Financial Statements
and Related Information

Waterfront Development Corporation

June 30, 2017

Other Supplemental Information

Strothman and Company
Certified Public Accountants and Advisors
1600 Waterfront Plaza
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Strothman+Co

Independent Auditor's Report

To the Board of Directors
Waterfront Development Corporation
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of Waterfront Development Corporation (the "Corporation"), a component unit of Louisville/Jefferson County Metro Government ("Metro Government"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Corporation'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 Corporation'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the Corporation, as of June 30, 2017, and the respective changes in financial position for the year 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 (pages 4 through 9), the required supplemental information including the budgetary comparison information on page 34, the schedule of proportionate share of the net pension liability (page 35) and schedule of contributions (page 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements referred to in the first paragraph. The Agency Funds Statements of Changes in Net Position on page 37 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Agency Funds Statements of Changes in Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to in the first paragraph and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
October 10, 2017

Management’s Discussion and Analysis (Unaudited)

Waterfront Development Corporation

June 30, 2017

The Waterfront Development Corporation (the "Corporation"), founded in 1986, is a component unit of Louisville/Jefferson County Metro Government ("Metro Government"). The Corporation manages Louisville Waterfront Park (the "Park").

Prior to the fiscal year ended June 30, 2012, the Corporation was included as a Department of Metro Government and was reflected in its Comprehensive Financial Annual Report in this manner. For fiscal year 2012, the management of both Metro Government and the Corporation determined that accounting for the Corporation as a separate component unit would be more appropriate. As such, the Corporation issued its first stand-alone financial statements as of and for the year ended June 30, 2012.

The Corporation's Board of Directors includes representatives appointed by Metro Government and the Commonwealth of Kentucky (the "Commonwealth"). Historically, both Metro Government and the Commonwealth have provided financial support to the Corporation. For fiscal year 2015 and thereafter, the Commonwealth ceased all funding to the Corporation. The Corporation is reflected as a component unit of Metro Government because they have a majority of Board member appointments.

The Corporation is also related to The Waterfront Park Foundation, Inc. (the "Foundation"). The purpose of the Foundation is to provide supplemental support for the capital construction and maintenance of the Park. The Foundation is included as a component unit in the Corporation's financial statements.

This section of the Corporation's basic financial statements presents a narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2017.

Financial Highlights

The Corporation's principal revenue sources are rental and event income, and support from Metro Government.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements comprise four components: (1) government-wide financial statements; (2) fund financial statements; (3) statement of fiduciary net position; and (4) notes to the financial statements.

<u>Government-Wide Financial Statements</u>

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

Continued

The Statement of Activities presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as expenses pertaining to earned but unused vacation and sick leave.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Corporation's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation has two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the capital projects fund.

The Corporation adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with budget.

Fiduciary funds are used to account for resources held for the benefit of parties outside the Corporation. Since the resources of these funds are not available to support the Corporation's own programs, they are not reflected in the government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The Corporation has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis ("MD&A") for State and Local Governments*.

Continued

Analysis of Net Position – Government-Wide Activities

A summary of government-wide net position follows:

	June 30	
	2017	**2016**
Assets		
Current and other assets	$ 3,569,079	$ 3,838,378
Capital assets	8,761,756	8,712,554
Total Assets	12,330,835	12,550,932
Deferred Outflows of Resources	325,068	247,445
Liabilities		
Current and other liabilities	1,785,041	1,935,590
Deferred Inflows of Resources	9,316	7,462
Net Position		
Net investment in capital assets	8,761,756	8,712,554
Unrestricted	2,099,790	2,142,771
Total Net Position	$ 10,861,546	$ 10,855,325

The Corporation's assets exceed its liabilities by $10,861,546 as of June 30, 2017 as compared to $10,855,325 as of June 30, 2016. The increase from 2016 to 2017 was $6,221.

Current and other assets as of June 30, 2017 decreased $269,299, or 7.0%, as compared to June 30, 2016, due primarily to a decrease in investments coupled with an increase in accounts receivable. Capital assets increased by $49,202, due primarily to purchases of park maintenance equipment. Current and other liabilities decreased $150,549, or 7.2%, due in large part to a decrease in the net pension liability.

Continued

Government-Wide Statement of Activities

A summary of the changes in net position follows:

	June 30	
	2017	**2016**
Revenues		
Rental and event income	$ 1,111,239	$ 810,731
General revenues and transfers		
Transfers and other revenues	1,898,672	3,327,029
Capital contributions	110,880	15,433
Total Revenues	3,120,791	4,153,193
Expenses		
General government	2,226,529	2,205,135
Public works	888,041	1,144,774
Total Expenses	3,114,570	3,349,909
Change in Net Position	6,221	803,284
Beginning Net Position	10,855,325	10,052,041
Ending Net Position	$ 10,861,546	$ 10,855,325

Rental and event income revenues increased $300,508 from 2016 to 2017. Transfers and other revenues decreased $1,428,357, or 42.9% from 2016 to 2017, primarily due to funds received in the prior year by the Capital Projects Fund for projects that were not repeated in the current year. Contributions increased $95,447, or 618.5%, from 2016 to 2017. This was due to funding provided for the LED lighting conversion and to repair drainage issues.

Operating expenses for fiscal 2017 increased $21,394 or 1.0% from 2016, primarily due to efforts to reduce spending in response to the state's budget cuts. Public works expenses decreased $256,733, or 22.4%, due to completion of improvements to the park in prior year.

Continued

Financial Analysis of the Corporation’s Governmental Funds

The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the Corporation's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2017, the governmental funds balance sheet reflected total assets of $3,569,079 as compared to $3,838,378 as of June 30, 2016. Liabilities as of June 30, 2017 were $405,000 as compared to $716,548 as of June 30, 2016. Fund balance at June 30, 2017 was $3,164,079 as compared to $3,121,830 at June 30, 2016, which represented an increase of $42,249.

During the year ended June 30, 2017, the Corporation realized revenues from Park event income and rentals of $1,111,239 as compared to $810,731 last year. During the years ended June 30, 2017 and 2016, Metro Government supplied $1,197,000 and $1,062,000, respectively, of operating support.

The Commonwealth of Kentucky supplied no operating support for fiscal years 2017, 2016 and 2015.

For fiscal years 2017, 2016 and 2015, the Commonwealth of Kentucky eliminated our Biennial Appropriation that had previously been authorized since our inception through the Cabinet for Economic Development. This has a total negative impact of $1,262,400 of our operating resources for all three years. As a result, we implemented the necessary expense reductions and used some of our capital project reserves to fulfill our responsibilities to develop and maintain the park.

Operating expenditures of the Corporation for years ended June 30, 2017 and 2016 were $2,190,501 and $2,174,373, respectively.

The capital projects fund accounts for resources used for the purpose of constructing Park improvements and infrastructure. For the year ended June 30, 2017, total receipts from other financing sources in this fund were $755,092, with total expenditures of $888,041 for the year. For the year ended June 30, 2016, total receipts and expenditures were $2,249,012 and $1,144,774, respectively.

The improving economy has helped drive two major sources of revenue which is derived from rentals and events. However, in contrast to this trend we experienced a setback with one of our primary tenant’s, due to their inability to successfully operate a restaurant in our park, and incurred loss of revenues as a result.

Continued

Capital Assets

The Park encompasses a total of 85 acres. Park land and improvements were paid for and are owned by three entities: the Corporation, Metro Government and the Commonwealth. Only land owned by the Corporation is reflected on its books and records. A majority of Park development costs were not paid by the Corporation and are not reflected on its financial statements.

A summary of the Corporation's capital assets as of June 30, 2017 are as follows:

Land	$	8,580,673
Park Maintenance Equipment		503,935
Less accumulated depreciation		(322,852)
	$	8,761,756

Financial Analysis of the Foundation

The Foundation had total cash and investments of $13,335,111 as of June 30, 2017, as compared to $12,318,702 at June 30, 2016. During the year ended June 30, 2017, the Foundation's investments generated net investment income of $1,269,158 as compared to losses of ($184,760) last year. Improvements in overall market performance accounted for the majority of this fluctuation. Investment fees for the year were $47,749 as compared to $49,214 last year. Net transfers of $205,000 were made to the Corporation from the Foundation during the year as compared to $105,000 last year, which included a direct pass through gift of $100,000 for an economic impact study.

Request for Information

These financial statements are intended to provide the reader with a general overview of the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Waterfront Development Corporation, Chief Financial Officer, 129 River Road, Louisville, Kentucky 40202.

Government-Wide Financial Statements

Statement of Net Position

Waterfront Development Corporation

June 30, 2017

	Primary Government - Governmental Activities	Component Unit - Foundation
Assets		
Cash and cash equivalents	$ 400,247	$ 383,918
Investments	2,848,871	12,951,193
Accounts receivable	264,293	
Other assets	55,668	
Capital assets		
Land	8,580,673	
Other capital assets, net of depreciation	181,083	
Total Assets	12,330,835	13,335,111
Deferred Outflows of Resources		
Pension contributions subsequent to the measurement date	137,941	
Differences between expected and actual experience	5,398	
Changes in assumptions	65,497	
Differences between projected and actual investment return	116,232	
Total Deferred Outflows of Resources	325,068	
Liabilities		
Accounts payable and accrued costs	102,291	
Accounts payable to Metro Government	134,470	
Deferred revenues and deposits	168,239	
Compensated absences accrual	141,291	
Net pension liability	1,238,750	
Total Liabilities	1,785,041	
Deferred Inflows of Resources		
Changes in proportionate share of pension contributions	9,316	
Net Position		
Net investment in capital assets	8,761,756	
Restricted		13,335,111
Unrestricted	2,099,790	
Total Net Position	$ 10,861,546	$ 13,335,111

See Accompanying Notes to the Financial Statements

Statement of Activities

Waterfront Development Corporation

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Investment Income	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
General government	$ 2,226,529	$ 1,111,239		$ (1,115,290)
Public works	888,041			(888,041)
Total Governmental Activities	$ 3,114,570	$ 1,111,239		(2,003,331)
Component Unit - Foundation				
Investment fees	$ 47,749			(47,749)
Investments gain - unrealized			$ 416,344	416,344
Investment gain - realized			510,204	510,204
Dividends and interest income			342,610	342,610
Total Component Unit	$ 47,749		$ 1,269,158	1,221,409
Net Expense				$ (781,922)

	Primary Government	Component Unit-Foundation	Total
Net Revenue (Expense) from above	$ (2,003,331)	$ 1,221,409	$ (781,922)
General Revenues and Transfers			
Operating transfers from:			
Metro Government	1,197,000		1,197,000
Commonwealth of Kentucky	0		0
Transfers, net	105,000	(105,000)	
Special park projects	476,489		476,489
KEDFA grant	67,840		67,840
Other revenues	52,343		52,343
Contributions	110,880	(100,000)	10,880
Change In Net Position	6,221	1,016,409	1,022,630
Beginning Net Position	10,855,325	12,318,702	23,174,027
Ending Net Position	$ 10,861,546	$ 13,335,111	$ 24,196,657

See Accompanying Notes to the Financial Statements

Fund Financial Statements

Governmental Funds
Balance Sheet

Waterfront Development Corporation

June 30, 2017

	General Fund	Capital Project Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 400,247		$ 400,247
Investments	21,043	$ 2,827,828	2,848,871
Accounts receivable	264,293		264,293
Other assets	55,668		55,668
Total Assets	$ 741,251	$ 2,827,828	$ 3,569,079
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued costs	$ 102,291		$ 102,291
Accounts payable to Metro Government	134,470		134,470
Deferred revenues and deposits	168,239		168,239
Total Liabilities	405,000		405,000
Fund Balance			
Restricted		$ 2,827,828	2,827,828
Unassigned	336,251		336,251
Total Fund Balances	336,251	2,827,828	3,164,079
Total Liabilities and Fund Balances	$ 741,251	$ 2,827,828	

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds Balance Sheet above because of the following:

Capital Assets--Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported as assets in the Governmental Funds Balance Sheet	8,761,756
Pension Activity--Pension activity is not current assets or current liabilities and therefore are not reported in the Governmental Funds Balance Sheet	(922,998)
Compensated Absences--Compensated absences are not current liabilities and therefore are not reported in the Governmental Funds Balance Sheet	(141,291)
Total Net Position of Governmental Activities	$ 10,861,546

See Accompanying Notes to the Financial Statements

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances

Waterfront Development Corporation

Year Ended June 30, 2017

	General Fund	Capital Project Fund	Total Governmental Funds
Revenues			
Rental and event income	$ 1,111,239		$ 1,111,239
Expenditures			
General government	2,190,501		2,190,501
Public works		$ 888,041	888,041
Total Expenditures	2,190,501	888,041	3,078,542
Expenditures in Excess of Revenues	(1,079,262)	(888,041)	(1,967,303)
Other Financing Sources			
Operating transfers from:			
Metro Government	1,197,000		1,197,000
Commonwealth of Kentucky	0		0
Net transfers from Component Unit - Foundation		105,000	105,000
Special park projects		100,000	100,000
Waterfront Park phase IV		351,000	351,000
Bridge lighting		25,489	25,489
KEDFA grant		67,840	67,840
Other revenues	22,437	29,906	52,343
Contributions	35,023	75,857	110,880
Total Other Financing Sources	1,254,460	755,092	2,009,552
Net Change in Fund Balances	175,198	(132,949)	42,249
Beginning Fund Balances	161,053	2,960,777	3,121,830
Ending Fund Balances	$ 336,251	$ 2,827,828	$ 3,164,079

See Accompanying Notes to the Financial Statements

Reconciliation of the Net Change in Fund Balances
Governmental Funds with the Change in Net Position – Governmental Activities

Waterfront Development Corporation

Year Ended June 30, 2017

The schedule below reconciles the net changes in fund balances reported on the governmental funds statement of revenues, expenditures and changes in fund balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the change in net position of governmental activities reported in the statement of activities, which is prepared on the full accrual basis.

Total Net Change in Fund Balances - Total Governmental Funds	$	42,249
Amounts reported for governmental activities in the statement of activities are different because of the following:		
Capital Asset Transactions		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense is deducted from the fund balance		(46,488)
Capital asset expenditure		95,690
Accrual of Non-Current Items		
The amounts below included in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues or expenditures in governmental funds (net change):		
Change in compensated absences accrual		(8,983)
Pension Related Expenses		(76,247)
Total Change in Net Position of Governmental Activities	$	6,221

See Accompanying Notes to the Financial Statements

Fiduciary Funds

Statement of Fiduciary Net Position

Waterfront Development Corporation

June 30, 2017

		Agency Funds Belvedere Fund
Assets		
Cash		$ 124,466
	Total Assets	$ 124,466
Liabilities		
Damage deposit liability		$ 8,200
Other		6,188
Held for the Belvedere		110,078
	Total Liabilities	$ 124,466

See Accompanying Notes to the Financial Statements

Notes to the Financial Statements

Note A--Description of the Corporation

Established in 1986, the Waterfront Development Corporation (the "Corporation") plans, coordinates and implements strategies to revitalize Louisville's Waterfront. The Corporation was created by an interlocal agreement between Jefferson County, the City of Louisville, and the Commonwealth of Kentucky (the "Commonwealth") to oversee redevelopment of Louisville's waterfront from a blighted and underutilized area into a vibrant, active area. In 2003, Jefferson County and the City of Louisville merged to create Louisville/Jefferson County Metro Government ("Metro Government").

The Corporation is considered a component unit of Metro Government. Metro Government appoints nine out of fifteen of the Corporation's board members and the Commonwealth appoints the other six. Metro Government also supplies a significant portion of the Corporation's operating funding and performs certain administrative functions for it.

The primary project of the Corporation is Louisville Waterfront Park (the "Park"), which management believes has improved the quality of life of Louisville residents and been a catalyst for business and residential redevelopment in the Waterfront District and connecting areas of downtown Louisville. The Corporation is responsible for the maintenance and operation of this 85 acre park.

The Corporation is also related to The Waterfront Park Foundation, Inc. (the "Foundation"). The purpose of the Foundation, incorporated in 1995, is to provide supplemental support for the capital construction and maintenance of the Park. The Foundation is included as a component unit in these financial statements.

Note B--Summary of Significant Accounting Policies

The Corporation is a component unit of Metro Government. Prior to the fiscal year ended June 30, 2012, the Corporation was included as a Department of Metro Government and reflected in its Comprehensive Financial Annual Report in this manner. For fiscal year 2012, the management of both Metro Government and the Corporation determined that accounting for the Corporation as a separate component unit was more appropriate. As such, the Corporation issued its first stand-alone financial statements as of and for the year ended June 30, 2012.

Because the Foundation is so closely related to the Corporation, its financial statements are included within the government-wide financial statements of the Corporation as a component unit. This is because the Corporation Board elects the board of the Foundation and because the Foundation's sole financial purpose is to support the activities of the Corporation. Separate financial statements for the Foundation are not issued.

Continued

Note B--Summary of Significant Accounting Policies--Continued

The following is a summary of significant accounting policies:

<u>Basis of Presentation</u>--The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.

These standards require that the financial statements described below be presented.

> **Government-Wide Financial Statements**--The Corporation's basic financial statements include both the government-wide and component unit financial statements.
>
> **Statement of Net Position**--In the statement of net position, both the governmental and component unit's columns are presented on a consolidated basis by column and are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term obligations, except for fiduciary activities.
>
> **Statement of Activities**--The statement of activities presents a comparison between direct expenses and program revenues for each function of the Corporation's and Foundation's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues.
>
> **Fund Financial Statements**--The fund financial statements provide information about the Corporation's funds, including fiduciary funds. Separate statements for each fund category - *governmental* and *fiduciary,* are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

The focus of the governmental funds' measurement is upon determination of financial position and changes in financial position rather than upon net income. The activities reported in these funds are reported as governmental activities in the government-wide financial statements. The Corporation reports the following governmental funds in the accompanying governmental fund financial statements:

> **General Fund**--The general fund accounts for inflows of revenues, which are primarily from governmental sources, contributions, and lease and event income. Expenditures relate to the operation and maintenance of the Park.
>
> **Capital Projects Fund**--This fund accounts for resources used for the purpose of constructing Park improvements and infrastructure. Revenues are obtained primarily from governmental sources and from private contributions.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Fiduciary Funds--The Corporations' fiduciary funds are presented in the fiduciary fund financial statements by type. Because by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Corporation, these funds are not incorporated into the government-wide financial statements.

- **The Belvedere Fund.** The Corporation has an agreement whereby it manages event space at a park (the "Belvedere") owned by Metro Government. Under the agreement, any net income derived from event rentals is put into an agency fund. Such funds can only be spent for the maintenance and other expenses the Corporation incurs related to Belvedere Park.

- **The Belle of Louisville Fund.** The Corporation also managed funds for Louisville's Centennial Festival of Riverboats celebrating the Belle of Louisville's 100th birthday. The celebration included a variety of river and land based events. The remaining balance of these funds were applied toward the purchase of the Mary M. Miller River Boat during the fiscal year ended June 30, 2017. This boat was given to Metro Government.

<u>Basis of Accounting</u>--The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Non-exchange transactions, in which the Corporation gives or receives value without directly receiving or giving equal value in exchange, include contributions. Revenues from contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

<u>Equity Classifications</u>

Government-Wide Financial Statements

Net position is the excess of the Corporation's assets over its liabilities, regardless of fund. Net position is divided into three captions on the statement of net position. These captions apply only to net position, which is determined at the government-wide level and is discussed below:

Net investment in capital assets--the portion of net position which is represented by the current net book value of the Corporation's capital assets.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Restricted net position--the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, government regulations, laws, or other restrictions which the Corporation cannot unilaterally alter.

Unrestricted net position--the portion of net position which is not restricted as to use.

Fund Financial Statements

Under GASB Statement No. 54, fund balance is separated into five categories, as follows:

Nonspendable--Permanently nonspendable by decree of the donor, such as an endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses.

Restricted--Legally restricted under federal or state law, bond authority, or grantor contract.

Committed--Commitments passed by the Board.

Assigned--Funds assigned to management priority including issued encumbrances.

Unassigned--Funds available for future operations.

The accompanying government funds balance sheet classifies the general fund balances as unassigned and the capital project fund balance as restricted.

Deferred Inflows of Resources and Deferred Outflows of Resources--For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Corporation's participation in the County Employees Retirement System ("CERS") of the Kentucky Retirement Systems ("KRS") has been determined on the same basis as they are reported by the KRS for 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. The liability was measured at June 30, 2016.

The Statement of Net Position includes deferred inflows of resources and deferred outflows of resources when appropriate. 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.

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

Subsequent Events--In preparing these financial statements, management of the Corporation has evaluated events and transactions for potential recognition or disclosure through October 10, 2017, the date the financial statements were available to be issued.

Note C--Budgets and Budgetary Accounting

The Corporation submits an annual budget to Metro Government on or before June 30 for the ensuing fiscal year for the general fund. This budget is reviewed by the Mayor and the Metro Council, and is generally revised by them before being finalized.

Budget appropriations become effective each July 1. The Corporation may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

The general fund's annual budget is presented on the modified accrual basis of accounting consistent with the governmental funds financial statements.

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the fiscal year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the fiscal year.

Note D--Cash and Investments

Cash equivalents include short-term, highly liquid investments which are readily convertible to cash and have an original maturity date of 90 days or less.

The following is a summary of cash and cash equivalents as of June 30, 2017:

Corporation		
Cash and cash equivalents - unrestricted	$	400,247
Foundation		
Cash and cash equivalents - restricted		383,918
Total Cash and Cash Equivalents	$	784,165

The Corporation and Foundation had cash and cash equivalents in excess of Federal Deposit Insurance Corporation coverage of approximately $188,000 and $134,000, respectively, as of June 30, 2017. However, the excess above the customary $250,000 limit was collateralized by securities held by a third party custodian, the Bank of New York.

Interest Rate Risk--Interest rate risk is the risk that the changes in interest rates of investments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates; therefore, short term maturities reduce the Corporation and Foundation’s exposure to interest rate risk.

Continued

Note D--Cash and Investments--Continued

Credit Risk--Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Corporation and Foundation's general Investment Policy is to apply the prudent investors standard in managing the overall portfolio. This policy states that assets shall be invested with the care, skill, prudence, and diligence under the circumstances prevailing from time to time that a prudent person acting in a like capacity and familiar with such matters would use in the investment of a fund of like character and aims.

Concentration of Credit Risk--Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The Corporation and Foundation's investment policy requires diversification of the overall portfolio to eliminate the risk of loss from an over-concentration of assets in a specific class of security, a specific maturity, and/or a specific issue. The Foundation is required by state law to invest a minimum of 35% of monies received from government sources in U.S. Government and/or Agency obligations.

The investment mixture objective of the portfolio permitted in each eligible security is as follows:

	Target	Range
Equity	57%	47 - 67%
Large Company Domestic	33%	
Mid/Small Cap Domestic	6%	
International Developed	12%	
International Emerging	6%	
Fixed Income	20%	10 - 30%
Domestic	13%	
International	3%	
High-Yield	2%	
Inflation-Indexed	2%	
Real Estate - Domestic/International	8%	0 - 10%
Alternatives	12%	0 - 25%
Cash	3%	0 - 13%

Continued

Note D--Cash and Investments--Continued

he Corporation and Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. This hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect the reporting entity's own assumptions about the fair value of an asset or liability.

The Corporation and Foundation have the following fair value measurements as of June 30, 2017:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Investments by fair value level:			
Corporation			
Certificates of deposit	$ 2,648,871 *		$ 2,648,871
Debt securities			
U.S. Agency Mortgage bonds		$ 100,000	100,000
Local government bonds		100,000	100,000
Total for the Corporation	2,648,871	200,000	2,848,871
Foundation			
Fixed income	3,291,537 *		3,291,537
Equities	8,220,654 *		8,220,654
Alternative strategies	313,234 *		313,234
Real estate equities and trusts	1,125,768 *		1,125,768
Total for the Foundation	12,951,193		12,951,193
Total	$ 15,600,064	$ 200,000	$ 15,800,064

* Denotes actively traded investments

Note E--Capital Assets

The Park encompasses a total of 85 acres. Park land and improvements were paid for and are owned by three entities: the Corporation, Metro Government and the Commonwealth. Only land owned by the Corporation is reflected on its books and records. A majority of the Park's development costs were not paid by the Corporation and are not reflected on its financial statements.

All capital assets owned by the Corporation are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Corporation defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Depreciation is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each fiscal year until the asset is fully depreciated.

The Corporation has assigned the useful lives listed below to capital assets.

Land improvements	20 years
Buildings and improvements	25 to 40 years
Machinery and equipment	3 to 12 years
Vehicles	4 to 10 years
Infrastructure	10 to 40 years

Major outlays for capital assets and improvements are capitalized in the government-wide statement of net position as projects are constructed.

Continued

Note E--Capital Assets--Continued

Capital assets activity for the fiscal year ended June 30, 2017 is as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	$ 8,580,673			$ 8,580,673
Capital assets being depreciated				
Office equipment	14,923		$ 14,923	
Park maintenance equipment	408,245	$ 95,690		503,935
Total Capital Assets Being Depreciated	423,168	95,690	14,923	503,935
Less accumulated depreciation for:				
Office equipment	12,559	1,121	13,680	
Park maintenance equipment	278,728	44,124		322,852
Total Accumulated Depreciation	291,287	45,245	13,680	322,852
Net Capital Assets Being Depreciated	131,881	50,445	1,243	181,083
Governmental Activity Net Capital Assets	$ 8,712,554	$ 50,445	$ 1,243	$ 8,761,756

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function for the fiscal year ended June 30, 2017 are as follows:

Governmental Activities:	
General Government:	
Office equipment	$ 2,363
Park maintenance equipment	44,125
	$ 46,488

Note F--Lease Revenue

The Corporation is the lessor in various leases relating to two restaurant properties, signage, parking and miscellaneous vendors. For the year ended June 30, 2017, lease revenue was approximately $398,000. One of the tenants has been continually operating a restaurant for many years. However, this tenant filed for bankruptcy under Chapter 11 in June 2017. Another tenant opened a restaurant in April of 2016 but closed for rebranding in October 2016. This tenant has continued to pay rent, but was approximately $20,000 past due as of June 30, 2017. A new restaurant has not yet reopened on this site.

Note G--Risk Management

The Corporation obtains a majority of its insurance through Metro Government's insurance program. The Corporation receives the same coverage as other Metro Government departments and divisions. The Metro Government is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and certain health care benefits of employees. The Metro Government has established various self-insurance programs to account for and finance its uninsured risks of loss. Under the self-insurance programs, the Metro Government retains the risk of loss up to a maximum of $7,000,000 for general liability claims, $2,000,000 for workers' compensation claims with statutory excess insurance, and actual costs incurred for unemployment and certain health care benefits.

Note H--Litigation

The Corporation is subject to legal actions which are handled by Metro Government’s Risk Management Department and the Jefferson County Attorney’s Office. Claims that are less than $500,000 are paid by Metro Government and claims in excess of $500,000 are paid out of the Louisville Area Government Insurance Trust. In one such claim, a restaurant sub-tenant alleged that it mistakenly overpaid rent to the Corporation and its sub-landlord. The sub-landlord had previously filed a lawsuit to evict the sub-tenant, who has vacated the premises. The Corporation intends to vigorously defend all legal actions and believes that the resolution of such claims would not have a material effect on the financial position of the Corporation or its results of operations.

Note I--Recent GASB Pronouncements

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. Items 1 and 3 were effective for reporting periods beginning after June 15, 2016. Item 2 is effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Items 1 and 3 of the Statement were adopted during the current year and did not have a significant impact on the financial statements.

Continued

Note I--Recent GASB Pronouncements--Continued

The GASB has issued several reporting standards that will become effective for fiscal 2018 and later year financial statements.

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, provides guidance for measuring the present value of the projected benefits to be provided to employees that are attributed to those employees' past periods of service.

- Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations ("ARO"s).

- Statement No. 84, *Fiduciary Activities,* establishes criteria for identifying fiduciary activities of all state and local governments.

- Statement No. 87, *Leases,* the objective of which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

The Corporation has not yet determined the effect, if any, that the adoption of these Statements may have on its financial statements.

Note J--Defined Benefit Pension Plan

Introduction

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. It also requires cost-sharing governmental employers to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The Corporation does not have its own employees. Rather, all individuals who work for the Corporation are actually employees of Metro Government.

Plan Description

The Corporation, through Metro Government, contributes to the County Employees Retirement System ("CERS") which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems ("KRS"), an agency of the Commonwealth. The KRS Board was created by state statute under Kentucky Revised Statute Section 61.645. The Board of Trustees is responsible for the proper operation and administration of the KRS.

Continued

Note J--Defined Benefit Pension Plan--Continued

The KRS issues a publicly available financial report that includes financial statements and required supplemental information for CERS. That report may be obtained by writing to the KRS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Contributions

Contributions for employees established in the statutes governing the KRS may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were a plan member prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while one percent was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:42OE). The Corporation makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation.

For the year ended June 30, 2017, employer contributions for the Corporation were $200,884 based on a rate of 18.68% of covered payroll. By law, employer contributions are required to be paid. The KRS may intercept the Corporation's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of the unfunded liability.

The Corporation has met 100% of the pension contribution funding requirement for the fiscal years ended June 30, 2017, 2016 and 2015, which were $184,713, $163,963, and $176,210, respectively.

Benefits Provided-General

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute.

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

- Benefits Provided - Tier 1 - Final Compensation X Benefit Factor X Years of Service

  For members whose participation began before August 1, 2004, the age and service requirement is as follows: 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.

Continued

Note J--Defined Benefit Pension Plan--Continued

If such member has at least 48 months of service, the monthly benefit is 2.2% 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 fiscal years of salary. If the number of months of service credit during the five year period is less than forty-eight, one or more additional fiscal years should 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.

- Benefits Provided - Tier 2 - Final Compensation X Benefit Factor X Years of Service

For members whose participation began on or after August 1, 2004, but before September 1, 2008, the age and service requirement is as follows: 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.

If such member has at least 48 months of service, the monthly benefit is 2% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five fiscal years of salary. If the number of months of service credit during the five year period is less than forty-eight, one 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.

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the age and service requirement is as follows: Age 65 with 60 months of Non-Hazardous duty service credit, or age 57 if age plus service equals at least 87.

For such members, the monthly benefit is the following benefit factor based on service credit at retirement plus 2% 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 complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve months of service credit.

Continued

Note J--Defined Benefit Pension Plan--Continued

- Benefits Provided - Tier 3 - Cash Balance Plan

  For members whose participation began on or after January 1, 2014, the age and service requirement is as follows: Age 65 with 60 months of Non-Hazardous duty service credit, or age 57 if age plus service equals at least 87.

  For such members, each year that a member is an active contributing member to the KRS, the member contributes 5% of creditable compensation, and the member's employer contributes 4% 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 KRS'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 KRS as a lump sum or annuitized into a single life annuity option.

<u>Contribution Rates</u>

- Tier 1 - For members whose participation began before September 1, 2008, Non-Hazardous employee 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%. Members are entitled to a full refund of contributions with interest.

- Tier 2 - For members whose participation began on or after September 1, 2008, but before January 1, 2014, Non-Hazardous 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.

- Tier 3 - For members whose participation began on or after January 1, 2014, the Non-Hazardous contribution is 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 members' portion of the hypothetical account, however, the 1% contributed to the insurance fund in non-refundable.

<u>Net Pension Liability</u>

The Corporation's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Continued

Note J--Defined Benefit Pension Plan--Continued

Actuarial Assumptions

The total pension liability as of the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00% average, including inflation
Investment Rate of Return	7.50% net of pension plan investment expense, including inflation

The mortality table used for active, healthy, retired members, and beneficiaries is RP-2000 Combined Mortality Table projected with Scale BB to 2013. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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 (See chart below). 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.

Continued

Note J--Defined Benefit Pension Plan--Continued

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%
Real estate	5.00%	4.50%
Absolute return (diversified hedge funds)	10.00%	4.25%
Private equity	10.00%	8.50%
Cash equivalent	2.00%	-0.25%
	100.00%	

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.5% based on a blending of the factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Corporation will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Continued

Note J--Defined Benefit Pension Plan--Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Corporation calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point-lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
Proportionate Share of the Net Pension Liability	$ 1,543,683	$ 1,238,750	$ 977,362

Changes in Actuarial Assumptions

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

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to 0.75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- 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 PR-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.

Pension Expense

For the year ended June 30, 2017, the Corporation recognized pension expense of $76,248.

Continued

Note J--Defined Benefit Pension Plan--Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2017, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,398	
Net difference between projected and actual earnings on plan investments	116,232	
Changes of assumptions	65,497	
Change in proportionate share of contributions		$ 9,316
	187,127	9,316
Contributions subsequent to the measurement date	137,941	
Total	$ 325,068	$ 9,316

The amount shown for "Contributions subsequent to the measurement date", will be recognized as a reduction (increase) to net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense as follows:

Year Ended June 30:	
2018	$ 64,529
2019	41,524
2020	40,315
2021	31,443
	$ 177,811

In the table shown above, positive amounts will increase pension expense.

Payable to the Pension Plan

Per Metro Government, at June 30, 2017 there were no outstanding contributions to the pension plan.

Required Supplemental Information

General Fund Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual

Waterfront Development Corporation

Year Ended June 30, 2017

	Budgeted Amounts	Actual Amounts	Variance with Budget
Revenues			
Rental and event income	$ 1,442,000	$ 1,111,239	$ (330,761)
Expenditures			
General government	2,450,000	2,190,501	259,499
Expenditures in Excess of Revenues	(1,008,000)	(1,079,262)	(71,262)
Other Financing Sources			
Operating transfers from:			
Metro Government	987,000	1,197,000	210,000
Commonwealth of Kentucky	0	0	0
Other revenues	18,000	22,437	4,437
Contributions	3,000	35,023	32,023
Total Other Financing Sources	1,008,000	1,254,460	246,460
Net Change in Fund Balances	$ -	$ 175,198	$ 175,198

See Independent Auditors' Report

Schedule of Proportionate Share of the Net Pension Liability - CERS Pension

Waterfront Development Corporation

Last Three Fiscal Years Ended June 30

	2017	2016	2015
Corporations' proportion of the net pension liability	$ 1,238,750	$ 1,086,734	$ 854,942
Corporation's proportionate share of the net pension liability - Nonhazardous	0.025%	0.025%	0.026%
Covered payroll	$ 1,075,393	$ 954,152	$ 994,261
Corporation's share of the net pension liability as a percentage of its covered payroll	115.19%	113.90%	85.99%
Total Plan fiduciary net position as a percentage of the total pension liability	81.45%	68.49%	51.61%

Note 1--This schedule is presented to illustrate the requirement to show information for 10-years. However, until a full 10-year trend is compiled, the Corporation is presenting information for those years for which information is available.

Note 2--The amounts presented for each fiscal year were determined as of the year-end of that occurred one year prior.

See Independent Auditors' Report

Schedule of Contributions - CERS Pension

Waterfront Development Corporation

Last Three Fiscal Years ended June 30

	2017	2016	2015
Contractually required contribution	$ 137,941	$ 119,368	$ 116,981
Contributions in relation to the contractually required contribution	(137,941)	(119,368)	(116,981)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Covered payroll	$ 1,075,393	$ 954,152	$ 994,261
Contributions as a percentage of covered payroll	12.83%	12.51%	11.77%

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

See Independent Auditors' Report

Other Supplemental Information

Agency Funds
Statements of Changes in Net Position

Waterfront Development Corporation

Year Ended June 30, 2017

Belvedere Fund

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Assets				
Cash	$ 118,830	$ 40,852	$ 35,216	$ 124,466
Liabilities				
Damage deposit liability	$ 23,500	$ 17,262	$ 32,562	$ 8,200
Other	8,842		2,654	6,188
Held for the Belvedere	86,488	23,590		110,078
	$ 118,830	$ 40,852	$ 35,216	$ 124,466

Belle of Louisville Fund

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Assets				
Due from Waterfront Development Corporation	$ 329,785	$ 420,215	$ 750,000	$ 0
	$ 329,785	$ 420,215	$ 750,000	$ 0
Liabilities				
Held for the Belle of Louisville	$ 329,785	$ 420,215	$ 750,000	$ 0
	$ 329,785	$ 420,215	$ 750,000	$ 0

See Independent Auditors' Report

Independent Auditors' 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*

Strothman and Company
Certified Public Accountants and Advisors
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325 West Main Street
Louisville, KY 40202
502 585 1600

Strothman+Co

Independent Auditors' 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*

To the Board of Directors
Waterfront Development Corporation
Louisville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, and each major fund of the Waterfront Development Corporation (the "Corporation"), a component unit of Louisville/Jefferson County Metro Government ("Metro Government"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation'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 Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

STROTHMAN AND COMPANY

Louisville, Kentucky
October 10, 2017