depreciation	10,325,004	10,929,918	-	10,929,918
Loss on disposal	-	3,943	-	3,943
Total operating expenditures	<u>104,209,830</u>	<u>100,409,085</u>	<u>9,930,774</u>	<u>110,339,859</u>
Operating loss before subsidies	(91,012,916)	(89,276,533)	(9,930,774)	(99,207,307)
Subsidies				
Mass Transit Trust Fund and interest	68,261,431	56,533,645	-	56,533,645
Federal Transit Administration and Pass-Through entities	21,442,826	23,220,616	-	23,220,616
KIPDA and other	1,602,666	2,030,014	-	2,030,014
Total subsidies	<u>91,306,923</u>	<u>81,784,275</u>	<u>-</u>	<u>81,784,275</u>
Change in net position	<u>\$ 294,007</u>	<u>\$ (7,492,258)</u>	<u>\$ (9,930,774)</u>	<u>\$ (17,423,032)</u>

The operating budget for 2020, as shown above, represents the originally adopted budget for TARC. No amendments were made to the budget during the year ended June 30, 2020.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2020

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			
Formula Grants	20.507		\$ 16,010,324
Formula Grants – COVID 19 -CARES Act	20.507		4,341,151
Bus and Bus Facilities Formula Program	20.526		<u>475,162</u>
Total Federal Transit Cluster			<u>20,826,637</u>
Transit Services Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		957,559
Job Access and Reverse Commute Program (JARC)	20.516		<u>1,375</u>
Total Transit Services Programs Cluster			<u>958,934</u>
Public Transportation Research, Technical Assistance and Training	20.514		<u>11,633</u>
Total Directly Received from the Federal Transit Administration			21,797,204
Commonwealth of Kentucky			
Pass-through programs:			
Highway Planning and Construction Cluster:			
Kentucky Transportation Cabinet	20.205	05-03717.00	<u>1,763,327</u>
Total Expenditures of Federal Awards			<u>\$ 23,560,531</u>

The following shows subrecipient activity for the year:

<u>CFDA #</u>	<u>Amount</u>
20.507	\$ 80,669
20.513	573,058
20.516	<u>1,375</u>
Total subrecipient activity	<u>\$ 655,102</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, 2020

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, 2020. 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 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.

See accompanying notes to schedule of expenditures of federal awards.

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, 2020, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements, and have issued our report thereon dated December 8, 2020.

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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be material weaknesses.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TARC's financial statements are free from 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2020-001.

Response to Findings

TARC's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. TARC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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 LLP

Louisville, Kentucky
December 8, 2020

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, 2020. 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, 2020.

(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, 2020, and the related notes to the financial statements, which collectively comprise TARC's basic financial statements. We issued our report thereon dated December 8, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an 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 LLP

Louisville, Kentucky
December 8, 2020

TRANSIT AUTHORITY OF RIVER CITY
 (A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2020

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No	
Significant deficiency identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> None Reported	

Type of auditors' report issued on compliance for major programs	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with 2CFR200.516(a)?	<u> </u> Yes	<u> X </u> No	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
20.507	Total Federal Transit Cluster consisting of:
20.526	Formula Grants
	Bus and Bus Facilities Formula Program
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>		
Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No	

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2020

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

2020-001 Executive Management Override of Board Policies and Internal Controls (*Compliance and Internal Controls over Compliance*)

Criteria: TARC Board Procurement Regulations (October 2015); TARC Board Ethics Policy (2011-21 August 2011); TARC Board Travel Policy 2015-1)

Condition: TARC management and Board of Directors reported that their Executive Director violated Board Policies during the period of December 2018 to February 2020 while acting as Interim Executive Director and then as the appointed Executive Director. TARC reported that they believe the Executive Director misappropriated public funds of approximately \$228,000 based on their investigation related to sole source contracts that involved a conflict of interest, collusion with vendor and circumvention of established procurement and ethics policies. TARC also identified and reported violations of board travel policies. A brief summary of areas of financial impacts follows:

- Procurement Policies – The Executive Office department did not follow a board policy that all vendor contracts should originate in the Purchasing Department and conclude in the Finance Department. Therefore, certain identified contracts originated by the Executive Director were not subject to safeguards of purchasing process for the organization and signed contracts were not maintained or available to the Finance Department.

Certain vendor contracts were identified that violated the progression of purchasing processes based on the proposed and billed contract service values, including Responsible Contractor Analysis, Small Purchases, Informal Bid Analysis, Competitive Bidding, Independent Cost Estimates, Time Contract Firm Ceiling Price and Board approval of contracts aggregating to over \$100,000.

The vendor was also paid advance payments on proposed services, which is prohibited by policies. There were no tangible work products presented from billed services. There were not any signed agreements between TARC and the vendor for certain scopes of work drafted. Of three identified contract proposals, the third one involved a vendor company name change in an alleged attempt to separate the scope of work from the prior scopes of work that approximated \$110,000. The third proposal (\$336,000) was presented to Board by the Executive Director and TARC management and Board reported being deceived by the Executive Director on the nature of the proposed contract and services and the lack of a normal purchasing process.

- Ethics Policy – The Executive Director did not abide by Board Policies for identifying and disclosing potential and real conflicts of interest with vendors. TARC also reported there was reasonable evidence of a romantic relationship with a vendor and reasonable evidence of collusion between the Executive Director and the vendor on vendor's scope of work, sole source process, pricing of services, and authorizing payments to the vendor.
- Travel Policies – The Executive Director did not seek pre-approvals of his travel from the Board of Directors Chair. The Policy also required the Board Chair to approve expenditures within 10 days of return of travel status. Some expense reimbursements did not have adequate source documentation or were not provided for timely review.

TRANSIT AUTHORITY OF RIVER CITY
(A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2020

Cause: The noncompliance and ineffectiveness of internal controls designed to operate, report and comply with board policies appear to be due to a combination of the Executive Director overriding and circumventing established processes, through alleged alienation, fear and intimidation tactics, withholding of information or false information communicated to the Board, Board transitions and due to TARC staff not escalating their concerns above the Executive Management Team while the vendor transactions were occurring until October. Payments to the vendor were approved by the CEO. It appears that the Executive Office/Executive Director were not being held to the purchasing policies and did not have appropriate independent oversight.

For the Ethics policy matters, TARC did not have an Ethics review function, or a tip line for anonymous reporting of violations.

For Travel policy matters, the Executive Director was able to exploit the effectiveness of internal oversight of the Board on pre-approval and post travel approval of expense reports. The Executive Office had the ability to book travel and utilize corporate credit cards. For approval of expense reports, the Executive was able to take advantage of Board member transitions, providing information just before a meeting or delaying for several months, and the fact that Executive Director expense did not go through the Finance Department review process used for all other employees.

Effect: TARC remitted approximately \$145,000 of payments to a vendor with no tangible work products or services through unsigned contracts and violations of Board policies, and remitted another \$83,000 after Board approval of the vendor's contract before ending the contract in May 2020.

Recommendation: TARC Management and Board have outlined their views and corrective actions in their publicly issued investigation report in September 2020. We recommend that TARC utilize their newly formed Finance, Audit and Risk Management Committee to periodically evaluate the Board's financial related policies, and to oversee the design and effectiveness of the management's operating, reporting and compliance processes to support the Board policies. This Committees' evaluation could be supported by the creation of an in-house, outsourced, or co-sourced internal audit function focused on specific policy matters identified above for related functional areas.

Views of Responsible Officials: TARC's views are in accordance with the Recommendation defined above. Further, TARC's responsible officials have defined and proscribed a comprehensive set of actions in a publicly released report that included specifics on the ethics policy, travel policy and procurement procedures. The recommendations have been put into action and implemented in Fiscal Year 2021.

SECTION 3 – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.