

**LOUISVILLE AND JEFFERSON COUNTY
RIVERPORT AUTHORITY**

**A COMPONENT UNIT OF LOUISVILLE/JEFFERSON
COUNTY METRO GOVERNMENT**
Louisville, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
Louisville, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Honorable Greg Fischer, Mayor,
Members of the Louisville Metro Council and
Board of Directors
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Louisville and Jefferson County Riverport Authority (the "Authority"), a component unit of Louisville/Jefferson County Metro Government, as of and for the year ended June 30, 2018, and the related notes to the consolidated financial statements, which collectively comprise the Authority'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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, during the year ended June 30, 2018, the Authority adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, which resulted in a restatement of the Authority's July 1, 2017 net position in the amount of (\$179,223). Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6, the schedule of the Authority's proportionate share of the net pension liability and schedule of the Authority's contributions for the County Employees' Retirement System – Non-Hazardous on pages 28 and 29, and the schedule of the Authority's proportionate share of the net OPEB liability and the schedule of the Authority's OPEB contributions for the County Employees' Retirement System – Non-Hazardous on pages 30 and 31 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 on our consideration of the Louisville and Jefferson County Riverport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Louisville and Jefferson County Riverport Authority's internal control over financial reporting and compliance.


Crowe LLP

Louisville, Kentucky
October 1, 2018

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

Management's Discussion and Analysis ("MD&A") of the Louisville and Jefferson County Riverport Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal years ending June 30, 2018. Please read it in conjunction with the Authority's basic consolidated financial statements, which begin on page 7.

The Authority is a component unit of the Louisville/Jefferson County Metro Government ("Metro Government"). The Authority's MD&A should be read in conjunction with the MD&A of Metro Government. For a description of the Authority's activities, see Note 1 of the Notes to Consolidated Financial Statements on page 11.

Using this Annual Report

This annual report consists of a series of financial statements. The Consolidated Statement of Net Position (page 7 and 8) and Consolidated Statement of Revenues, Expenses and Change in Net Position (page 9) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. These statements include all assets, liabilities, deferred outflows and inflows of resources, and revenues and expenses of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The Consolidated Statement of Cash Flows (page 10) provide information relating to the Authority's cash receipts and disbursements during the fiscal years.

Statements of Net Position

At June 30, 2018, the Authority's total assets and deferred outflows of resources were \$29,737,925, a decrease of \$908,708 from prior year total assets and deferred outflows of resources of \$30,646,633. This decrease was due primarily to a net decrease in cash and investments of \$1,102,277 used to fund annual operations and the development of land held for sale, an increase in land held for sale of \$904,158, and a decrease in capital assets of \$833,019 resulting from annual depreciation and a transfer of land to Metro Government.

At June 30, 2017, the Authority's total assets and deferred outflows of resources were \$30,646,633, a decrease of \$923,996 from prior year total assets and deferred outflows of resources of \$31,570,629. This decrease was due primarily to a decrease in capital assets of \$437,182 from annual depreciation, a net decrease in cash and investments of \$1,217,387 primarily from annual operations, a decrease in accounts receivable of \$157,172 and an increase in land held for sale of \$833,744.

At June 30, 2018, the Authority's total liabilities and deferred inflows of resources were \$1,426,652, an increase of \$400,487 from the prior year total liabilities and deferred inflows of resources of \$1,026,165. The increase was due primarily to the implementation of GASB 75 which resulted in an OPEB liability of \$249,725, an increase in pension and OPEB-related deferred inflows of resources of \$139,709, a decrease in the Authority's proportionate share of the GASB 68 pension liability of \$69,962 and an increase in accounts payable and accrued expenses of \$80,979.

At June 30, 2017, the Authority's total liabilities and deferred inflows of resources were \$1,026,165, an increase of \$42,346 from the prior year total liabilities and deferred inflows of resources of \$983,819. The increase was due primarily to an increase in the Authority's proportionate share of the GASB 68 pension liability of \$126,908 and a decrease in accounts payable and accrued expenses of \$64,588.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

Condensed Consolidated Statements of Net Position are included in Table 1.

Table 1
Condensed Consolidated Statements of Net Position
(in thousands)

	June 30	
	2018	2017
Assets		
Current and other assets	\$ 3,496	\$ 4,533
Capital assets and real estate held-for-sale	26,004	25,933
Total assets	29,500	30,466
 Deferred outflows of resources	 238	 181
Total assets and deferred outflows of resources	\$ 29,738	\$ 30,647
 Liabilities		
Current operating payables	\$ 305	\$ 224
Net pension and OPEB liabilities	977	797
Total liabilities	1,282	1,021
 Deferred inflows of resources	 145	 5
Total liabilities and deferred inflows of resources	1,427	1,026
 Net Position		
Net investment in capital assets	16,179	17,012
Unrestricted	12,132	12,609
Total net position	28,311	29,621
Total liabilities, deferred inflows of resources and net position	\$ 29,738	\$ 30,647

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues were \$639,356 in 2018, an increase of \$5,160 from \$634,196 in 2017. Operating expenses were \$1,411,211 in 2018 compared to \$1,627,210 in 2017, a decrease of \$215,999. This decrease was due primarily to lower salaries, wages and employee benefits as a result of changes in management and employee personnel. Non-operating revenues for 2018 were similar to 2017.

Operating revenues were \$634,196 in 2017, a decrease of \$1,756,924 from \$2,391,120 in 2016. This decrease was due primarily to the fact that there were no land sales during the year. Operating expenses were \$1,627,210 in 2017 compared to \$2,493,543 in 2016, a decrease of \$866,333. This decrease was due primarily to the fact that there were no lands sales and no related cost of land sales during the year. Non-operating revenues for 2017 were similar to 2016.

Table 2

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	June 30	
	2018	2017
Revenues		
Operating revenues		
Port services	\$ 200	\$ 188
Rental and other fees	439	430
Grant revenue	-	16
Total operating revenues	639	634
Non-operating revenues		
Interest and other income	39	27
Total non-operating revenues	39	27
Total revenues	678	661
Expenses		
Operating expenses		
Salaries, wages and employee benefits	408	624
Depreciation	436	437
Other general and administrative	567	566
Total operating expenses	1,411	1,627
Total expenses	1,411	1,627
Contribution of Capital Assets		
Contribution of capital assets	(397)	-
Change in Net Position	\$ (1,130)	\$ (966)

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018 and 2017

Capital Assets and Debt Administration

At June 30, 2018, the Authority had \$16,178,604 in capital assets, consisting mostly of building and facilities related to its port operations. The decline of \$833,019 from the capital asset balance of \$17,011,623 at June 30, 2017 resulted from annual depreciation (see Note 4 for additional capital asset detail) as well as a contribution of land to Metro Government, which was recorded as an expense. A summary of capital assets is included in Table 3. At June 30, 2018, the Authority had \$9,825,588 in real estate held-for-sale, an increase of \$904,158 from prior year real estate held-for-sale of \$8,921,430. This increase was due primarily to the continued development of the Phase V land.

At June 30, 2017, the Authority had \$17,011,623 in capital assets, consisting mostly of building and facilities related to its port operations. A decline of \$437,182 from the capital asset balance of \$17,448,805 at June 30, 2016 resulted from annual depreciation (see Note 4 for additional capital asset detail). A summary of capital assets is included in Table 3. At June 30, 2017, the Authority had \$8,921,430 in real estate held-for-sale, an increase of \$833,744 from prior year real estate held-for-sale of \$8,087,686. This increase was due primarily to the continued development of the Phase V land.

Table 3

Capital Assets
(Net of Depreciation, in thousands)

	June 30	
	2018	2017
Capital Assets		
Land and improvements	\$ 7,705	\$ 8,102
Buildings and equipment	8,474	8,910
Total capital assets	\$ 16,179	\$ 17,012

Current Known Facts

The Authority's fiscal year 2019 budget has been influenced by the following major factors:

- Land sales are expected to remain at historic expected levels of one land sale per year.
- Expenditures for capital assets and real estate held-for-sale will be funded internally.
- Expenditures for real estate held-for-sale are expected to increase during Phase V development.

Contacting the Authority's Financial Management

This financial report is designed to provide Board members, taxpayers, creditors and elected public officials with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Authority's president at:

Louisville and Jefferson County Riverport Authority
 P.O. Box 58010
 6900 Riverport Drive
 Louisville, Kentucky 40268-0010

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CONSOLIDATED STATEMENT OF NET POSITION
June 30, 2018

	2018
Assets	
Current assets	
Cash and cash equivalents	\$ 662,696
Investments	2,500,000
Accrued interest	12,412
Accounts receivable	246,281
Prepaid insurance and other	73,944
Total current assets	3,495,333
Non-current assets	
Capital assets	
Capital assets not being depreciated:	
Land and improvements	7,704,698
Capital assets being depreciated:	
Buildings and facilities	29,771,477
Other capital assets	169,771
Less accumulated depreciation	(21,467,342)
Total capital assets being depreciated	8,473,906
Total capital assets	16,178,604
Real estate held-for-sale	9,825,588
Total non-current assets	26,004,192
Total assets	29,499,525
Deferred Outflows of Resources	
Pension related	174,268
OPEB related	64,132
Total deferred outflows of resources	238,400
Total assets and deferred outflows of resources	\$ 29,737,925

(Continued)

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
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CONSOLIDATED STATEMENT OF NET POSITION
June 30, 2018

	2018
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	\$ 196,894
Unearned revenue	107,678
Total current liabilities	304,572
Non-current liabilities	
Net pension liability	727,098
Net OPEB liability	249,725
Total non-current liabilities	976,823
Total liabilities	1,281,395
Deferred Inflows of Resources	
Pension related	132,182
OPEB related	13,075
Total deferred inflows of resources	145,257
Total liabilities and deferred inflows of resources	1,426,652
Net position	
Net investment in capital assets	16,178,604
Unrestricted	12,132,669
Total net position	28,311,273
Total liabilities, deferred inflows of resources and net position	\$ 29,737,925

See accompanying notes to consolidated financial statements.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Year ended June 30, 2018

	2018
Operating revenues	
Port services	\$ 200,000
Rental and other fees	439,356
Total operating revenues	639,356
Operating expenses	
Salaries, wages and employee benefits	408,174
Consultants and professional fees	123,795
Building and grounds maintenance	161,095
Supplies and miscellaneous expenses	81,075
Rent and utilities	83,084
Insurance and bonds	118,257
Depreciation	435,731
Total operating expenses	1,411,211
Operating loss	(771,855)
Non-operating revenues	
Investment income	39,171
Total non-operating revenues	39,171
Income before contributions of capital assets	(732,684)
Contribution of capital assets to Metro Government	(397,288)
Total contributions of capital assets	(397,288)
Change in net position	(1,129,972)
Net position, beginning of year	29,620,468
Restatement for GASB 75 implementation	(179,223)
Net position, beginning of year, as restated	29,441,245
Net position, end of year	\$ 28,311,273

See accompanying notes to consolidated financial statements.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended June 30, 2018

	2018
Cash flows from operating activities	
Cash received from customers	\$ 577,480
Payments to suppliers and contractors	(512,988)
Payments for real estate held-for-sale	(904,158)
Payments to employees	(298,371)
Net cash used in operating activities	(1,138,037)
Cash flows from investing activities	
Cash paid for investments	(3,454,505)
Proceeds from sale and maturities of investments	3,950,146
Interest on investments	35,760
Net cash provided by investing activities	531,401
Net decrease in cash and cash equivalents	(606,636)
Cash and cash equivalents, beginning of year	1,269,332
Cash and cash equivalents, end of year	\$ 662,696
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (771,855)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation	435,731
Net pension and OPEB liabilities, deferred outflows and deferred inflows	83,141
Increase (decrease) in cash due to changes in operating assets and liabilities	
Accounts receivable	(61,876)
Real estate held-for-sale	(904,158)
Accounts payable and accrued expenses related to operations	80,980
Net cash used in operating activities	\$ (1,138,037)
Noncash activities	
Contribution of capital assets to Metro Government	397,288

See accompanying notes to consolidated financial statements.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Louisville and Jefferson County Riverport Authority (the “Authority”), was created by joint action of the City of Louisville (the “City”) and Jefferson County Fiscal Court (the “County”), under Chapter 65 of the Kentucky Revised Statutes (“KRS”), to establish a riverport industrial complex. On January 6, 2003, the City and County merged to form the Louisville/Jefferson County Metro Government (“Metro Government”). Since the Authority’s inception, its activity has consisted of acquiring land, developing and marketing a portion of the land for industrial sites, establishing a foreign trade zone, constructing a river port complex with rail and truck-served dock facilities, and engaging and overseeing a contract operator of the complex.

These consolidated financial statements include the accounts of the Authority and two subsidiary non-profit corporations, Metro Louisville Properties I, Inc. (“MLPI”) and Metro Louisville Properties II, Inc. (“MLPII”). The purpose of MLPI and MLPII is to acquire, by merger or acquisition, a portion of properties owned by the former City and the former County, respectively, as well as other commercial or industrial properties determined in the future. MLPI and MLPII have had no significant activity. Significant intercompany accounts and transactions have been eliminated for financial statement presentation. In fiscal year 2003, the Authority also registered the assumed name “Louisville Metro Properties” for future use.

The Authority is governed by a Board of Directors appointed by the Mayor of Metro Government. Each of the six Board Members serves a three-year term. Contributed capital has been provided through discretionary contributions from the former County Government, the Commonwealth of Kentucky and the private sector. Although the Authority is an independent agency, it is considered a discretely presented component unit of Metro Government. The Authority’s consolidated financial statements are included in Metro Government’s Comprehensive Annual Financial Report.

Basic Financial Statements: The basic consolidated financial statements report information on all the Authority’s activities. The activities of the Authority are reported as an enterprise fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: Since the Authority reports its activities in an enterprise fund, which is a proprietary fund type, the basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. An enterprise fund is used to report an activity for which a fee is charged to external users for goods or services.

Implementation of Accounting Standards: In 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued on June 2015. This Statement required an adjustment to opening net position in the amount of (\$179,223) and the establishment of a net OPEB liability and related deferred outflows of resources as outlined below:

	<u>Beginning Balance</u>	<u>GASB 75 Adjustment</u>	<u>Adjusted Beginning Balance</u>
Statement of net position			
Net OPEB liability	\$ -	\$ (195,877)	\$ (195,877)
Deferred outflows of resources	-	16,654	16,654
Statement of revenues, expenses and changes in net position			
Net position	\$ 29,620,468	\$ (179,223)	\$ 29,441,245

(Continued)

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Net Position: The Statement of Net Position reports assets acquired and deferred outflows of resources and liabilities incurred and deferred inflows of resources by the Authority. The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources as reported on the statement of net position is considered “net position” and is categorized into two classifications: Net investment in capital assets and Unrestricted. The Authority’s policy is to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

Statement of Revenues, Expenses and Change in Net Position: The Statement of Revenues, Expenses and Change in Net Position reports sources of operating revenue for the Authority as well as operating expenses incurred during the year. Non-operating revenues and expenses are reported separately on this statement. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Authority are land sales, fees and charges for services. Operating expenses for the Authority includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Statement of Cash Flows: The Statement of Cash Flows reports the flow of cash and cash equivalents for the year. Only transactions that affect the Authority’s cash accounts are reported in the statement of cash flows. The Statement of Cash Flows is classified into four categories: operating activities, non-capital financing activities, capital and related financing activities and investing activities. Operating activities include all cash flows related to operating income or loss. Non-capital financing activities include borrowing and repayments of debt not clearly attributable to capital purposes. Capital and related financing activities include the acquisition of capital assets, proceeds from issuance of long-term debt and payments of principal and interest. Investing activities include cash inflows of interest, loan collections, proceeds from sale of investments and changes in fair value of investments subject to fair value reporting and cash outflows for loans made to others and the purchase of investments.

Cash and Cash Equivalents: The Authority considers demand deposits and investments with original maturities of three months or less to be cash equivalents.

Investments: The Authority’s investments include certificates of deposit and U.S. Treasury Bills. The Authority reports its investments at fair value based on quoted market prices.

Real Estate Held-for-Sale: Real estate held-for-sale is stated at cost, which does not exceed its fair value. The costs include land costs, improvement costs and other capitalizable costs associated with the development of the real estate held-for-sale.

Capital Assets: Capital assets, which include land and improvements, buildings and facilities and other capital assets, are stated at cost. Capital assets are defined as assets with an individual cost of more than \$5,000. Land improvements include major improvements made to land and certain other capitalizable costs associated with the development of the port operating facilities. Other capital assets include vehicles and furniture and fixtures.

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LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The capital assets, excluding land, are depreciated using the straight-line method over their estimated useful lives with the following life expectancies:

<u>Assets</u>	<u>Years</u>
Land and improvements	Not depreciable
Buildings and facilities	5-50
Other capital assets	5-50

Impairment of Long-Lived Assets: Management of the Authority reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that there is a significant, unexpected decline in the service utility of an asset. An impairment loss would be recognized in the event the magnitude of the decline in service utility is significant and unexpected. There were no impairments of long-lived assets reported by management during 2018.

Unearned Revenue: The Authority reports unearned revenue for payments made to the Authority to reserve the option to purchase real estate. If the option holder purchases the real estate, the amount paid for the option is applied towards the purchase and recognized as operating revenue. If the option to purchase is not exercised, this amount is recognized as other income in the year the option expires. The Authority also reports unearned revenue for grants received from state governments to fund future construction and capital asset-improvement projects. These funds will be recognized as revenues in the year in which they are expended.

Net Pension Liability: The Authority has recorded a net pension liability reflecting their proportionate share of the difference between the total pension liabilities and the fiduciary net positions of 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 County Employees' Retirement System plan and additions to/deductions from the County Employees' Retirement System plan fiduciary net position have been determined on the same basis as they are reported by the County Employees' Retirement System plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
At June 30, 2018:			
Net pension liability	\$ 797,024	\$ (69,962)	\$ 727,098

Net OPEB Liability: The Authority 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 County Employees Retirement System plan and additions to deductions from the County Employees Retirement System plan fiduciary net position have been determined on the same basis as they are reported by the County Employees Retirement System plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
At June 30, 2018:			
Net OPEB liability	\$ 195,877	\$ 53,848	\$ 249,725

Net Position: Net position of the Authority is classified into two categories, which include investment in capital assets and unrestricted net assets. Investment in capital assets is any acquisition, construction or improvement of capital assets of the Authority less any debt, which includes the outstanding balances of any bonds, mortgages, notes or other borrowings directly related to the capital asset. Unrestricted net assets are the portion that is neither restricted nor net investment in capital assets.

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

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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Authority is required, pursuant to KRS 65.065, to prepare an annual budget. According to the policy adopted by the Authority, the budget must be prepared and submitted for approval by the Board in sufficient time to meet requirements of all funding sources. This has historically been during March of each year. Requests for additional operating funds, if necessary, are subject to the same approval process. Budgetary reallocation of funds (i.e. changes in category of expense, but not in total expense) requires approval of the Board of Directors if the reallocation exceeds \$1,500.

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

Deposits: Although no formal policy exists to control custodial risk of deposits and bank balances, including certificates of deposit, at June 30, 2018, deposits were either insured by the Federal Deposit Insurance Corporation (up to \$250,000) or collateralized by U.S. Government Securities held by a designee financial institution in the Authority's name. Cash bank balances at June 30, 2018 were \$669,964. The non-negotiable certificates of deposit balance at June 30, 2018 was \$2,500,000.

Investments: The Authority's investment policies comply with the requirements of the KRS, which allow investments in direct obligations of the U.S. Government or obligations guaranteed by the U.S. Government, a U.S. Government agency or any corporation of the U.S. Government.

Interest Rate Risk: The Authority's investment policy generally limits investments to one year with slightly longer maturities acceptable if funds are not likely to be needed within one year.

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LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
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NOTE 3 – CASH DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: Other investments such as uncollateralized or uninsured certificates of deposit, bankers' acceptances, and commercial paper are limited to 20% of the Authority's total investments and must be investment grade quality.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital assets not being depreciated				
Land and improvements	\$ 8,101,986	\$ -	\$ 397,288	\$ 7,704,698
Capital assets being depreciated:				
Building and facilities	29,771,477	-	-	29,771,477
Other capital assets	169,771	-	-	169,771
Total capital assets being depreciated	29,941,248	-	-	29,941,248
Less accumulated depreciation:				
Building and facilities	(20,861,840)	-	435,731	(21,297,571)
Other capital assets	(169,771)	-	-	(169,771)
Total accumulated depreciation	(21,031,611)	-	435,731	(21,467,342)
Total capital assets being depreciated, net	8,909,637	-	435,731	8,473,906
Capital assets, net	\$ 17,011,623	\$ -	\$ 833,019	\$ 16,178,604

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NOTE 5 – PORT FACILITY OPERATING AGREEMENT

The Authority entered into an agreement for operation of its port facilities effective September 1, 2009 with an initial term of five years, which was extended through amendments to the original agreement in previous years. Effective August 19, 2016, the Authority entered into the fourth amendment to this agreement, which expires August 31, 2021. As with the previous versions of the agreement and related amendments, the port operator is to make payments to the Authority based upon port throughput. These payments are subject to annual minimum guarantees, which are approximated as follows:

Fiscal Year Ended June 30,	
2019	\$ 200,000
2020	200,000
2021	200,000
2022	<u>33,000</u>
Total	<u>\$ 633,000</u>

Rental income from port services received during fiscal year ended June 30, 2018 was \$200,000.

NOTE 6 – OPERATING LEASE COMMITMENTS

Effective April 1, 2018, the Authority extended their existing lease for office space for an additional five years through March 31, 2023, with base lease payments of approximately \$3,300 per month through March 31, 2020 and \$3,400 per month thereafter. Rent expense under this lease was approximately \$41,600 for the year ended June 30, 2018. Future minimum annual lease payments due for fiscal year ended June 30 are as follows: \$39,924 in 2019; \$40,224 in 2020; \$41,124 in 2021; \$41,124 in 2022; and \$30,843 in 2023.

NOTE 7 – 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 the Authority 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.

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NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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 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:

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.

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NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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

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

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

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

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

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5.00% 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.

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NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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.

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

For the fiscal years ended June 30, 2018 and 2017, participating employers contributed 19.18% (14.48% allocated to pension and 4.70% allocated to OPEB) and 18.68% (13.95% allocated to pension and 4.73% 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 investment earnings.

The Authority has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2018 and 2017. Total current year contributions recognized by the Plan were \$27,508 (\$20,767 related to pension and \$6,741 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy reported in the amount of \$3,052.

Members whose participation began before 9/1/2008:

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

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

Nonhazardous contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. 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.

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LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
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NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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

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

PENSION INFORMATION

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total pension liability was 6.25%, which was reduced from the 7.50% 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 statutorily determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarially determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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.

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NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

- (d) **Municipal Bond Rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of Projected Benefit Payments:** The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.
- (f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
 Total	 <u>100.00%</u>	 <u>6.56%</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 the Authority's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 6.25 percent, as well as what the Authority'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 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (<u>5.25%</u>)	Current Discount Rate (<u>6.25%</u>)	1% Increase (<u>7.25%</u>)
Authority's net position liability - Nonhazardous	\$ 917,028	\$ 727,098	\$ 568,223

Employer's Portion of the Collective Net Pension Liability: The Authority's proportionate share of the net pension liability, as indicated in the prior table, is \$727,098, or approximately 0.012%. The net pension liability was distributed based on 2017 actual employer contributions to the plan.

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NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was reduced from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

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: The Authority was allocated pension expense of \$82,159 related to the CERS for the year ending June 30, 2018.

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	\$ 902	\$ 18,457
Change of assumptions	134,169	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	9,437	113,725
Differences between expected and actual investment earnings on plan investments	<u>8,993</u>	<u>-</u>
	153,501	132,182
Contributions subsequent to the measurement date	<u>20,767</u>	<u>-</u>
Total	<u>\$ 174,268</u>	<u>\$ 132,182</u>

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NOTE 7 – 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 \$20,767 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. 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:		
2019	\$	15,654
2020		12,981
2021		2,021
2022		<u>(9,337)</u>
	\$	<u>21,319</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued 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, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Payroll growth rate	2.00 percent
Salary increases	3.05 percent, average
Investment rate of return	6.25 percent
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.25 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 13 years.
Post-65	Initial trend starting at 5.10 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 11 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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NOTE 7 – 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 5.84%, which was reduced from the 6.89% 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 26-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 2008 through 2013 is outlined in a report dated April 30, 2014. 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 3.56% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017.
- (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.

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NOTE 7 – 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>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	<u>100.00%</u>	<u>6.56%</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 the Authority's allocated portion of the net OPEB liability of the System, calculated using the discount rate of 5.84% percent, as well as what the Authority'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 (4.84 percent) or 1-percentage-point higher (6.84 percent) than the current rate for non-hazardous:

	<u>1% Decrease (4.84%)</u>	<u>Current Discount Rate (5.84%)</u>	<u>1% Increase (6.84%)</u>
Net OPEB liability	\$ 317,761	\$ 249,725	\$ 193,108

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 June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

The following presents the Authority’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 Authority’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	\$ 191,552	\$ 249,725	\$ 325,346

Employer’s Portion of the Collective OPEB Liability: The Authority’s proportionate share of the net OPEB liability, as indicated in the prior table, is \$249,725, or approximately 0.012%. The net OPEB liability was distributed based on 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was reduced from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

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: The Authority was allocated OPEB expense of \$28,457 related to the CERS for the year ending June 30, 2018.

(Continued)

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – 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	\$ -	\$ 694
Change of assumptions	54,339	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	579
Differences between expected and actual investment earnings on plan investments	-	<u>11,802</u>
	<u>54,339</u>	<u>13,075</u>
Contributions subsequent to the measurement date	<u>9,793</u>	<u>-</u>
Total	<u>\$ 64,132</u>	<u>\$ 13,075</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$9,793, which includes the implicit subsidy reported of \$3,052, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. 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:	
2019	\$ 7,100
2020	7,100
2021	7,100
2022	7,100
2023	10,050
Thereafter	<u>2,814</u>
	<u>\$ 41,264</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON-HAZARDOUS
 June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.012%	0.016%	0.016%	0.016%
Authority's proportionate share of the net pension liability	\$ 727,098	\$ 797,024	\$ 670,116	\$ 517,000
Authority's covered payroll	\$ 298,350	\$ 375,494	\$ 363,639	\$ 368,668
Authority's proportion of the net pension liability as a percentage of its covered payroll	243.706%	212.260%	184.281%	140.235%
Plan fiduciary net position as a percentage of the total pension liability	53.325%	55.503%	59.968%	66.801%

The amounts presented for each fiscal year were determined as of the prior year end which is the valuation date of the related liability.

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

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

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
 June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 20,767	\$ 44,496	\$ 47,387	\$ 46,363
Contributions in relation to the statutorily required contribution	<u>(20,767)</u>	<u>(44,496)</u>	<u>(47,387)</u>	<u>(46,363)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's contributions as a percentage of statutorily required contribution for pension	100.000%	100.000%	100.000%	100.000%
Authority's covered payroll	\$ 229,949	\$ 298,350	\$ 375,494	\$ 363,639
Contributions as a percentage of its covered payroll	9.031%	14.914%	12.740%	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, the Authority is presenting information for those years for which information is available.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AUTHORITY'S OPEB PROPORINATE SCHEDULE OF THE NET OPEB LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
 June 30, 2018

	<u>2018</u>
Authority's proportion of the net OPEB liability	0.012%
Authority's proportionate share of the net OPEB liability	\$ 249,725
Authority's covered payroll	\$ 298,350
Authority's proportion of the net OPEB liability as a percentage of its covered payroll	83.702%
Plan fiduciary net position as a percentage of the total OPEB liability	54,524%

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.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE AUTHORITY'S OBEB CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
 June 30, 2018

	<u>2018</u>
Statutorily required contribution	\$ 9,793
Contributions in relation to the statutorily required contribution	<u>(9,793)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>
Authority's contributions as a percentage of statutorily required contribution for pension	100.000%
Authority's covered payroll	\$ 229,949
Contributions as a percentage of its covered payroll	4.258%

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

**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**

Honorable Greg Fischer, Mayor,
Members of the Louisville Metro Council and
Board of Directors
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 consolidated financial statements of the Louisville and Jefferson County Riverport Authority, a component of Louisville/Jefferson County Metro Government (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the consolidated financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by Those Charged With Governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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
October 1, 2018