

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON
COUNTY METRO GOVERNMENT
Louisville, Kentucky

COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Parking Authority of River City ("PARC"), a component unit of Louisville-Jefferson County Metro Government, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise PARC'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 audits. We conducted our audits 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PARC, as of June 30, 2017 and 2016, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 and the schedule of the PARC's proportionate share of the net pension liability and schedule of the PARC's contributions for the County Employees' Retirement System – Non-Hazardous on pages 35 and 36 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017 on our consideration of PARC'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 PARC's internal control over financial reporting and compliance.


Crowe Horwath LLP

Louisville, Kentucky
November 9, 2017

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

Management's Discussion and Analysis ("MD&A") of the Parking Authority of River City, Inc. ("PARC") financial performance provides an overview of PARC's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with PARC's basic financial statements, which begin on page 6.

PARC is a component unit of the Louisville-Jefferson County Metro Government ("Metro Government"). The MD&A should be read in conjunction with the MD&A of Metro Government. For a description of PARC's activities, see Note 1 of the notes to financial statements on page 11.

Using this Annual Report: This annual report consists of a series of financial statements. The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position (on pages 6 through 8) provide information about the activities of PARC as a whole and present a longer-term view of PARC's finances. These statements include all assets, deferred outflows of resources, liabilities, revenues and expenses of PARC using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The statements of cash flows (on pages 9 and 10) provide information relating to PARC's cash receipts and disbursements during the fiscal year.

Statement of Net Position

The Statement of Net Position includes all of PARC's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities) as well as items that are deferred outflows and inflows of resources to be recognized in a future period.

2017 Compared to 2016: Total assets increased 1.3%, from \$158,877,968 at June 30, 2016 to \$160,913,347 at June 30, 2017. This increase is primarily due to the net addition of funds from the 2016B bond issue related to the Arena garage advance refunding and the use of restricted assets to satisfy related obligations. Deferred outflows of resources increased 37.9% or \$3,962,469 from June 30, 2016 to June 30, 2017. This increase is primarily due to the deferred loss on the advance refunding of the Arena garage bonds.

Total liabilities increased 1%, from \$106,024,675 at June 30, 2016 to \$106,735,407 at June 30, 2017. This increase is primarily due to the advance refunding of bonds in September 2016 related to the Arena garage. This increase was offset by the payment of \$3,285,000 in debt service and \$149,940 in notes payable. Deferred inflows of resources increased \$2,220 from \$9,019 June 30, 2016 to \$11,239 June 30, 2017 due to changes in pension contribution deferrals.

PARC's net position increased \$5,284,895 during fiscal year 2017 to \$68,591,827.

2016 Compared to 2015: Total assets increased 14.3%, from \$138,985,426 at June 30, 2015 to \$158,877,968 at June 30, 2016. This increase is primarily due to the net addition of funds from the 2016A bond issue related to the Omni Hotel garage project and the use of restricted assets to satisfy related obligations. Deferred outflows of resources decreased 4.8% or \$531,132 from June 30, 2015 to June 30, 2016. This decrease is primarily due to the amortization of net deferred outflows (Intra-entity transfers of assets and future revenues of \$11,123,650 on the transfer of two parking lots and two garages in 2013).

Total liabilities increased 15.5%, from \$91,831,527 at June 30, 2015 to \$106,024,675 at June 30, 2016. This increase is primarily due to the recognition of the net pension liability in the current year, and the issuance of bonds on June 1, 2016 related to the Omni Hotel garage. These increases were offset by the payment of \$2,765,000 in debt service and \$149,940 in notes payable. Deferred inflows of resources decreased \$171,935 from \$181,034 June 30, 2015 to \$9,019 June 30, 2016 due to changes in pension contribution deferrals.

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

PARC's net position increased \$5,340,277 during fiscal year 2016 to \$63,306,931.

Statement of Revenues, Expenses and Changes in Net Position

These statements help the user assess the profitability of PARC.

2017 Compared to 2016: Operating revenues increased by \$289,518 during the year ended June 30, 2017 compared to June 30, 2016. The main reason operating revenue increased during the current year is PARC experienced an increase of parkers over many of their garages. Operating expenses decreased by \$899,624 or 7%, during the year ended June 30, 2017 compared to June 30, 2016. Expenses decreased in the current year due primarily to a decrease in contractual services and general and administrative expenses.

During the fiscal year 2017, non-operating and other revenues decreased \$2,137,197 compared to fiscal year 2016, which is due primarily to contributed capital income of \$2,200,000 received from Louisville Metro in December 2015. Non-operating expenses in fiscal year 2017 decreased \$892,672 over fiscal year 2016 primarily because of interest expense savings related to the Arena garage refinancing.

2016 Compared to 2015: Operating revenues increased by \$833,883 during the year ended June 30, 2016 compared to June 30, 2015. The main reason operating revenue increased during the current year is PARC experienced an increase of parkers over many of their garages. Operating expenses increased by \$1,018,935 or 9%, during the year ended June 30, 2016 compared to June 30, 2015. Expenses increased in the current year due primarily to an increase in interest expense and depreciation.

During the fiscal year 2016, non-operating and other revenues increased \$2,610,297 compared to fiscal year 2015, which is due primarily to contributed capital income and the increase in interest income on certificates and money market funds. Non-operating expenses in fiscal year 2016 increased \$690,392 over fiscal year 2015 mainly as a result of the expense related to the Johnson Controls, Inc. capital lease.

Statement of Cash Flows

PARC's statements of cash flows report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to questions such as where did cash come from, what was cash used for and what were the changes in the cash balance during the reporting period.

Significant activity during the year included \$20,464,822 of operating receipts, capital acquisitions of \$10,185,785, and debt-service principal and interest of \$6,474,187. In fiscal year 2016, significant activity included \$19,985,608 of operating receipts, \$2,200,000 of contributed capital revenue, capital acquisitions of \$2,135,913, bond proceeds of \$18,915,899, and debt service principal and interest of \$7,774,414.

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

Capital Assets and Debt Administration

Capital Assets: At June 30, 2017, PARC had \$121,290,250 invested in capital assets consisting of parking garages and improvements, parking lots and parking meters, which represents an increase of \$6,190,926 or 5.4% compared to fiscal year 2016. At June 30, 2016, PARC had \$115,099,324 invested in capital assets consisting of parking garages and improvements, parking lots and parking meters, which represents a decrease of \$2,044,046 or 1.7% compared to fiscal year 2015. The increase in the current year is primarily a result of the progress on the Omni garage project. The decrease in the prior year is due to \$4,026,504 in depreciation expense. See Note 5 for further detail on capital assets.

Debt: At June 30, 2017, PARC had \$94,320,000 in outstanding bond principal and notes, compared to \$94,910,000 at June 30, 2016 and \$80,215,000 at June 30, 2015. The decrease in the current year is due primarily to the advance bond refunding in September 2016. The increase in the prior year is due primarily to the issuance of the Series 2016A bonds used to finance the Omni garage. See Note 6 for further detail on debt.

Economic Factors:

PARC is inherently impacted by the economy based on the customer demand for facilities and amenities within the Louisville Jefferson County area. Operating revenues are the primary source for financing of on-street and off-street parking facilities, as well as maintaining and improving those facilities.

PARC continues to invest in new facilities and examines the use of existing facilities to meet the demands of the citizens and businesses. PARC closely monitors the revenue streams, rates and fee revenues, and operating costs to support the facilities by managing any significant long-term changes in the economic environment.

Requests for Additional Information

This report is intended to provide readers with a general overview of PARC'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 Parking Authority of River City, Attention: Finance Department, 222 South 1st Street Suite 400, Louisville, KY 40202.

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	June 30	
	2017	2016
ASSETS		
Current Assets - Unrestricted		
Cash and cash equivalents - unrestricted	\$ 11,605,484	\$ 7,201,112
Accounts receivable	380,733	618,240
Other current assets	7,867	17,765
Total current assets - unrestricted	<u>11,994,084</u>	<u>7,837,117</u>
Current Assets - Restricted		
Cash and cash equivalents	928,262	1,262,606
Total current assets - restricted	<u>928,262</u>	<u>1,262,606</u>
Total Current Assets	12,922,346	9,099,723
Non-Current Assets - Unrestricted		
Cash and cash equivalents	1,137,789	1,135,303
Investments - certificates of deposit	580,000	580,000
Nondepreciable capital assets	21,485,067	12,974,967
Depreciable capital assets, net	99,805,183	102,124,357
Notes receivable, net of discount	276,412	302,096
Note receivable, Aloft	434,408	521,003
Total non-current assets - unrestricted	<u>123,718,859</u>	<u>117,637,726</u>
Non-Current Assets - Restricted		
Cash and cash equivalents	15,384,142	23,252,519
Investments - certificates of deposit	8,888,000	8,888,000
Total non-current assets - restricted	<u>24,272,142</u>	<u>32,140,519</u>
Total Non-Current Assets	147,991,001	149,778,245
Total Assets	<u>\$ 160,913,347</u>	<u>\$ 158,877,968</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized amount on intra-entity transfer of assets and future revenues	\$ 8,995,571	\$ 9,527,591
Pension related	392,172	299,056
Deferred outflow for advance refunding of debt	5,037,383	636,010
Total Deferred Outflows of Resources	<u>\$ 14,425,126</u>	<u>\$ 10,462,657</u>

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	June 30	
	2017	2016
LIABILITIES		
Current Liabilities - Unrestricted		
Accounts payable	\$ 543,621	\$ 165,807
Prepaid parking	45,562	105,386
Accrued expenses	427,737	288,534
Current portion of note payable	149,940	149,940
Current portion of capital lease obligation	12,771	21,622
Total current liabilities - unrestricted	<u>1,179,631</u>	<u>731,289</u>
Current Liabilities Payable From Restricted Assets		
Accrued interest payable	548,579	757,643
Current portion of first mortgage revenue bonds	3,020,000	2,765,000
Total current liabilities payable from restricted assets	<u>3,568,579</u>	<u>3,522,643</u>
Total Current Liabilities	4,748,210	4,253,932
Noncurrent liabilities		
First mortgage revenue bonds, less current portion	91,300,000	92,145,000
Bond premium, net of accumulated amortization	4,189,486	2,614,047
Note payable, less current portion	-	149,940
Capital lease obligation, less current portion	5,006,108	4,946,552
Net pension liability	1,491,603	1,915,204
Total noncurrent liabilities	<u>101,987,197</u>	<u>101,770,743</u>
Total Liabilities	<u>\$ 106,735,407</u>	<u>\$ 106,024,675</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	\$ 11,239	\$ 9,019
Total Deferred Inflows of Resources	<u>11,239</u>	<u>9,019</u>
NET POSITION		
Net investment in capital assets	\$ 43,209,165	\$ 41,192,446
Restricted:		
Bond indenture	9,909,695	10,076,021
Construction and acquisition	1,239,083	2,735,193
Capital reserve	1,951,553	1,134,268
	<u>13,100,331</u>	<u>13,945,482</u>
Unrestricted	<u>12,282,331</u>	<u>8,169,003</u>
Net Position	<u>\$ 68,591,827</u>	<u>\$ 63,306,931</u>

See accompanying notes to the financial statements.

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Parking facilities	\$ 15,452,121	\$ 15,300,425
Parking meters	4,322,618	4,052,752
Rental and validated parking	372,042	504,086
Total Operating Revenues	<u>20,146,781</u>	<u>19,857,263</u>
Operating Expenses		
Contractual services	2,691,030	2,719,788
General and administrative	4,214,178	5,208,441
Depreciation and amortization	4,560,942	4,437,545
Total Operating Expenses	<u>11,466,150</u>	<u>12,365,774</u>
Total Operating Revenues over Operating Expenses	8,680,631	7,491,489
Non-Operating Revenues (Expenses)		
Investment income	94,301	76,693
Interest expense	(2,816,727)	(4,222,182)
BABS subsidy	297,901	300,892
Rent expense sublease	(396,380)	(394,546)
Other non-operating expense	(576,432)	(65,484)
Loss on disposal of assets	1,602	(46,585)
Total Non Operating Revenues (Expenses)	<u>(3,395,735)</u>	<u>(4,351,212)</u>
Change in Net Position before Contributed Capital	5,284,896	3,140,277
Contributed capital	-	2,200,000
Change in net position	5,284,896	5,340,277
Net position, Beginning of Year	<u>63,306,931</u>	<u>57,966,654</u>
Net Position, End of Year	<u>\$ 68,591,827</u>	<u>\$ 63,306,931</u>

See accompanying notes to the financial statements.

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	Year ended June 30	
	2017	2016
Cash Flows From Operating Activities		
Cash received from parking garages, meters, validations and leases	\$ 20,464,822	\$ 19,985,608
Cash payments to suppliers	(3,217,280)	(4,415,137)
Cash payments for employees and benefits	(3,815,867)	(4,376,310)
Net Cash Provided by Operating Activities	<u>13,431,675</u>	<u>11,194,161</u>
Cash Flows From Investing Activities		
Investment income	94,301	76,693
Net Cash Provided by Investing Activities	<u>94,301</u>	<u>76,693</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(10,185,785)	(2,135,913)
Proceeds from bond issue	-	18,915,899
Principal paid on note payable	(149,940)	(149,940)
Principal payments on revenue bonds	(3,448,396)	(4,005,000)
Interest payments on revenue bonds	(3,025,791)	(3,769,414)
Change in capital lease obligations	50,705	(242,067)
BABS subsidy received	297,901	300,892
Change in notes receivable	112,279	(496,542)
Rent payments on sublease	(396,380)	(394,546)
Other non-operating (expense)	(576,432)	(65,484)
Contributed capital	-	2,200,000
Proceeds (loss) from sale of capital assets	-	106,870
Net Cash Provided by (Used for) Financing Activities	<u>(17,321,839)</u>	<u>10,264,755</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,795,863)	21,535,609
Cash and Cash Equivalents, Beginning of Year	<u>32,851,540</u>	<u>11,315,931</u>
Cash and Cash Equivalents, End of Year	<u>\$ 29,055,677</u>	<u>\$ 32,851,540</u>

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	Year ended June 30	
	2017	2016
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 8,680,632	\$ 7,491,489
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,560,942	4,437,545
Change in assets and liabilities		
Accounts receivable	237,507	105,922
Other current assets	9,898	(10,359)
Accounts payable and accrued expenses	517,017	(838,013)
Change in pension liability	(423,601)	291,699
Deferred outflows of resources related to pension	(93,116)	(144,889)
Deferred inflows of resources	2,220	(172,015)
Prepaid parking	(59,824)	32,782
	\$ 13,431,675	\$ 11,194,161
Cash and Cash Equivalents - Statement of Net Assets		
Current unrestricted	\$ 11,605,484	\$ 7,201,112
Current restricted	928,262	1,262,606
Noncurrent unrestricted	1,137,789	1,135,303
Noncurrent restricted	15,384,142	23,252,519
	\$ 29,055,677	\$ 32,851,540
Noncash Capital and Related Financial Activities:		
Bond issued for refunding	\$ 32,875,000	\$ -

See accompanying notes to the financial statements.

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Parking Authority of River City, Inc. (“PARC”) is a component unit of Louisville-Jefferson County Metro Government (“Metro Government”) established in 1966 for the purpose of assisting in the redevelopment of the downtown riverfront areas. PARC is a non-profit, non-stock public corporation organized under the laws of the Commonwealth of Kentucky for the purpose of acquiring and improving interests in real estate and other property for use by and the ultimate benefit of Metro Government. In this regard, PARC serves as an agent of Metro Government in financing the acquisition of on-street and off-street parking facilities (“Consolidated Project”). PARC’s financial statements are included in Metro Government’s Comprehensive Annual Financial Report as a discretely presented component unit.

Basis of Presentation: The financial statements of PARC have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. PARC reports as a business-type activity and operates as a Proprietary fund - single enterprise fund. Activities are accounted for using the economic resources measurement focus and the accrual basis of accounting.

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

Investments: Investments are reported at fair value and they consist of money market funds.

Accounts and Other Receivables: PARC uses the allowance for bad debts method of valuing doubtful accounts receivable that is based on historical experience, coupled with a review of the current status of existing receivables. Management has not recorded an allowance for doubtful accounts at June 30, 2017 and 2016.

Capital Assets: Capital assets are stated at cost and depreciated over their estimated useful lives using the straight-line method. Parking garages and improvements are depreciated over useful lives ranging from 15 to 50 years and equipment is generally depreciated over 5 to 10 years. Property and equipment is generally capitalized at \$5,000. Interest costs related to financing during construction are capitalized into the cost of the respective projects. Construction in progress is capitalized and begins depreciating when a certificate of final completion is issued for the project.

Deferred Outflows of Resources and Deferred Inflows of Resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s). These amounts will amortize over the life of the related transaction or event. Examples include intra-entity transactions, accounting loss from advance refundings and employer pension contributions. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). PARC’s activities are related to recognition of changes in the net pension liability that will be amortized over time.

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 of net position consists of external party restricted resources; typically debt or construction related.
- 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.”

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs, Bond Premiums and Deferred Losses on Bond Refundings: Debt issuance costs are expensed in the period of issuance and bond premiums and original issue discounts are amortized over the lives of the bond using an effective interest method. Deferred outflows on bond refundings are amortized over the life of the new issues or the remaining life of the old issue, whichever is shorter, using the straight-line method, which approximates the effective interest method.

Net Pension Liability: PARC 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 (CERS) 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 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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Operating and Non-operating Revenues: Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Restricted and Unrestricted Assets: When both restricted and unrestricted resources are available for use, it is PARC's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

Reclassifications: Some reclassifications were made for presentation of information for 2016 that had no material impact on the change in net position or the total net position.

NOTE 2 – TRUST INDENTURE FUND AND RESTRICTED ASSETS

In connection with the issuance of first mortgage revenue bonds (the "Bonds"), PARC entered into a Trust Indenture (the "Indenture"). The Indenture contains provisions for establishing accounts for segregation of assets and sometimes restricting the use of the proceeds of the Bonds as well as other funds received. Cash and investments of the various funds and accounts are for the following purposes:

Revenue Fund: A depository for collections of all income and revenue of PARC. Transfers are made from this account according to funding requirements of the Indenture.

Operating Fund: Assets held for operation, normal maintenance and insurance costs.

Bond Fund: Bond related accounts include:

- Bond Service Account: assets held for payment of principal and interest on the Bonds
- Reserve Account: assets held as a reserve for payment of principal and interest if monies in the Bond Service Account are insufficient to make required payments

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
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NOTE 2 – TRUST INDENTURE FUND AND RESTRICTED ASSETS (Continued)

Depreciation Fund: Assets held as a reserve for payment of extraordinary repairs and maintenance, and additions to the parking garages. Under the Bond Indenture, the Depreciation Fund is required to maintain an account balance of at least 3.55% of the aggregate principal amount of bonds outstanding. At June 30, 2017 and 2016, the account balance was 3.58% and 3.25%, respectively, of the aggregate principal amount of bonds outstanding. The trustee monitors this account and any shortage is corrected at the annual valuation on December 1.

Construction and Acquisition Fund: Assets held for project costs.

Trust Assets by Fund: At June 30, 2017 and 2016, assets in these funds were as follows:

<u>2017</u>	<u>Revenue</u>	<u>Operating</u>	<u>Bond</u>	<u>Depreciation</u>	<u>Construction & Acquisition</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,719,016	\$ 10,024,257	\$ 1,193,849	\$ 376,425	\$ 14,742,130	\$ 29,055,677
Certificates of deposit	-	580,000	5,888,000	3,000,000	-	9,468,000
Total	\$ 2,719,016	\$ 10,604,257	\$ 7,081,849	\$ 3,376,425	\$ 14,742,130	\$ 38,523,677

<u>2016</u>	<u>Revenue</u>	<u>Operating</u>	<u>Bond</u>	<u>Depreciation</u>	<u>Construction & Acquisition</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,620,491	\$ 5,715,924	\$ 1,860,559	\$ 66,474	\$ 22,569,461	\$ 32,832,909
Certificates of deposit	-	580,000	5,888,000	3,000,000	-	9,468,000
Total	\$ 2,620,491	\$ 6,295,924	\$ 7,748,559	\$ 3,066,474	\$ 22,569,461	\$ 42,300,909

The Revenue fund and Operating funds are recorded as unrestricted assets, while the remaining funds are reported as restricted assets.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits: The Indenture requires that all deposits with the Trustee or any other depository in excess of Federal Deposit Insurance Corporation (“FDIC”) insured amounts be collateralized by government obligations equal to the amount of such deposits. As of June 30, 2017 and 2016, bank deposits were \$9,499,224 and \$9,491,159, respectively. All deposits in excess of FDIC insured amounts were fully collateralized. The carrying amount of PARC’s deposits at June 30, 2017 and 2016 was \$9,468,000.

Cash Equivalents: All investments are held under a Trust Indenture, which dictates the investment policy. Investments at June 30, 2017 and 2016 primarily consisted of U.S. Government Money Market Funds, which are not subject to custodial risk. The Funds are concentrated in one money market fund and are treated as cash equivalents for financial reporting. The following information is the bank balance at June 30, 2017 and 2016:

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NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

<u>2017</u>			
Investment Type	Fair Value	Weighted Average Maturity	Credit Rating
U.S. Government Money-Market Funds	<u>\$ 31,342,220</u>	0.25 years	Aaa-mf
<u>2016</u>			
Investment Type	Fair Value	Weighted Average Maturity	Credit Rating
U.S. Government Money-Market Funds	<u>\$ 33,450,721</u>	0.11 years	Aaa-mf

NOTE 4 – NOTES RECEIVABLE

PARC has two notes receivable agreements summarized below:

Parking Garage Developer: In 2001, PARC loaned \$750,000 to a parking garage developer. No payments were required for the first six years, and principal payments were required over 19 years with no interest. The loan is recorded at the net present value of the repayments using a 5% discount rate. During January 2017 and 2016, PARC received principal payments of \$39,474.

The following is a summary of notes receivable from inception of the note:

	2017	2016
Parking Garage Developer Note		
Gross amount of note	\$ 750,000	\$ 750,000
Discount	(394,013)	(394,013)
Accrued interest	315,163	301,373
Principal received	<u>(394,738)</u>	<u>(355,264)</u>
Notes Receivable, Net of Discount	<u>\$ 276,412</u>	<u>\$ 302,096</u>

Aloft Note: PARC has entered into an agreement (September 15, 2014) with the developer (LOUMAIN, LLC) of the newly built Aloft Hotel whereby PARC purchased 22 spaces in the First & Main garage (adjacent to the hotel) at a cost of \$318,000 which had been owned by the developer and another third party (Marine Electric Co.) under a prior agreement. The developer built a new hotel and asked PARC to purchase the spaces in the garage for use by the hotel. The developer asked PARC to provide financial assistance for this project in the form of a five year non-interest bearing note. The developer has determined that PARC will derive new business from the hotel and PARC has agreed with the developer that the revenue from this arrangement will increase parking revenue and will enhance Louisville's convention business and tourism. Certain revenue (guest parking revenue) from hotel parkers using the PARC garage is used to reduce the note by \$112,400 per year, unless such revenue falls below this amount, then the note will be reduced by the actual amount received. The note will be paid off at the end of the five year term. Guest parking revenue was applied to the principal balance of the Note of \$86,595 and \$40,997 during years ending June 30, 2017 and 2016, respectively.

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NOTE 4 – NOTES RECEIVABLE (Continued)

The following is a summary of note receivable from inception of the note in 2016:

	2017	2016
Gross amount of note	\$ 562,000	\$ 562,000
Principal received	(127,592)	(40,997)
Notes Receivable	\$ 434,408	\$ 521,003

NOTE 5 – CAPITAL ASSETS, NET

The following is a summary of capital assets for the years ended June 30, 2017 and 2016:

	July 1, 2016	Additions	Dispositions	June 30, 2017
Nondepreciable:				
Land	\$ 11,461,424	\$ -	\$ -	\$ 11,461,424
Construction-in-progress	1,513,543	10,195,463	(1,685,363)	10,023,643
	12,974,967	10,195,463	(1,685,363)	21,485,067
Depreciable:				
Buildings and improvements	157,611,636	1,412,934	-	159,024,570
Equipment	7,242,533	272,429	(9,678)	7,505,284
	164,854,169	1,685,363	(9,678)	166,529,854
Less accumulated depreciation	(62,729,812)	(3,996,462)	1,603	(66,724,671)
	102,124,357	(2,311,099)	(8,075)	99,805,183
Capital assets, net	\$ 115,099,324	\$ 7,884,364	\$ (1,693,438)	\$ 121,290,250
	July 1, 2015	Additions	Dispositions	June 30, 2016
Nondepreciable:				
Land	\$ 11,461,424	\$ -	\$ -	\$ 11,461,424
Construction-in-progress	13,512	1,945,540	(445,509)	1,513,543
	11,474,936	1,945,540	(445,509)	12,974,967
Depreciable:				
Buildings and improvements	157,107,725	536,907	(32,996)	157,611,636
Equipment	7,323,727	82,483	(163,677)	7,242,533
	164,431,452	619,390	(196,673)	164,854,169
Less accumulated depreciation	(58,763,018)	(4,026,504)	59,710	(62,729,812)
	105,668,434	(3,407,114)	(136,963)	102,124,357
Capital assets, net	\$ 117,143,370	\$ (1,461,574)	\$ (582,472)	\$ 115,099,324

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PARKING AUTHORITY OF RIVER CITY, INC.
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NOTE 6 – FIRST MORTGAGE REVENUE BONDS

First Mortgage Revenue Bonds and promissory notes activity for the years ended June 30, 2017 and 2016 is shown below:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>	<u>Current Portion</u>
Series 2009A	\$ 34,915,000	\$ -	\$(31,335,000)	\$ 3,580,000	\$ 845,000
Series 2009B	3,085,000	-	(565,000)	2,520,000	595,000
Series 2010B	16,220,000	-	(420,000)	15,800,000	430,000
Series 2013A	8,965,000	-	(400,000)	8,565,000	410,000
Series 2013B	13,025,000	-	(570,000)	12,455,000	590,000
Series 2016A	18,700,000	-	-	18,700,000	-
Series 2016B		32,875,000	(175,000)	32,700,000	150,000
	<u>94,910,000</u>	<u>32,875,000</u>	<u>(33,465,000)</u>	<u>94,320,000</u>	<u>3,020,000</u>
Unamortized premium	2,614,047	2,034,462	(459,022)	4,189,486	-
	<u>\$ 97,524,047</u>	<u>\$34,909,462</u>	<u>\$(33,924,022)</u>	<u>\$ 98,509,486</u>	<u>\$3,020,000</u>

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Series 2009A	\$ 35,700,000	\$ -	\$ (785,000)	\$ 34,915,000	\$ 810,000
Series 2009B	4,420,000	-	(1,335,000)	3,085,000	565,000
Series 2010A	410,000	-	(410,000)	-	-
Series 2010B	16,220,000	-	-	16,220,000	420,000
Series 2013A	9,350,000	-	(385,000)	8,965,000	400,000
Series 2013B	14,115,000	-	(1,090,000)	13,025,000	570,000
Series 2016A	-	18,700,000	-	18,700,000	-
	<u>80,215,000</u>	<u>18,700,000</u>	<u>(4,005,000)</u>	<u>94,910,000</u>	<u>2,765,000</u>
Unamortized premium	2,663,128	215,898	(264,979)	2,614,047	-
	<u>\$ 82,878,128</u>	<u>\$18,915,898</u>	<u>\$(4,269,979)</u>	<u>\$ 97,524,047</u>	<u>\$2,765,000</u>

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NOTE 6 – FIRST MORTGAGE REVENUE BONDS (Continued)

The following is a summary of deferred outflows of resources related to the advanced refunding of debt for the years ended June 30, 2017 and 2016:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>
Advanced refunding of debt	\$2,133,771	\$4,691,813	\$ -	\$ 6,825,584
Less accumulated amortization	<u>(1,497,761)</u>	<u>(290,440)</u>		<u>(1,788,201)</u>
Net advanced refunding of debt	<u>636,010</u>	<u>4,401,373</u>	<u>-</u>	<u>5,037,383</u>

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2016</u>
Advanced refunding of debt	\$2,133,771	\$ -	\$ -	\$ 2,133,771
Less accumulated amortization	<u>(1,353,759)</u>	<u>(144,002)</u>		<u>(1,497,761)</u>
Net advanced refunding of debt	<u>780,012</u>	<u>(144,002)</u>	<u>-</u>	<u>636,010</u>

- A. Series 2009A: During March 2009, PARC issued the Series 2009A bonds in the amount of \$39,265,000 and Series 2009B bonds in the amount of \$16,110,000. The proceeds of the Series 2009A Bonds were used to fund the construction of the Louisville Arena Parking Garage.

The Louisville Arena Parking Garage does not generate sufficient cash from operations to cover the related debt service. However, management has determined that the overall operations of PARC are sufficient, in total, to fund the debt service of the Series 2009A bonds as well as other outstanding debt. This bond issue had an advanced refunding with the issuance of the Series 2016B issue in September 2016. See Series 2016B note below.

- B. Series 2009B: The proceeds of the Series 2009B Bonds were used to advance refund the remaining outstanding Series 1997 Bonds. Principal payments are due annually in amounts ranging from \$595,000 on December 1, 2016 to \$670,000 on December 1, 2020. The remaining effective interest rate ranges from 4.0% to 4.125%.
- C. Series 2010A: During January 2010, PARC issued the Series 2010A Tax-Exempt bonds in the amount of \$1,590,000. The proceeds of the Series 2010A Bonds were used to fund the construction of the Glassworks and Clay Commons garages. Final principal payment made on December 1, 2015.
- D. Series 2010B: During January 2010, PARC issued the Series 2010B Build America Bonds in the amount of \$16,220,000. The proceeds of the Series 2010B Bonds were used to fund the construction of the Glassworks and Clay Commons garages. Principal payments are due annually in amounts ranging from \$430,000 on December 1, 2017 to \$995,000 on December 1, 2040. The remaining effective interest rate ranges from 3.9% to 6.375%.
- E. Series 2013A: During June 2013, PARC issued the Series 2013A Bonds in the amount of \$10,095,000. The proceeds were used to finance the transfer of two parking lots from Metro Government to PARC. Principal payments are due annually in amounts ranging from \$400,000 on June 1, 2017 to \$715,000 on June 1, 2033. The remaining effective interest rate ranges from 3.0% to 5.0%.

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NOTE 6 – FIRST MORTGAGE REVENUE BONDS (Continued)

- F. Series 2013B: During July 2013, PARC issued the Series 2013B Bonds in the amount of \$17,080,000. The proceeds were used to advance refund the PARC Series 2001 and 2002 bonds. Principal payments are due annually in amounts ranging from \$570,000 on June 1, 2017 to \$1,130,000 on June 1, 2032. The remaining effective interest rate is 3%. The refunding provided for cumulative savings of \$3,800,645 over the life of the bonds resulting in a net present value savings of \$2,961,943.
- G. Series 2016A: In June 2016, PARC issued the Series 2016A Bonds in the amount of \$18,700,000. The proceeds were used to begin construction on the Omni Hotel Garage. Principal payments are due annually beginning June 1, 2019 in amounts ranging from \$25,000 to \$1,140,000. The remaining effective interest rate ranges from 1.83% to 4.78%.
- H. Series 2016B: In September 2016, PARC issued the Series 2016B Bonds in the amount of \$32,875,000 to pay off the 2009A Bond issue. The proceeds were used for the refinancing of the Arena garage. Principal payments are due annually beginning December 1, 2017 in amounts ranging from \$150,000 to \$2,175,000. The remaining interest rates range from 2.25% to 5%. The refunding provided for cumulative savings of \$8,477,212 over the life of the bonds resulting in a net present value savings of \$5,593,786. The transaction also resulted in a \$4,691,813 accounting loss that is recorded as a deferred outflow of resources.

The Bonds are collateralized by a first mortgage lien on all of PARC's property and equipment and by PARC's pledge of rental revenues received pursuant to a lease agreement with Metro Government. Metro Government leases and operates PARC's properties at an annual rent payment equal to the sum of annual debt service requirements on the remaining outstanding bonds and certain debt reserve requirements. Metro Government has pledged as collateral on the Bonds all revenue derived from the operation of the PARC properties, revenues derived from all on-street parking meters and any other rentals from parking facilities to the extent of the required annual rentals due under the lease agreement.

Debt service to maturity of the Bonds is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,020,000	\$ 3,722,784	\$ 6,742,784
2019	3,380,000	3,607,714	6,987,714
2020	3,500,000	3,482,639	6,982,639
2021	3,640,000	3,352,233	6,992,233
2022	3,785,000	3,224,924	7,009,924
2023-2027	20,130,000	13,726,623	33,856,623
2028-2032	23,655,000	9,214,284	32,869,284
2033-2037	18,675,000	4,793,248	23,468,248
2038-2042	14,435,000	1,186,059	15,621,059
2043-2046	100,000	9,000	109,000
	<u>\$ 94,320,000</u>	<u>\$ 46,319,508</u>	<u>\$ 140,639,508</u>

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NOTE 7 – PROMISSORY NOTES PAYABLE AND CAPITAL LEASE OBLIGATION

Promissory Notes Payable: During February 2013, PARC acquired two parking garages from the Jefferson County, Kentucky Capital Projects Corporation (“CPC”). PARC acquired the garages with cash of \$4,200,300 and promissory notes of \$374,700 and \$375,000. Principal payments are due annually in amounts of \$74,940 and \$75,000, respectively, on or before June 30, 2014 to June 30, 2018. The notes are interest free and the imputed rate was determined to be 1.84%. Maturities of notes payable as of June 30, 2017 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2018	\$ 149,940
	\$ 149,940

The following is the promissory notes payable activity for the years ended June 30, 2017 and 2016:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>	<u>Current Portion</u>
Promissory notes	\$ 299,880	\$ -	\$ (149,940)	\$ 149,940	\$ 149,940
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Promissory notes	\$ 449,820	\$ -	\$ (149,940)	\$ 299,880	\$ 149,940

Capital Lease Obligations: As a component unit of Metro Government, PARC is participating in an agreement between Metro Government and Johnson Controls, Inc. (JCI) to implement and finance capital improvements to enhance energy efficiency and decrease related utility expense. The improvements are intended to generate energy cost savings sufficient to make the lease payments, or from guaranteed payments from JCI to the extent that energy costs savings are not achieved based on an annual energy savings calculation. PARC’s portion of the overall project is 19.54% based on the improvements made to PARC properties. The Energy Savings Performance Contract required the project to be financed through a lease purchase agreement with payments made annually through August 2038. Metro Government and PARC have agreed on a sublease for PARC’s portion of the project. Lease payments are made by PARC to Metro Government based on the lease finance payment schedule using PARC’s proportionate share of 19.54% of total payments. At June 30, 2017 and 2016, capital assets with net book value of \$4,758,687 and \$4,967,097, respectively, are recorded on the statements of net position.

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PARKING AUTHORITY OF RIVER CITY, INC.
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NOTE 7 – PROMISSORY NOTES PAYABLE AND CAPITAL LEASE OBLIGATION (Continued)

Future minimum lease payments under the capital lease are:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 341,629
2019	355,954
2020	371,283
2021	383,307
2022	389,986
2023-2027	2,051,993
2028-2032	2,314,078
2033-2037	2,684,871
2038-2039	<u>1,529,779</u>
Total	10,422,880
Less amounts representing interest	<u>(5,404,001)</u>
Present value of net minimum lease payments	5,018,879
Less current portion	<u>(12,771)</u>
	<u><u>\$ 5,006,108</u></u>

Capital lease obligation activity for the years ended June 30, 2017 and 2016 is shown below:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>	<u>Current Portion</u>
Capital Lease	<u>\$ 4,968,174</u>	<u>\$ 72,327</u>	<u>\$ (21,622)</u>	<u>\$ 5,018,879</u>	<u>\$ 12,771</u>
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Capital Lease	<u>\$ 5,210,241</u>	<u>\$ -</u>	<u>\$ (242,067)</u>	<u>\$ 4,968,174</u>	<u>\$ 21,622</u>

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PARKING AUTHORITY OF RIVER CITY, INC.
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NOTE 8 – RELATED PARTY TRANSACTIONS

Operating Activities: PARC reimburses Metro Government for certain administrative and other expenses that Metro Government pays on behalf of PARC. During the years ended June 30, 2017 and 2016:

- Administrative expenses for personnel totaled \$2,163,960 and \$2,065,997, for the two years. The remainder of cash paid to employees is for contracted operating personnel and contracted security personnel. PARC owed Metro Government \$182,991 and \$164,090 for these administrative expenses at each year-end.
- Certain operating and some non-operating expenses totaled \$1,787,530 and \$4,198,874 for the two years. At June 30, 2017 and 2016, PARC owed Metro Government \$166,843 and \$583,393. Amounts paid to Metro Government are reported in contractual services, general and administrative, rent expense sublease, and/or other non-operating expenses depending on the nature of the expense.

Amounts due to Metro Government at the end of the fiscal years for operating expenses are reported as accounts payable, and amounts due to Metro Government for administrative costs are reported in accrued expenses, on the statement of net position.

Employees providing services for PARC are employees of Louisville Metro Government, and are eligible to participate in pension and other post-employment benefit programs. PARC reimburses Metro for actual annual contributions.

Consolidated Project and Financing: Metro Government assigns to PARC the operating revenues from the Consolidated Project for debt service requirements pursuant to the annual lease agreement dated December 1, 1985. The lease agreement is automatically renewable at Metro Government's option for successive annual terms through December 1, 2040.

Metro Government has the option to purchase, subject to any prior rights of the Commonwealth of Kentucky, the Consolidated Project at any time during the term of this lease by directing PARC to exercise immediately its option to redeem all of the Bonds on the earliest possible date permitted under the terms thereof and by paying directly to the Trustee the redemption price due upon such redemption. In any event, upon the full payment and retirement (or provision therefore) of all Bonds (and interest thereon) issued under the Indenture, in accordance with Article 11 of the Indenture and payment of all other amounts due under this lease, this lease will automatically terminate and PARC will convey the Consolidated Project, subject to any prior rights of the Commonwealth of Kentucky, to Metro Government at the earliest practical time.

In November 2004, PARC entered into an operating sublease agreement with Metro Government for certain improvements and major repairs to be made to the Consolidated Project from the proceeds of \$5,655,000 Series 2004B general obligation bonds issued by Metro Government. The sublease is renewable annually through 2025 at the option of PARC. Payments under the sublease agreement are in amounts equal to the debt service on the general obligation bonds issued to finance the projects, and are subordinate to the payments of debt service on the First Mortgage Revenue Bonds discussed in Note 6. Sublease payments paid to Metro Government during the year ended June 30, 2017 and 2016 were \$396,380 and \$394,546, respectively. In June 2013, Metro Government issued \$16,685,000 General Obligation Refunding Bonds, Series 2013B to advance refund the portion of the Series 2004B bonds maturing on or after November 2015.

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NOTE 8 – RELATED PARTY TRANSACTIONS (Continued)

Future sublease payments due under the agreement, assuming the lease is renewed annually through the end of the term of the underlying bonds are as follows:

Refunding of Series 2004B <u>Year Ending June 30</u>		\$	
2018		\$	392,639
2019			392,265
2020			396,015
2021			393,889
2022			395,890
2023			396,889
2024			393,027
2025			389,464
			389,464
		\$	3,150,078

During February 2013, PARC acquired two parking garages located at 415 South 6th Street (the “Louisville Gardens Garage”) and 536 West Market Street (the “Market Street Garage”) from Jefferson County, Kentucky, Capital Projects Corporation (“CPC”), a blended component unit of Metro Government. These garages were paid for with cash and promissory notes to CPC. See Note 10 for additional information.

During June 2013, PARC acquired two parking lots located on Market Street between 6th and 7th Streets (the “City Hall Lot”) and on Jefferson between 7th and 8th Streets (the “Mud Lot”) from Metro Government. These lots were financed with the issuance of the Series 2013A bonds and cash. See Note 10 for additional information.

In May 2015, Metro Government financed PARC capital assets through a capital lease financing transaction as further described in Note 7.

In December 2015, Metro Government provided PARC with \$2,200,000 in funds related to the Omni Garage Project. These funds related to requirements provided by the Downtown Development Review Overlay Board. The board required the Omni Garage to include enhanced brickwork, plantings, trellising and window boxes for small retail spaces. The proceeds were treated as Contributed Capital revenue in FY16.

NOTE 9 – COMMITMENTS

City Center: As part of the City Center Development, Metro Government acquired the parking lots located at 2nd and Liberty, 3rd and Liberty and 3rd and Muhammad Ali Streets during December 2009. PARC operated and managed these lots until October 2015, when the property was turned over to the Omni Group. In June 2016, construction began on the Omni Hotel and Garage project. Bonds were issued for \$18,700,000. The project has an estimated completion date of March 2018 with \$10,992,315 remaining to be spent at June 30, 2017. See Note 6 for details on the Series 2016A Bonds relating to the Omni project.

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NOTE 9 – COMMITMENTS (Continued)

Waterfront Park Place: In 2002, PARC loaned an original amount of \$700,000 to Waterfront Park Place bearing interest at 5.5%. The loan was to be repaid no later than the date on which 90% of the condominium space had been sold. As of June 30, 2010, 90% of the condominium space was occupied, but the note and accrued interest were not paid. Because of the uncertainty regarding the collectability of this note, an allowance of uncollectible amounts was recorded as of June 30, 2010 to bring the balance to \$175,000. During January 2012, PARC and Waterfront Park Place, LLC entered into a settlement agreement. Consideration for Waterfront Park Place, LLC's release from the note receivable was \$75,000 and a promise to enter into a lease agreement where PARC will operate the lot for a period of 10 years. PARC will retain the net income from the operation of the lot. PARC made a lease payment of \$2,500 per month to Waterfront Park Place, LLC for the first 12 months with a 3% increase annually thereafter.

During fiscal year 2017, PARC and Waterfront Park Place agreed to end the contract due to a disagreement over property taxes and maintenance of the property. In September 2016, PARC paid \$45,770 to WPP for property tax that had never been invoiced to PARC and certain other maintenance issues and upon payment terminated the operating contract.

NOTE 10 – INTRA-ENTITY TRANSFER OF ASSETS AND FUTURE REVENUES

During fiscal year 2013, PARC acquired two lots and the rights to future revenues from Metro Government for \$10,740,000. The lots were carried by Metro Government at a net book value of approximately \$1,280,400. The transfer amounts of the parking lots were based on an appraisal that valued the land and the potential revenue PARC could receive from the renting of space in these lots. In addition to the acquisition of the two lots, PARC also acquired two garages and the rights to future revenues from CPC. The total purchase price of the two garages was \$4,950,000, with \$4,200,300 due at closing and \$749,700 due over the next five fiscal years. The garages were recorded on CPC's books at a net book value of approximately \$3,261,400, with the difference attributable to acquisition of future revenues.

In accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the lots and garages were transferred to PARC from Metro Government and CPC, respectively, at the net book value recorded by the transferor of the asset. The difference between the acquisition amount of the assets and the net book value as recorded by the transferor is recorded as a deferred outflow of resources for PARC based on the value of future revenues.

The original amount of the deferred outflows and the amortization period of the deferred outflows are listed in the table below:

<u>Asset Description</u>	<u>Acquisition Amount</u>	<u>Net Book Value of Transferor</u>	<u>Deferred Outflow</u>	<u>Amortization Period</u>
Mud Lot	\$ 6,740,000	\$ 1,048,405	\$ 5,691,595	20 Years
City Hall Lot	4,000,000	231,984	3,768,016	20 Years
Garage	1,951,540	1,538,895	412,645	25 Years
Market Street Garage	2,998,460	1,722,467	1,275,993	30 Years
	<u>\$ 15,690,000</u>	<u>\$ 4,541,751</u>	<u>\$ 11,148,249</u>	

(Continued)

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NOTE 10 – INTRA-ENTITY TRANSFER OF ASSETS AND FUTURE REVENUES (Continued)

The following summarizes the related deferred outflows of resources for the years ended June 30, 2017 and 2016:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>
Deferred outflows of resources				
Intra-entity transfer of assets and future revenues	\$ 11,148,249	\$ -	\$ -	\$ 11,148,249
Less accumulated amortization	<u>(1,620,658)</u>	<u>532,020</u>	<u>-</u>	<u>(2,152,678)</u>
Total deferred outflows of resources	<u>\$ 9,527,591</u>	<u>\$ (532,020)</u>	<u>-</u>	<u>\$ 8,995,571</u>
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2016</u>
Deferred outflows of resources				
Intra-entity transfer of assets and future revenues	\$ 11,148,249	\$ -	\$ -	\$ 11,148,249
Less accumulated amortization	<u>(1,088,639)</u>	<u>532,019</u>	<u>-</u>	<u>(1,620,658)</u>
Total deferred outflows of resources	<u>\$ 10,059,610</u>	<u>\$ (532,019)</u>	<u>-</u>	<u>\$ 9,527,591</u>

NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS

General Information about the Pension Plan: All full-time and eligible part-time employees of Metro Government that provide services to PARC participate in the County Employees' Retirement System (the CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth. PARC is not a direct participant in CERS, but has been allocated its fair share of Metro Government net pension liabilities and related deferrals and pension expense based on PARC's percentage of employer contributions relative to Metro Government as a whole.

Under the provisions of Kentucky Revised Statute Section 78.520. The Board of Trustees (the Board) of KRS administers the CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs. More specifically, within the CERS, Metro Government's employees participate in the Non-Hazardous portion of the Plan. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole.

The CERS issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Basis of Accounting: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 and Metro Government. 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.

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 Non-Hazardous 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 Non-Hazardous duty service credit, or at any age with 27 or more years of service credit.

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

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

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

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

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

Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

Contributions: PARC 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, 2017 and 2016, participating employers contributed 13.95% and 12.42% , respectively, of each Non-Hazardous employee's creditable compensation for pension and 4.64% and 4.92%, respectively, of each Non-Hazardous employee's creditable compensation for insurance.

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

PARC remitted their proportionate share of Metro Government's overall contribution funding requirement for the fiscal years ended June 30, 2017, 2016 and 2015, which was \$166,417, \$144,266 and \$154,167, respectively.

Members whose participation began before 9/1/2008:

Non-Hazardous 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 on or after 1/1/2014:

Non-Hazardous 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.

Plan Information for June 30, 2017 financial statements:

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2016 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 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Discount rate assumptions:

- (a) **Discount rate:** The discount rate used to measure the total pension liability was 7.50%.
- (b) **Projected cash flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The statutorily determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) **Long term rate of return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis prepared as of June 30, 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
- (d) **Municipal bond rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of projected benefit payments:** Projected future benefit payments for all current plan members were projected through 2117. The long-term assumed investment rate of return was applied to all periods of projected future 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>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Private equity	10%	8.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Cash equivalent	2%	-0.25%
Total	<u>100.00%</u>	

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

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the PARC's allocated portion of the Metro Government net pension liability ("NPL") of the System, calculated using the discount rate of 7.50 percent, as well as what PARC's allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PARC's net pension liability - Non-Hazardous	\$1,858,779	\$1,491,603	\$1,176,860

Employer's Portion of the Collective Net Pension Liability: PARC's proportionate share of the net pension liability, as indicated in the prior table, is \$1,491,603, or approximately 0.030%. There was effectively no change to PARC's proportionate share of the net pension liability from the previous year. The liability was distributed based on 2016 actual employer contributions to the plan.

Measurement Date: June 30, 2016 is the actuarial valuation date upon which the total pension liability is based. No updated procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2015 using standard roll back techniques.

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 were updated as follows:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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: PARC recognized pension expense of \$348,080 and \$119,061 for its allocated share of the Metro Government pension expense related to CERS during 2017 and 2016, respectively.

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NOTE 11 – DEFINED BENEFIT PENSION 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 pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

The table below provides a summary of the deferred inflows and outflows as of the Measurement Date for PARC's allocated share of Metro Government's Deferred Outflows of Resources and Deferred Inflows of Resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual investment earnings on plan investments	\$ 140,226	\$ -
Change in proportion and difference between employer contributions and proportionate share of contributions	-	11,239
Difference between expected and actual experience	6,512	-
Change in assumptions	79,017	-
	\$ 225,755	\$ 11,239
Contributions subsequent to the measurement date	166,417	-
Total	\$ 392,172	\$ 11,239

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2018. The remainder of the deferred outflows of resources and deferred inflows of resources are amortized as follows:

Year Ending June 30:	
2018	\$ 78,237
2019	50,483
2020	54,643
2021	31,153
	\$ 214,516

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

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Plan Information for June 30, 2016 financial statements:

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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

Discount rate assumptions:

- (a) **Discount rate:** The discount rate used to measure the total pension liability was 7.50%. The discount rate changed from 7.75% since the last measurement period.
- (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 28 year amortization period of the unfunded actuarial accrued liability. The statutorily determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) **Long term rate of return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis prepared as of June 30, 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

- (d) **Municipal bond rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of projected benefit payments:** Projected future benefit payments for all current plan members were projected through 2117. The long-term assumed investment rate of return was applied to all periods of projected future 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>
Combined equity	42.00%	5.40%
Combined fixed income	20.00%	1.50%
Real return (diversified inflation strategies)	10.00%	3.50%
Private equity	10.00%	8.50%
Real estate	3.00%	4.50%
Absolute return (diversified hedge funds)	10.00%	4.25%
Cash equivalent	5.00%	-0.25%
Total	<u>100.00%</u>	

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

- (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 PARC's allocated portion of the Metro Government net pension liability ("NPL") of the System, calculated using the discount rate of 7.50 percent, as well as what PARC's allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PARC's net pension liability - Non-Hazardous	\$ 2,444,996	\$ 1,915,204	\$ 1,461,484

Employer's Portion of the Collective Net Pension Liability: PARC's proportionate share of the net pension liability, as indicated in the prior table, is \$1,915,204, or approximately 0.045%. There was effectively no change to PARC's proportionate share of the net pension liability from the previous year. The liability was distributed based on 2015 actual employer contributions to the plan.

Measurement Date: June 30, 2015 is the actuarial valuation date upon which the total pension liability is based. No updated procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2014 using standard roll back techniques.

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NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

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 described below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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: PARC recognized pension expense of \$119,061 and \$129,808 for its allocated share of the Metro Government pension expense related to the CERS during 2016 and 2015, respectively.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual investment earnings on plan investments	\$ 11,748	\$ -
Change in proportion and difference between employer contributions and proportionate share of contributions	-	9,019
Difference between expected and actual experience	10,891	-
Change in assumptions	<u>132,151</u>	<u>-</u>
	154,790	9,019
Contributions subsequent to the measurement date	<u>144,266</u>	<u>-</u>
Total	<u>\$ 299,056</u>	<u>\$ 9,019</u>

(Continued)

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 11 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. The remainder of the deferred outflows of resources and deferred inflows of resources are amortized as follows:

Year Ending June 30:	
2017	\$ 50,021
2018	50,021
2019	22,096
2020	<u>23,633</u>
	<u>\$ 145,771</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.

REQUIRED SUPPLEMENTARY INFORMATION

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PARC'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON-HAZARDOUS
 June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
PARC's Proportion of the net pension liability	0.030%	0.045%	0.050%
PARC's proportionate share of the net pension liability	\$ 1,491,603	\$ 1,915,204	\$ 1,623,565
PARC's covered employee payroll	\$ 1,180,107	\$ 1,209,000	\$ 1,150,000
PARC's proportion of the net pension liability as a percentage of its covered employee payroll	126.396%	158.412%	141.174%
Plan fiduciary net position as a percentage of the total pension liability	55.503%	59.968%	66.801%

- 1) The amounts presented for each fiscal year were determined as of the prior year end which is the valuation date of the related liability.
- 2) 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.
- 3) 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 described in Schedule D of the CERS actuary report. The changes are noted below:
 - The assumed investment rate of return was decreased from 7.75% to 7.50%.
 - The assumed rate of inflation was reduced from 3.50% to 3.25%.
 - The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
 - Payroll growth assumption was reduced from 4.50% to 4.00%.
 - 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

PARKING AUTHORITY OF RIVER CITY, INC.
A COMPONENT UNIT OF LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PARC'S CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
 June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 166,417	\$ 144,266	\$ 154,167
Contributions in relation to the statutorily required contribution	<u>(166,417)</u>	<u>(144,266)</u>	<u>(154,167)</u>
Annual contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
PARC's contributions as a percentage of statutorily required contribution for pension	100%	100%	100%
PARC's covered employee payroll	\$ 1,203,082	\$ 1,180,107	\$ 1,209,000
Contributions as a percentage of its covered employee payroll	13.833%	12.225%	12.751%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, PARC 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, Metro Mayor
Members of the Metro Council
Louisville-Jefferson County Metro Government
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 Parking Authority of River City, Inc. ("PARC"), a component unit of Louisville-Jefferson County Metro Government, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise PARC's basic financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control Over Financial Reporting

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

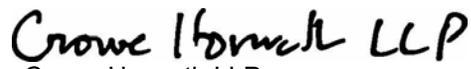
(Continued)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Crowe Horwath LLP

Louisville, Kentucky
November 9, 2017