LOUISVILLE AND JEFFERSON COUNTY
RIVERPORT AUTHORITY

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

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Louisville and Jefferson County Riverport Authority (the "Authority"), a component unit of Louisville/Jefferson County Metro Government, as of and for the years ended June 30, 2016 and 2015, and the related notes to the consolidated financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2016 and 2015, and the changes in its 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 (Unaudited) on pages 3 through 6 and the schedule of the Authority's proportionate share of the net pension liability and schedules of the Authority's contributions for the County Employees' Retirement System – Non-Hazardous on pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 20, 2016 on our consideration of the Louisville and Jefferson County Riverport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Louisville and Jefferson County Riverport Authority's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 20, 2016

Management's Discussion and Analysis ("MD&A") of the Louisville and Jefferson County Riverport Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal years ending June 30, 2016 and 2015. Please read it in conjunction with the Authority's basic consolidated financial statements, which begin on page 7.

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

Using this Annual Report

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

The 2014 condensed financial information included in MD&A does not include the impact of GASB 68/71 implementation.

Statements of Net Position

At June 30, 2016, the Authority's total assets and deferred outflows of resources were $31,507,629, a decrease of $53,672 from prior year total assets and deferred outflows of resources of $31,561,301. This decrease was due primarily to a decrease in capital assets of $476,316 from annual depreciation, a net decrease in cash and investments of $422,980, an increase in accounts receivable of $145,773 and an increase in land held for sale of $680,744.

At June 30, 2015, the Authority's total assets and deferred outflows of resources were $31,561,301, a decrease of $342,186 from prior year total assets and deferred outflows of resources of $31,903,487. This decrease was due primarily to a decrease in capital assets of $486,100 from annual depreciation and amortization, a net increase in cash and investments of $200,233, and a decrease in land held for sale of $107,436.

At June 30, 2016, the Authority's total liabilities and deferred inflows of resources were $983,819, an increase of $91,306 from the prior year total liabilities and deferred inflows of resources of $892,513. The increase was due primarily to an increase in the Authority's proportionate share of the GASB 68 pension liability of $153,116.

At June 30, 2015, the Authority's total liabilities and deferred inflows of resources were $892,513, an increase of $531,009 from the prior year total liabilities and deferred inflows of resources of $361,504. The increase was due primarily to recognition of the GASB 68 pension liability of $517,000.

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

Table 1

Condensed Consolidated Statements of Net Position
(in thousands)

	June 30		
	2016	**2015**	**2014**
Assets			
Current and other assets	$ 13,995	$ 13,590	$ 13,492
Capital assets	17,449	17,925	18,411
Total assets	31,444	31,515	31,903
Deferred outflows of resources	127	46	-
Total assets and deferred outflows of resources	$ 31,571	$ 31,561	$ 31,903
Liabilities			
Long-term debt outstanding, including other liabilities	$ 975	$ 834	$ 361
Total liabilities	975	834	361
Deferred inflows of resources	9	58	-
Total liabilities and deferred inflows of resources	984	892	361
Net Position			
Net investment in capital assets	17,449	17,925	18,411
Unrestricted	13,138	12,744	13,131
Total net position	30,587	30,669	31,542
Total liabilities, deferred inflows of resources and net position	$ 31,571	$ 31,561	$ 31,903

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues were $2,391,120 in 2016, an increase of $902,222 from $1,488,898 in 2015. This increase was due primarily to a larger land sale during the year. Operating expenses were $2,493,543 in 2016 compared to $1,853,564 in 2015, an increase of $639,979. This increase was due primarily to the higher cost of land sales expense for the land sale during the year. Non-operating revenues for 2016 were virtually the same as 2015. See Table 2.

Operating revenues were $1,488,898 in 2015, an increase of $933,953 from $554,945 in 2014. This increase was due primarily to two land sales during the year and the recognition of grant revenue. Operating expenses were $1,853,564 in 2015 compared to $1,412,961 in 2014, an increase of $440,603. This increase was due primarily to the cost of land sales expense for the two land sales during the year. Non-operating revenues for 2015 were virtually the same as 2014. See Table 2.

Table 2

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

	June 30		
	2016	**2015**	**2014**
Revenues			
Operating revenues			
Port services	$ 130	$ 100	$ 100
Land sales	1,775	912	-
Rental and other fees	447	389	455
Grant revenue	39	88	-
Total operating revenues	2,391	1,489	555
Non-operating revenues			
Interest income	20	21	10
Other income	-	5	2
Total non-operating revenues	20	26	12
Total revenues	2,411	1,515	567
Expenses			
Operating expenses			
Port operator expense and fees	-	-	55
Cost of land sales	980	331	-
Salaries, wages and employee benefits	542	515	508
Depreciation	476	486	486
Other general and administrative	495	527	364
Pension expense	-	(5)	-
Total operating expenses	2,493	1,854	1,413
Total expenses	2,493	1,854	1,413
Change in Net Position	$ (82)	$ (339)	$ (846)

Capital Assets and Debt Administration

At June 30, 2016, the Authority had $17,448,805 in capital assets, most of which was building and facilities related to its port operations. A decline of $476,316 from the capital asset balance of $17,925,121 at June 30, 2015 resulted from annual depreciation (see Note 4 for additional capital asset detail). A summary of capital assets is included in Table 3.

At June 30, 2015, the Authority had $17,925,121 in capital assets, most of which was building and facilities related to its port operations. A decline of $486,100 from the capital asset balance of $18,411,221 at June 30, 2014 resulted from annual depreciation (see Note 4 for additional capital asset detail). A summary of capital assets is included in Table 3.

Table 3

Capital Assets
(Net of Depreciation, in thousands)

	June 30		
	2016	**2015**	**2014**
Port Operations			
Land and improvements	$ 8,102	$ 8,102	$ 8,102
Buildings and equipment	9,347	9,823	10,309
Total port operations	$ 17,449	$ 17,925	$ 18,411

Future Economic Factors

The Authority's fiscal year 2016 budget has been influenced by the following major factors:

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

Contacting the Authority's Financial Management

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

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

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 2,430,669	$ 1,127,960
Investments	3,051,691	4,777,380
Accrued interest	9,270	7,787
Accounts receivable	341,577	195,804
Prepaid insurance	70,019	70,019
Total current assets	5,903,226	6,178,950
Non-current assets		
Capital assets		
Capital assets not being depreciated:		
Land and improvements	8,101,986	8,101,986
Capital assets being depreciated:		
Buildings and facilities	29,771,477	29,771,477
Other capital assets	175,271	175,271
Less accumulated depreciation	(20,599,929)	(20,123,613)
Total capital assets being depreciated	9,346,819	9,823,135
Total capital assets	17,448,805	17,925,121
Real estate held-for-sale	8,087,686	7,406,942
Other assets	3,925	3,925
Total non-current assets	25,540,416	25,335,988
Total assets	31,443,642	31,514,938
Deferred Outflows of Resources		
Authority pension contributions subsequent to the measurement date	47,837	46,363
Difference between expected and actual experience	5,569	-
Difference between expected and actual investment earnings on plan investments	6,007	-
Change in assumptions	67,574	-
Total deferred outflows of resources	126,987	46,363
Total assets and deferred outflows of resources	$31,570,629	$31,561,301

(Continued)

CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 180,503	$ 154,280
Unearned revenue	123,978	163,233
Total current liabilities	304,481	317,513
Non-current liabilities		
Net pension liability	670,116	517,000
Total liabilities	974,597	834,513
Deferred Inflows of Resources		
Difference between expected and actual investment earnings on plan investments	-	58,000
Change in proportion and difference between employer contributions and proportionate share of contributions	9,222	-
Total liabilities and deferred inflows of resources	983,819	892,513
Net position		
Net investment in capital assets	17,448,805	17,925,121
Unrestricted	13,138,005	12,743,667
Total net position	30,586,810	30,668,788
Total liabilities, deferred inflows of resources and net position	$ 31,570,629	$ 31,561,301

See accompanying notes to consolidated financial statements.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues		
Port services	$ 130,000	$ 100,000
Land sales	1,774,832	912,420
Rental and other fees	447,033	388,968
Grant revenue	39,255	87,510
Total operating revenues	2,391,120	1,488,898
Operating expenses		
Cost of land sales	979,894	331,445
Salaries, wages and employee benefits	542,117	509,740
Consultants and professional fees	66,426	49,781
Building and grounds maintenance	190,080	247,597
Supplies and miscellaneous expenses	45,906	38,000
Rent and utilities	82,021	79,879
Insurance and bonds	110,783	111,022
Depreciation	476,316	486,100
Total operating expenses	2,493,543	1,853,564
Operating loss	(102,423)	(364,666)
Non-operating revenues		
Investment income	20,445	20,793
Net increase in fair value of investments	-	4,678
Total non-operating revenues	20,445	25,471
Change in net position	(81,978)	(339,195)
Net position, beginning of year	30,668,788	31,007,983
Net position, end of year	$ 30,586,810	$ 30,668,788

See accompanying notes to consolidated financial statements.

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers	$ 2,206,092	$ 1,409,287
Payments to suppliers and contractors	(495,217)	(554,234)
Payments for real estate held-for-sale	(1,660,637)	(224,009)
Payments to employees	(514,850)	(504,506)
Net cash provided by (used in) operating activities	(464,612)	126,538
Cash flows from investing activities		
Cash paid for investments	(3,201,668)	(6,229,879)
Proceeds from sale and maturities of investments	4,927,357	5,825,200
Interest on investments	18,962	18,140
Net cash provided by (used in) investing activities	1,744,651	(386,539)
Cash flows from non-capital financing activities		
Other receipts	22,670	55,555
Net increase (decrease) in cash and cash equivalents	1,302,709	(204,446)
Cash and cash equivalents, beginning of year	1,127,960	1,332,406
Cash and cash equivalents, end of year	$ 2,430,669	$ 1,127,960
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$ (102,423)	$ (364,666)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	476,316	486,100
Increase (decrease) in cash due to changes in operating assets and liabilities		
Accounts receivable	(145,773)	(2,101)
Real estate held-for-sale	(680,744)	107,436
Accounts payable and accrued expenses related to operations	27,267	(78,276)
Unearned revenue	(39,255)	(21,955)
Net cash provided by operating activities	$ (464,612)	$ 126,538
Noncash activities		
Change in net pension liability	$ 153,116	$ 63,215
Change in deferred inflows of resources	48,778	58,000
Change in deferred outflows of resources	80,624	-

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Statement of Revenues, Expenses and Change in Net Position: The Statement of Revenues, Expenses and Change in Net Position reports sources of operating revenue for the Authority as well as operating expenses incurred during the year. Non-operating revenues and expenses are reported separately on this statement. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are land sales, fees and charges for services. Operating expenses for

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the Authority include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

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

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

Assets	Years
Land and improvements	Not depreciable
Buildings and facilities	5-50
Other capital assets	5-50

Impairment of Long-Lived Assets: Management of the Authority reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that there is a significant, unexpected decline in the service utility of an asset. An impairment loss would be recognized in the event the magnitude of the decline in service utility is significant and unexpected. There were no impairments of long-lived assets reported by management during 2016.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

(Continued)

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

Deposits: Although no formal policy exists to control custodial risk of deposits and bank balances, including certificates of deposit, at June 30, 2016, deposits were either insured by the Federal Deposit Insurance Corporation (up to $250,000) or collateralized by U.S. Government Securities held by a designee financial institution in the Authority's name. Cash deposits at June 30, 2016 and 2015 were $2,442,573 and $1,152,160, respectively. The certificates of deposit balances at June 30, 2016 and 2015 were $3,051,691 and $4,777,380, respectively.

Investments: The Authority's investment policies comply with the requirements of the KRS, which allow investments in direct obligations of the U.S. Government or obligations guaranteed by the U.S. Government, a U.S. Government agency or any corporation of the U.S. Government. There were no such investments as of June 30, 2016 and 2015.

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

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

(Continued)

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated				
Land and improvements	$ 8,101,986	$ -	$ -	$ 8,101,986
Capital assets being depreciated				
Building and facilities	29,771,477	-	-	29,771,477
Other capital assets	175,271	-	-	175,271
Total capital assets being depreciated	29,946,748	-	-	29,946,748
Less accumulated depreciation for				
Building and facilities	(19,955,187)	(470,918)	-	(20,426,105)
Other capital assets	(168,426)	(5,398)	-	(173,824)
Total accumulated depreciation	(20,123,613)	(476,316)	-	(20,599,929)
Total capital assets being depreciated, net	9,823,135	(476,316)	-	9,346,819
Capital assets, net	$ 17,925,121	$ (476,316)	$ -	$ 17,448,805

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated				
Land and improvements	$ 8,101,986	$ -	$ -	$ 8,101,986
Capital assets being depreciated				
Building and facilities	29,771,477	-	-	29,771,477
Other capital assets	175,271	-	-	175,271
Total capital assets being depreciated	29,946,748	-	-	29,946,748
Less accumulated depreciation for				
Building and facilities	(19,479,156)	(476,031)	-	(19,955,187)
Other capital assets	(158,357)	(10,069)	-	(168,426)
Total accumulated depreciation	(19,637,513)	(486,100)	-	(20,123,613)
Total capital assets being depreciated, net	10,309,235	(486,100)	-	9,823,135
Capital assets, net	$ 18,411,221	$ (486,100)	$ -	$ 17,925,121

NOTE 5 – PORT FACILITY OPERATING AGREEMENT

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

Fiscal Year Ended June 30,	
2017	$ 188,000
2018	200,000
2019	200,000
2020	200,000
2021	200,000
Thereafter	33,000
Total	$ 1,021,000

Rental income from port services received during fiscal years ended June 30, 2016 and 2015 was $130,000 and $100,000, respectively.

(Continued)

NOTE 6 – OPERATING LEASE COMMITMENTS

Effective April 1, 2013, the Authority entered into a new lease for office space which will expire March 31, 2018 with lease payments of approximately $3,300 per month. Rent expense under these leases was approximately $41,000 and $40,000 for the years ended June 30, 2016 and 2015, respectively.

Minimum annual lease payments are due as follows:

Fiscal Year Ended June 30,	
2017	$ 39,930
2018	29,948
Total	$ 69,878

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS

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

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

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

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. 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.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

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

Members whose participation began before 8/1/2004:

Age and Service Requirement: Age 65 with at least one month of 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.

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.

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

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

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

Age and Service Requirement: Age 65 with 60 months of 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.

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

For the fiscal years ended June 30, 2016 and 2015, participating employers contributed 12.75% and 12.42%, respectively, of each Non-Hazardous employee's creditable compensation for pension and 4.92% and 4.64%, respectively of each Non-Hazardous employee’s creditable compensation for insurance. Administrative costs of KRS are financed through employer contributions and investments earnings.

The Authority met 100% of the pension contribution funding requirement for the fiscal years ended June 30, 2016, 2015, and 2014, which were $47,837, $46,363, and $46,216, 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 began on or after 9/1/2008, but before 1/1/2014:

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Members whose participation began 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, 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.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

(c) **Long-Term Rate of Return**: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

(e) **Periods of projected benefit payments**: Projected future benefit payments for all current plan members were projected through 2117. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	44.00%	5.40%
Combined fixed income	19.00%	1.50%
Real return (diversified inflation strategies)	10.00%	3.50%
Private equity	10.00%	8.50%
Real estate	5.00%	4.50%
Absolute return (diversified hedge funds)	10.00%	4.25%
Cash equivalent	2.00%	-0.25%
Total	100.00%	

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

(Continued)

NOTE 7 – 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 Authority's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 7.50 percent, as well as what Authority'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%)
Authority's net position liability - Non-Hazardous	$ 855,486	$ 670,116	$ 511,363

Employer's Portion of the Collective Net Pension Liability: The Authority's proportionate share of the net pension liability, as indicated in the prior table, is $670,116, or approximately 0.016%. There was effectively no change to the Authority'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 update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013 using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service costs), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2013, is shown in the GASB 67 report for CERS submitted on November 17, 2014.

Changes in Assumptions and Benefit Terms: 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. The changes are noted below:

- The assumed investment rate of return was decreased from 7.75% to7.50%.
- 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.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Pension Expense: The Authority recognized pension expense of $71,551 and $41,000 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.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual investment earnings on plan investments	$ 6,007	$ -
Change in proportion and difference between employer contributions and proportionate share of contributions	-	9,222
Difference between expected and actual experience	5,569	-
Change in assumptions	67,574	-
	79,150	9,222
Authority pension contributions subsequent to the measurement date	47,837	-
Total	$ 126,987	$ 9,222

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 over five years with remaining amortization as follows:

Year Ending June 30:	
2017	$ 23,440
2018	23,440
2019	10,962
2020	12,086

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

Plan Information for June 30, 2015 Financial Statements:

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

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

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

Discount rate assumptions:

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

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

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

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

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Authority's net position liability - Non-Hazardous	$ 680,338	$ 517,000	$ 372,688

Employer's Portion of the Collective Net Pension Liability: The Authority's proportionate share of the net pension liability, as indicated in the prior table, is $517,000, or approximately .016%. The liability was distributed based on 2014 actual employer contributions to the plan.

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN – COST SHARING - CERS (Continued)

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

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

Pension Expense: The Authority recognized pension expense of $41,000 related to the CERS during 2015.

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

The table below provides a summary of the deferred inflows and outflows as of the Measurement Date.

	2016	2015
Differences between expected and actual investment earnings on plan investments	$ -	$ 58,000
Contributions subsequent to the measurement date	46,363	-
Total	$ 46,363	$ 58,000

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2016. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5 year period.

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

LOUISVILLE AND JEFFERSON COUNTY RIVERPORT AUTHORITY
A COMPONENT UNIT OF LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON-HAZARDOUS
June 30, 2016 and 2015

	2016	2015
The Authority's proportion of the net pension liability	0.016%	0.016%
The Authority's proportionate share of the net pension liability	$ 670,116	$ 517,000
The Authority's covered employee payroll	$ 375,494	$ 363,639
The Authority's proportion of the net pension liability as a percentage of its covered employee payroll	178.463%	142.174%
Plan fiduciary net position as a percentage of the total pension liability	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.

SCHEDULES OF THE AUTHORITY'S CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS
June 30, 2016 and 2015

	2016	2015
Statutorily required contribution	$ 47,837	$ 46,363
Contributions in relation to the statutorily required contribution	(47,837)	(46,363)
Annual contribution deficiency (excess)	$ -	$ -
The Authority's contributions as a percentage of statutorily required contribution for pension	100%	100%
The Authority's covered employee payroll	$ 375,494	$ 363,639
Contributions as a percentage of its covered employee payroll	12.739%	12.749%

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Louisville and Jefferson County Riverport Authority, a component of Louisville/Jefferson County Metro Government (the "Authority") as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 20, 2016