

Financial Statements

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

June 30, 2016

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

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## **Independent Auditor's Report**

The Board of Commissioners  
Louisville and Jefferson County Visitors and  
Convention Commission  
Louisville, Kentucky

### **Report on the Financial Statement**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and each major fund of the Louisville and Jefferson County Visitors and Convention Commission ("the Commission") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Commission's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express 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 of material misstatement.

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

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

## **Independent Auditor's Report (Continued)**

### **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 Commission as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof 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 on pages 3 through 8 and budgetary comparison information on page 34 and GASB 68 schedules on page 35 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 31, 2016 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Commission's internal control over financial reporting and compliance.



Louisville, Kentucky  
October 31, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This MD&A is provided as a supplement to the accompanying financial statements and footnotes to help provide an understanding of the financial position, changes in financial position, and results of operations of the Louisville and Jefferson County Visitors and Convention Commission (the "Commission"), doing business as the Louisville Convention and Visitors Bureau. MD&A should be read in conjunction with the accompanying financial statements and footnotes.

The Commission was established pursuant to KRS 91A.350. The mission of the Commission is to enhance Greater Louisville's economy through tourism - to position and sell the community worldwide, in partnership with the public and private sector, as a premier destination for conventions, trade shows, corporate meetings, group tours and individual leisure travel. In pursuit of its mission, the Commission generates increased visitor spending, local tax receipts and job development.

### **FINANCIAL HIGHLIGHTS**

- Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by approximately \$9.9 million at June 30, 2016.
- Total net position increased by \$9.1 million for the fiscal year ending June 30, 2016.
- At June 30, 2016, the Commission's governmental funds reported an ending fund balance of \$22.1 million. This was an increase of approximately \$9.2 million from June 30, 2015.
- At June 30, 2016, unassigned general fund balance was \$12.9 million, or approximately 77% of total general fund expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This overview and analysis is intended to serve as an introduction to the Commission's basic financial statements, which include two components: (1) the financial statements and (2) notes to the financial statements. This report also contains other supplementary information, which is a budgetary comparison schedule and net pension obligation required supplementary information. These components are described below.

The financial statements provide both short-term and long-term information about the Commission's financial position and consist of (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The Commission's government-wide financial statements are prepared on an accrual basis. The fund financial statements are prepared on a modified accrual basis, in accordance with generally accepted accounting principles for governmental units.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position (page 9) presents the Commission's assets and liabilities, with the difference between the two reported as "Total Net Position." Over time, increases or decreases in the Commission's net position serve as an indicator of whether the financial position of the Commission is improving or deteriorating. The Statement of Activities (page 10) reports information on all Commission revenues and expenses in a manner similar to that used by most private-sector companies and presents information regarding how net position changed during the fiscal year. All changes in net position are reported when the underlying event occurs, regardless of the timing of the related cash flow.

The Greater Louisville Sports Commission (the "GLSC") is included as a discretely presented component unit of the Commission as it is dependent upon the Commission for the majority of its funding. In the fiscal year ended June 30, 2016, the Commission provided \$450,000 of operating funds to the GLSC without which the GLSC would have been unable to continue operations. It is the Commission's intention to continue to fund GLSC in future years. However, because the GLSC is a separate organization with a separate board that is not controlled by the Commission, the GLSC financial information has been intentionally omitted from this discussion.

## **FUND FINANCIAL STATEMENTS**

The Balance Sheet - Governmental Funds (page 11) consists of two fund types, the General Fund and the Debt Service Fund. The General Fund is used to record the general operations of the Commission and the Debt Service Fund is used to account for the accumulation of resources for payment of general long term debt principal and interest.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position (page 12) provides a summary and explanation of differences between the fund financial statements and the government-wide financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (page 13) reports actual operations of both the General and Debt Service funds.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities (page 14) provides a summary and explanation of differences between the fund financial statements and the government-wide financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements may be found immediately following the financial statements and preceding the supplementary information, on pages 15 through 33.

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information. Required supplementary information includes a budgetary to actual comparison schedule and certain net pension obligation information.

## FINANCIAL ANALYSIS OF THE COMMISSION

Net position serves as a useful indicator of financial condition over time. The Commission's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9.9 million at June 30, 2016 compared to \$0.8 million at June 30, 2015. The net position was impacted by the Commission's dedicated tax revenue bonds, which were issued in prior years to fund the construction and expansion of the Kentucky International Convention Center ("KICC"). KICC is owned by the Commonwealth of Kentucky and therefore not recorded as an asset by the Commission. The net position was impacted by the net bonds and note payable being reflected as a liability with no recognition of a corresponding asset. Net bonds payable was \$7.2 million at June 30, 2016. The condensed information below was derived from the Commission's Statement of Net Position at June 30, 2016 and June 30, 2015.

Louisville and Jefferson County Visitors and Convention Commission  
Statement of Net Position  
June 30

	2016	2015	Variance	% Change
<b>Assets</b>				
Other assets, net	\$ 30,993,732	\$ 22,102,640	\$ 8,891,092	40.2%
Capital assets, net	375,151	454,943	(79,792)	-17.5%
<b>Total Assets</b>	31,368,883	22,557,583	8,811,300	39.1%
Deferred Outflows of Resources	3,435,874	2,708,476	727,398	26.9%
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 34,804,757	\$ 25,266,059	\$ 9,538,698	37.8%
<b>Liabilities</b>				
Long-term liabilities, net	\$ 15,322,725	\$ 13,429,041	\$ 1,893,684	14.1%
Other liabilities, net	8,383,358	9,187,483	(804,125)	-8.8%
<b>Total Liabilities</b>	23,706,083	22,616,524	1,089,559	4.8%
Deferred Inflows of Resources	1,198,346	1,860,388	(662,042)	-35.6%
<b>Total Liabilities and Deferred Inflows of Resources</b>	\$ 24,904,429	\$ 24,476,912	\$ 427,517	1.7%
<b>Net Position</b>				
Invested in capital assets, net of related debt	\$ 375,151	\$ 452,510	\$ (77,359)	-17.1%
Restricted for debt service	8,358,437	996,023	7,362,414	739.2%
Unrestricted	1,166,740	(659,386)	1,826,126	-276.9%
<b>Total Net Position</b>	\$ 9,900,328	\$ 789,147	\$ 9,111,181	1154.6%

## FINANCIAL ANALYSIS OF THE COMMISSION - CONTINUED

Other assets increased by 40.2% from the prior fiscal year. Unrestricted cash and cash equivalents increased \$1.4 million due primarily to excess general fund revenues. Restricted cash and cash equivalents increased by \$6.5 million due to dedicated transient room tax revenues that exceeded debt service requirements as well as continued accumulation of the special 1.0% transient room tax for financing the renovation and expansion of KICC. Amounts due from related parties increased \$0.5 million as a result of the Commission providing an interest-free loan to the GLSC to support a capital improvement project. Deferred outflows of resources increased by 26.9% from the prior fiscal year primarily due to higher deferred pension outflows from an increase in the net pension liability.

Long-term liabilities increased by 14.1% from the prior year. Nearly all of the increase resulted from changes in the net pension liability, which rose by approximately \$1.9 million. Other liabilities decreased by 8.8% from the prior fiscal year. The bond anticipation note was repaid in full, which led to a decrease of \$4.5 million. Partially offsetting this decrease was a \$3.9 million increase in amounts due to other governmental units, which represents continued accumulation of the special 1.0% transient room tax for financing the renovation and expansion of KICC. Deferred inflows of resources decreased by 35.6% from the prior year primarily due to lower deferred pension inflows.

Net position restricted for debt service increased by approximately \$7.4 million from the prior fiscal year. This improvement resulted from repayment of the bond anticipation note coupled with an increase in cash and cash equivalents restricted for debt service.

A summary of the Commission's changes in net position is show below.

### Louisville and Jefferson County Visitors and Convention Commission Changes in Net Position For the year Ended June 30

	2016	2015	Variance	% Change
<b>Expenses</b>				
Operating	\$17,084,253	\$15,363,603	\$1,720,650	11.2%
Interest	228,973	336,803	(107,830)	-32.0%
Other	527,825	555,466	(27,641)	-5.0%
<b>Total Expenses</b>	\$17,841,051	\$16,255,872	\$1,585,179	9.8%
<b>General Revenues</b>				
Transient room tax	\$25,431,290	\$22,159,167	\$3,272,123	14.8%
Matching funds	577,922	578,503	(581)	-0.1%
Membership dues	277,515	286,658	(9,143)	-3.2%
Advertising	244,309	348,728	(104,419)	-29.9%
Investment income	34,081	18,480	15,601	84.4%
Other income	387,115	416,096	(28,981)	-7.0%
<b>Total General Revenues</b>	\$26,952,232	\$23,807,632	\$3,144,600	13.2%
<b>Changes in Net Position</b>	\$ 9,111,181	\$ 7,551,760	\$1,559,421	20.6%



## **FINANCIAL ANALYSIS OF THE COMMISSION - CONTINUED**

The Commission's change in net position was \$9.1 million for the year ended June 30, 2016 compared to \$7.6 million for the year ended June 30, 2015. Transient room tax increased by \$3.3 million, or 14.8%, primarily as a result of improvements in average daily rate coupled with additional hotel room inventory.

Operating expenses increased \$1.7 million, or 11.2%, as investments were made in several functional areas to generate additional return on investment through these core activities. These investments included an expanded regional and national presence at key industry tradeshow, additional sales efforts into new markets, a new branding platform including a revamped website, and enhanced advertising in the convention and leisure segments.

## **BUDGETARY CONTROLS**

The Commission adopts a budget, which is approved by its Board of Commissioners and Louisville/Jefferson County Metro Government prior to the start of each new fiscal year. Budgets are a measure of the Commission's financial performance and accountability and are compared with actual revenues and expenses by the Board of Commissioners on a bi-monthly basis.

The Commission reviews unbudgeted expenditures that may arise due to unforeseen opportunities and that may also result in significant variations from the original budget amounts. The budgetary comparison schedule presented in the required supplementary information section of this report highlights the original and final budgets as compared to the actual revenues and expenditures. Budget exceptions or reallocations for salaries, sponsorships and events, professional fees, and research expenditures totaling \$0.4 million were approved by the Commission during the year.

Revenues exceeded budget by \$1.6 million while expenditures were below budget by \$1.0 million. The Commission had certain revenues whose actual results varied somewhat from budget amounts. Most notably, transient room tax exceeded budget by approximately \$1.8 million as a result of improvements in average daily rate coupled with additional hotel room inventory.

## **ECONOMIC CONDITION AND OUTLOOK**

Following the fiscal year-end date of June 30, 2016, the Commission fully redeemed all outstanding Series 2004B Bonds totaling \$7,125,000. The Commission also terminated the interest rate swap agreement covering \$7,000,000 of the Series 2004B Bonds. In August 2016, the Commission issued Dedicated Tax Revenue Bonds with a par amount of \$148,765,000 to support the renovation and expansion of KICC. The Series 2016 Bonds are a special revenue obligation of the Commission secured solely by a pledge to and security interest in, (i) the 2% Dedicated Tax, (ii) the Additional 1% Dedicated Tax, and (iii) one-half of the receipts from the 3% Operations Tax, the latter of which is to be used only if the 2% Dedicated Tax and the Additional 1% Dedicated Tax are not sufficient to meet the required debt service. The Series 2016 Bonds have an approximate effective interest cost of 3.2% and a last maturity on June 1, 2046. It should be noted that KICC closed in August 2016 for renovation and expansion, which is expected to be completed approximately two years from the month of closure.

The Commission prepared a budget for the fiscal year ending June 30, 2017 based on current and forecasted economic conditions, which included consideration of the KICC closure. The closure of KICC could have an effect on the Commission's budgeted financial performance. Management will actively monitor the Commission's financial performance and will adjust to changes in the economic landscape as necessary.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the finances of the Commission to interested persons. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Chief Financial Officer  
Louisville Convention & Visitors Bureau  
One Riverfront Plaza  
401 W. Main Street - Suite 2300  
Louisville, KY 40202

The GLSC prepares separately issued annual financial statements. Requests for a copy of the GLSC audit report or other questions concerning the GLSC should be addressed to:

Executive Director  
Greater Louisville Sports Commission  
One Riverfront Plaza  
401 W. Main Street - Suite 2200  
Louisville, KY 40202

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

STATEMENT OF NET POSITION

June 30, 2016

	Louisville and Jefferson County Visitors and Convention Commission	<u>Component Unit Greater Louisville Sports Commission, Inc.</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,856,193	\$ 98,506
Cash and cash equivalents restricted	12,626,816	676,332
Investments	1,283,018	-
Due from other governmental units	6,988,231	-
Due from related parties	500,000	-
Other receivables, net	208,131	316,759
Inventory	144,877	-
Prepaid expenses	386,466	20,013
Capital assets, net of depreciation	375,151	377,119
<b>Total Assets</b>	<u>31,368,883</u>	<u>1,488,729</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow - pension	1,506,593	-
Deferred amount on refunding	1,929,281	-
<b>Total Assets and Deferred Outflow of Resources</b>	<u>34,804,757</u>	<u>1,488,729</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	1,339,583	292,231
Deferred revenue	924	97,838
Interest payable	2,169	-
Due to other governmental units	7,040,682	500,000
Compensated absences	209,160	-
Net pension liability	7,864,668	-
Bonds payable, net	7,248,897	-
<b>Total Liabilities</b>	<u>23,706,083</u>	<u>890,069</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow - pension	59,173	-
Interest rate swap liability	1,139,173	-
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>24,904,429</u>	<u>890,069</u>
<b>NET POSITION</b>		
Net investment in capital assets	375,151	-
Restricted for debt service	8,358,437	-
Restricted by donor	-	435,000
Unrestricted	1,166,740	163,660
<b>Total Net Position</b>	<u>\$ 9,900,328</u>	<u>\$ 598,660</u>

See accompanying independent auditor's report  
and notes to financial statements.

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

	Louisville and Jefferson County Visitors and Convention Commission	<u>Component Unit Greater Louisville Sports Commission, Inc.</u>
<b>EXPENSES</b>		
Operating	\$ 17,084,253	\$ 1,825,497
Interest	228,973	-
Depreciation and amortization	134,707	6,574
Loss on interest rate swap	245,053	-
Other bond fees	148,065	-
	<hr/>	<hr/>
<b>Total Expenses</b>	<b>17,841,051</b>	<b>1,832,071</b>
	<hr/>	<hr/>
<b>GENERAL REVENUES</b>		
Transient room tax	25,431,290	-
Membership dues	277,515	9,500
Advertising	244,309	-
Merchandise, net	113,329	-
Services and fees	228,997	-
Matching funds	577,922	20,000
Investment income	34,081	-
Agency funding	-	450,000
Program service revenue	-	1,797,019
Other income	44,789	-
	<hr/>	<hr/>
<b>Total General Revenues</b>	<b>26,952,232</b>	<b>2,276,519</b>
	<hr/>	<hr/>
Change In Net Position	9,111,181	444,448
Net Position, Beginning of Year	789,147	154,212
	<hr/>	<hr/>
<b>Net Position, End of Year</b>	<b>\$ 9,900,328</b>	<b>\$ 598,660</b>
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See accompanying independent auditor's report  
and notes to financial statements.

**FUND FINANCIAL STATEMENTS**

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,856,193	\$ -	\$ 8,856,193
Cash and cash equivalents restricted	6,108,915	6,517,901	12,626,816
Investments	1,283,018	-	1,283,018
Due from other governmental units	5,124,704	1,863,527	6,988,231
Other receivables	208,131	-	208,131
Inventory	144,877	-	144,877
Prepaid expenses	386,466	-	386,466
<b>Total Assets</b>	<u>\$ 22,112,304</u>	<u>\$ 8,381,428</u>	<u>\$ 30,493,732</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 1,316,592	\$ 22,991	\$ 1,339,583
Deferred revenue	924	-	924
Due to other governmental units	7,040,682	-	7,040,682
<b>Total Liabilities</b>	<u>8,358,198</u>	<u>22,991</u>	<u>8,381,189</u>
<b>FUND BALANCE</b>			
Nonspendable:			
Inventory	144,877	-	144,877
Prepaid expenses	386,466	-	386,466
Restricted for:			
Debt service	-	8,358,437	8,358,437
Committed	300,000	-	300,000
Unassigned	12,922,763	-	12,922,763
<b>Total Fund Balance</b>	<u>13,754,106</u>	<u>8,358,437</u>	<u>22,112,543</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 22,112,304</u>	<u>\$ 8,381,428</u>	<u>\$ 30,493,732</u>

See accompanying independent auditor's report  
and notes to financial statements.

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2016

Total fund balance for governmental funds \$ 22,112,543

Total net assets reported for governmental activities in the statement  
of net assets is different because:

Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund. 375,151

Long-term asset and liabilities, and deferred inflows and outflows, are not due in the current period and, therefore, not reported in governmental funds.

Due from related parties	\$	500,000	
Bonds payable, net		(7,248,897)	
Net pension liability		(7,864,668)	
Deferred amount on refunding		1,929,281	
Deferred outflow - pension (Note K)		1,506,593	
Interest payable		(2,169)	
Interest rate swap liability		(1,139,173)	
Deferred inflow - pension (Note K)		(59,173)	
Compensated absences		(209,160)	
		(12,587,366)	(12,587,366)

**Total Net Position of Governmental Activities** **\$ 9,900,328**

See accompanying independent auditor's report  
and notes to financial statements.



**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND**

**CONVENTION COMMISSION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS**

Year ended June 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>			
Transient room tax	\$ 17,599,245	\$ 7,832,045	\$ 25,431,290
Membership dues	277,515	-	277,515
Advertising	244,309	-	244,309
Merchandise, net	113,329	-	113,329
Services and fees	228,997	-	228,997
Matching funds	577,922	-	577,922
Investment income	31,042	3,039	34,081
Other income	44,789	-	44,789
<b>Total Revenues</b>	<b>19,117,148</b>	<b>7,835,084</b>	<b>26,952,232</b>
<b>EXPENDITURES</b>			
Rent	428,456	-	428,456
Parking	66,321	-	66,321
Maintenance	40,580	-	40,580
Utilities	5,674	-	5,674
Telephone	77,294	-	77,294
Supplies	95,971	-	95,971
Postage	85,484	-	85,484
Data processing	67,112	-	67,112
Payroll, full-time	4,102,234	-	4,102,234
Payroll, part-time	341,856	-	341,856
Payroll taxes	342,096	-	342,096
Commissions and incentive pay	646,071	-	646,071
Pension plan	811,782	-	811,782
Employee relations	135,507	-	135,507
Employee benefits	349,628	-	349,628
Professional fees	123,027	-	123,027
Insurance	49,428	-	49,428
Dues and subscriptions	82,979	-	82,979
Printing	492,033	-	492,033
Advertising	1,563,337	-	1,563,337
Promotional items	526,399	-	526,399
Photography and video	86,684	-	86,684
Website marketing	581,516	-	581,516
Mass marketing	424,186	-	424,186
Client events and site visits	221,625	-	221,625
Travel and trade shows	998,067	-	998,067
Entertainment	163,703	-	163,703
Sponsorships and events	3,445,152	-	3,445,152
Capital expenditures	57,348	-	57,348
Research	380,471	-	380,471
Loss on interest rate swap	-	295,268	295,268
Interest expense	-	29,337	29,337
Other bond fees	-	148,065	148,065
<b>Total Expenditures</b>	<b>16,792,021</b>	<b>472,670</b>	<b>17,264,691</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,325,127</b>	<b>7,362,414</b>	<b>9,687,541</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan to related party	(500,000)	-	(500,000)
<b>Total Other Financing Sources and Uses</b>	<b>(500,000)</b>	<b>-</b>	<b>(500,000)</b>
<b>Net Change in Fund Balances</b>	<b>1,825,127</b>	<b>7,362,414</b>	<b>9,187,541</b>
<b>Fund Balance, Beginning of Year</b>	<b>11,928,979</b>	<b>996,023</b>	<b>12,925,002</b>
<b>Fund Balance, End of Year</b>	<b>\$ 13,754,106</b>	<b>\$ 8,358,437</b>	<b>\$ 22,112,543</b>

See accompanying independent auditor's report and notes to financial statements.

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Net change in fund balances - total governmental funds \$ 9,187,541

The change in net assets reported for governmental activities in the  
statement of activities is different because:

Governmental funds financial statements report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$134,707) exceeded capital outlays (\$57,348) in the current period. (77,359)

Governmental funds financial statements report the loan to related party as an other financing use. However, the loan to related party is reported as an asset in the Statement of Net Position and is not reported in the Statement of Activities. 500,000

Deferred amount on refunding is reported as a deferred outflow on the Statement of Net Position and amortized over the terms of the defeased bonds. It is not reflected on the fund financial statements. Deferred amount on refunding was amortized and increased interest expense by \$204,879. (204,879)

Pension expense related to long-term Net Pension Obligation that is not included in the Governmental Funds. (311,564)

Various expenses in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (38,016)	
Change in interest payable	5,243	
Change in interest rate swap liability	50,215	17,442

**Change in Net Position of Governmental Activities \$ 9,111,181**

See accompanying independent auditor's report  
and notes to financial statements.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity: In 1968, the Commonwealth of Kentucky's General Assembly enacted legislation which authorized the establishment of tourist and convention commissions. This legislation is now codified at KRS 91A.350 et seq. The Louisville and Jefferson County Visitors and Convention Commission (the "Commission"), doing business as the Louisville Convention and Visitors Bureau, was established in 1968 pursuant to this legislation and operates to enhance Greater Louisville's economy through tourism - to position and sell the community worldwide, in partnership with the public and private sector, as a premier destination for conventions, trade shows, corporate meetings, group tours and individual leisure travel. In pursuit of its mission, the Commission generates increased visitor spending, local tax receipts and job development.

As required by generally accepted accounting principles, these financial statements present the Commission (the primary government) and its component units. The component units, as discussed in Notes S and T, are included in the Commission's reporting entity because of the significance of their operational and financial relationship with the Commission.

The Commission does not own the Kentucky International Convention Center ("KICC"), although it is authorized to issue bonds and pledge tax revenue used to finance its construction and renovation. As a result, the net book value of KICC is not reflected in these financial statements.

Government-Wide Financial Statements: In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the Commission has presented a Statement of Net Position and Statement of Activities for the Commission as a whole. These statements include the primary government, its blended component unit (Note T), and its discretely presented component unit (Note S). Government-wide accounting is designed to provide a more comprehensive view of the Commission's operations and financial position as a single economic entity.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental-type activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. The Commission has no business-type activities.

Policies specific to the government-wide statements are as follows:

- **Capitalizing Assets** - Tangible assets greater than \$1,000 that are used in operations and have an initial useful life that extends beyond one year are capitalized. Capital assets are recorded at their historical cost and are depreciated using the straight-line method of depreciation over their estimated useful lives. They are reported net of accumulated depreciation on the Statement of Net Position.

Fund Financial Statements: The Commission uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A Fund is a separate entity with a self-balancing set of accounts. Funds of the Commission are classified as governmental. This category, in turn, is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

**Governmental Funds** - Governmental funds account for all or most of the Commission's general activities, including the collection of legally restricted monies, administrative expenses, and the acquisition or construction of capital assets. Governmental funds include:

General Fund - The general operating fund accounts for all financial resources, except those required to be accounted for in other funds.

Debt Service Fund - The debt service fund accounts for the resources accumulated and payments made for principal and interest on general long-term debt.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Measurement Focus and Basis of Accounting: The accounting and financial treatment applied to a fund is determined by the type of financial statement presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows in the statement of activities. In these financial statements, capital assets are reported and depreciated.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Revenues are recognized when they are both measurable and available. Revenues are considered measurable when the dollar amount is known or reasonably estimable. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when incurred, as under accrual accounting. Expenditures for capital assets are reported as current expenses, and such assets are not depreciated.

Budgetary Accounting: The budget information reflected in the financial statements is the annual budget adopted by the Commission in accordance with the provisions of Commonwealth of Kentucky law. The budget is prepared on a basis consistent with generally accepted accounting principles.

Management's Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash on-hand and highly liquid investments with an original maturity of three months or less.

Investments: Investments consist of mutual funds and are stated at fair market value.

Allowance for Doubtful Accounts: The Commission evaluates the collectability of receivables by considering a number of factors including historical loss rates, the age of the accounts receivable, changes in collection patterns, the status of ongoing disputes with third party payors, and general industry conditions. An allowance for doubtful accounts is recorded, if necessary, based on management's evaluation based on these criteria. Accounts receivable reflects the net realizable value of the receivables, and approximates fair value.

Inventory: Inventory is presented at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method.

Capital Assets: Capital assets owned by the Commission, including leaseholds improvements, furniture and fixtures, office equipment, trademarks and intangibles are reported in the governmental activities column in the government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred.

All capital assets are depreciated using the straight-line depreciation method over the following estimated useful lives:

Leasehold improvements	2 - 10 years
Furniture and fixtures	10 - 15 years
Office equipment	3 - 10 years
Trademarks	Indefinite
Intangibles	5 years

Derivative Financial Instruments: Generally accepted accounting principles require the Commission to recognize all derivative financial instruments on the Statement of Net Position at fair value with the changes in fair value reported in the Statement of Activities.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Pensions:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of Kentucky Retirement Systems. The liability was measured at June 30, 2015.

**Net Position/Fund Balances:** In the Statement of Net Position, the difference between the Commission's assets and liabilities is recorded as net position. The three components of net position are as follows:

**Unrestricted Net Position** - This category represents net assets not appropriated for expenditures or legally segregated for a specific future use.

**Invested in Capital Assets, Net of Related Debt** - This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowing attributable to the acquisition, construction, or improvement of capital assets.

**Restricted for Debt Service** - This category represents net assets that are restricted by external sources such as banks or by law are reported separately as restricted net assets. When assets are required to be retained in perpetuity, these non-expendable net assets are recorded separately from expendable net assets. The Commission's restricted net assets consist of cash equivalents held by a trustee for future debt service.

In the Balance Sheet - Governmental Funds, fund balances are segregated as follows:

**Nonspendable** - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted** - This classification includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**Committed** - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

**Assigned** - This classification includes amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

**Unassigned** - This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The highest level of decision-making authority is the Board of Commissioners, which is comprised of nine (9) commissioners who function as the board of directors. In order to establish (and modify or rescind) amounts of fund balance as committed, a formal vote by the Commission outlining the specific purposes for which the amounts can only be used is required.

The Board of Commissioners is authorized to assign amounts to a specific purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Commission considers restricted amounts to have been spent.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the Commission first considers committed amounts to have been spent followed by assigned and then unassigned.

**New Accounting Pronouncements:** In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This pronouncement provides guidance for determining a fair value measurement and for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 72 is effective for fiscal years beginning after June 15, 2015. The Commission adopted GASB Statement No. 72 for the year ended June 30, 2016. The adoption of this standard did not have an impact on the Commission's financial position, results of operations, or cash flows.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This pronouncement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this pronouncement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. GASB Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The impact of this statement on the financial statements has not yet been determined.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement reduces the hierarchy of generally accepted accounting principles (GAAP) to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 is effective for fiscal years beginning after June 15, 2015. The Commission adopted GASB Statement No. 76 for the year ended June 30, 2016. The adoption of this standard did not have an impact on the Commission's financial position, results of operations, or cash flows.

In March 2016, GASB Issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This pronouncement 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 an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No 82 is effective for fiscal years beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The impact of this statement on the financial statements has not yet been determined.

Subsequent Events: Subsequent events for the Commission have been considered through the date of the Independent Auditor's Report, which represents the date the financial statements were available to be issued.

On July 1, 2016, the Commission optionally redeemed a portion of the outstanding Series 2004B Bonds totaling \$1,625,000. On October 1, 2016, the Commission fully redeemed the remaining outstanding Series 2004B Bonds totaling \$5,500,000. As all Series 2004A and Series 2004B Bonds have been fully redeemed, the unamortized balance on the deferred amount on refunding related to the Series 2004A and Series 2004B Bonds was also eliminated on October 1, 2016. The Series 2004A and Series 2004BB Bonds are further described in Note I.

On July 1, 2016, the Commission terminated the interest rate swap agreement covering \$7,000,000 of the Series 2004B Bonds. The termination payment was \$1,139,173, which represents the fair market value of the interest rate swap as of June 30, 2016. The interest rate swap agreement is further described in Note Q.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

On August 31, 2016, the Commission issued Dedicated Tax Revenue Bonds with a par amount of \$148,765,000 to support the renovation and expansion of the Kentucky International Convention Center. The Series 2016 Bonds are a special revenue obligation of the Commission secured solely by a pledge to and security interest in, (i) on a parity with the Series 2004B Bonds, the 2% Dedicated Tax, (ii) the Additional 1% Dedicated Tax, and (iii) one-half of the receipts from the 3% Operations Tax. The Series 2016 Bonds are fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Series 2016 Bonds have an approximate effective interest cost of 3.2% and a last maturity on June 1, 2046. Interest is payable on June 1, 2017 and semiannually thereafter on June 1 and December 1 of each year. The Series 2016 Bonds maturing on or after June 1, 2027, are subject to redemption prior to maturity at the option of the Commission, from time to time in whole or in part on any date, on or after June 1, 2026, at the redemption price of 100% of the principal amount of the Series 2016 Bonds to be redeemed plus accrued interest to the redemption date.

**NOTE B -- CASH AND CASH EQUIVALENTS**

At June 30, 2016, restricted cash equivalents in the amount of \$6,517,901 were held by financial institutions in accordance with bonded and other indebtedness trust agreements which do not require that the trustee provide collateral for the cash equivalents. These cash equivalents were held in money market funds that invest only in United States Treasury securities, which are backed by the full faith and credit of the United States government. These cash equivalents were held by the trustee for the benefit of the Commission and can be used only for debt service.

At June 30, 2016, restricted cash deposits in the amount of \$6,108,915 and unrestricted cash deposits in the amount of \$9,526,919 were held by financial institutions, of which \$3,259,561 was collectively insured by the Federal Deposit Insurance Corporation ("FDIC") and the remainder was collateralized by securities held by the pledging financial institution.

Custodial Credit Risk - For a deposit, custodial credit risk is the risk that the deposit may not be returned to the Commission in the event of a bank failure. Consistent with the Commission's deposit policy, all unrestricted cash deposits were covered by FDIC insurance or a properly executed collateral security agreement at June 30, 2016.

**NOTE C -- INVESTMENTS**

At June 30, 2016, the Commission's investment balances were as follows:

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Mutual Funds				
Federated U.S. Treasury Cash Reserves	Aaa-mf	AAAm	\$1,283,018	\$1,283,018

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The Commission's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from a change in interest rates.

Credit Risk - Credit risk is the risk of a loss of principal stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. KRS 66.480 of Commonwealth of Kentucky law limits the investment of public funds to obligations of the United States Government, obligations backed by the full faith and credit of the United States Government, obligations of any corporation or agency of the United States Government, certificates of deposits, commercial paper, bonds or securities issued by a state or local government, and shares of mutual funds. The Commission's written investment policy does not further limit its investment choices beyond those defined in KRS 66.480.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE C -- INVESTMENTS – CONTINUED**

Concentration Risk - Concentration risk is the risk of loss arising from lopsided exposure to a particular group of counterparties. The Commission places no limit on the amount it may invest in any one issuer or type of investment except that the collective amount invested at any one time in uncollateralized certificates of deposit, bankers' acceptances, commercial paper, and securities issued by a state or local government may not exceed 20% of the total amount of funds invested.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the Commission will not be able to recover the value of its investments held in the possession of an outside party. Investments are held for the benefit of the Commission by a registered broker/dealer that is a member of the Financial Industry Regulatory Authority and the Securities Investors Protection Corporation.

**NOTE D -- FAIR VALUE MEASUREMENTS**

The fair value provisions of the Accounting Standards Codification ("ASC") define fair value as the price that would be received by the entity for an asset or paid by the entity to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the entity's principal or most advantageous market for the asset or liability. The ASC also established a fair value hierarchy which requires the entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and gives the lowest priority to unobservable inputs (level 3 measurements). The following provides a description of the three levels of inputs that may be used to measure fair value under generally accepted accounting principles, the types of entity investments that fall under each category, and the valuation methodologies used to measure these investments at fair value.

- Level 1--Quoted prices in active markets for identical assets or liabilities.
- Level 2--Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active, or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3--Unobservable inputs that are based on the Commission's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

Fair values of assets/liabilities measured on a recurring basis at June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments (See Note C)	\$1,283,018	\$ 1,283,018	\$ -	\$ -
Interest rate swap (See Note Q)	\$1,139,173	\$ -	\$ 1,139,173	\$ -

**NOTE E -- DUE FROM OTHER GOVERNMENTAL UNITS**

The amount due from other governmental units consists of transient room taxes due from the Louisville Metro Revenue Commission ("Revenue Commission").

**NOTE F -- ACCOUNTS RECEIVABLE**

Other receivables are stated at the amount the Commission expects to collect from balances outstanding at year-end. Accounts receivable reflects the net realizable value and approximate fair value of the receivables.



LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE G -- INVENTORY**

Inventory is presented at the lower of cost or market value. Cost is determined using the FIFO method. Inventory consists of merchandise and expendable advertising supplies such as convention brochures.

In the fund financial statements, inventory is recorded as an asset upon transfer of title and risk of loss. Recorded inventories are equally offset by a fund balance reserve since they do not constitute "available spendable resources", even though they are a component of fund equity.

**NOTE H -- CAPITAL ASSETS**

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Louisville and Jefferson County Visitors and Convention Commission:</b>				
Cost				
Leasehold improvements	\$ 1,064,365	\$ -	\$ -	\$ 1,064,365
Furniture and fixtures	445,899	11,453	-	457,352
Office equipment	768,779	40,289	(70,453)	738,615
Intangible assets	107,319	3,173	-	110,492
Total cost	<u>2,386,362</u>	<u>54,915</u>	<u>(70,453)</u>	<u>2,370,824</u>
Less Accumulated Depreciation				
Leasehold improvements	1,002,862	24,602	-	\$ 1,027,464
Furniture and fixtures	331,398	29,929	-	361,327
Office equipment	597,159	80,176	(70,453)	606,882
Intangible assets	-	-	-	-
Total accumulated depreciation	<u>1,931,419</u>	<u>134,707</u>	<u>(70,453)</u>	<u>1,995,673</u>
Net Book Value	<u>\$ 454,943</u>	<u>\$ (79,792)</u>	<u>\$ -</u>	<u>\$ 375,151</u>

	Beginning Balance	Additions	Disposals	Ending Balance
<b>The Greater Louisville Sports Commission:</b>				
Cost				
Equipment	\$ 17,505	\$ -	\$ -	\$ 17,505
Construction in progress - BMX	-	355,244	-	355,244
Intangible assets	20,000	-	-	20,000
Total cost	<u>37,505</u>	<u>355,244</u>	<u>-</u>	<u>392,749</u>
Less Accumulated Depreciation				
Equipment	5,056	2,574	-	7,630
Intangible assets	4,000	4,000	-	8,000
	<u>9,056</u>	<u>6,574</u>	<u>-</u>	<u>15,630</u>
Net Book Value	<u>\$ 28,449</u>	<u>\$ 348,670</u>	<u>\$ -</u>	<u>\$ 377,119</u>

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE I -- DEDICATED TAX REVENUE BONDS PAYABLE AND DEFERRED REFUNDING**

The Commission issued Dedicated Tax Revenue Bonds consisting of its Series A, B, BB, BBB, and C Bonds (collectively hereinafter referred to as the "Prior Bonds") to fund the 1995 expansion of KICC.

2004 Defeasance and Escrow Restructuring: In January 2004, the Commission issued Dedicated Tax Revenue Refunding Bonds Series 2004A and 2004B (collectively, the "Series 2004 Bonds") in order to achieve substantial debt service savings. As it relates to the Commission's Prior Bonds, an in-substance defeasance occurred on January 28, 2004 whereby \$34,482,578 of bond proceeds was irrevocably deposited into the Escrow Account of the escrow agent and trustee. Amounts deposited were to be used solely for satisfying future scheduled payments of both interest and principal until the Prior Bonds were retired. The escrow agent was legally required under the escrow agreement to make future principal and interest payments until the Prior Bonds were fully retired. The Series BBB and C Bonds were retired on March 1, 2004 and the Series A Bonds were retired on July 1, 2005. The Series BB and B Bonds were retired on January 1, 2010 and July 1, 2010, respectively. The Series 2004A Bonds were fully redeemed on November 1, 2014.

The advanced refunding and in-substance defeasance that occurred on January 28, 2004 resulted in a difference between the reacquisition price and the net carrying amount of the Commission's Prior Bonds. This difference is reported as deferred amount on refunding with the unamortized balance reflected as a reduction to net bonds payable. The deferred amount on refunding is being amortized using the straight-line method over the remaining term of the defeased bonds, which runs through December 1, 2022. The unamortized balance at June 30, 2016 was \$1,929,281.

Dedicated Tax Revenue Refunding Bonds Series 2004B: The Series 2004B Bonds (the "Series 2004B Bonds"), dated January 27, 2004, are fully registered demand bonds without coupons in a minimum denomination of \$100,000 and integral multiples of \$5,000 in excess of such denomination. Bonds bear interest at a daily rate (0.37% annualized at June 30, 2016), as determined by the remarketing agent, with interest paid monthly. The Series 2004B Bonds are subject to optional redemption provisions at a price of 100% of the principal amount plus accrued interest.

The Commission entered into a Standby Bond Purchase Agreement (the "SBPA") with the remarketing agent on January 1, 2004 to enhance the liquidity of the Series 2004B Bonds. Under the SBPA, the remarketing agent will remarket the Series 2004B Bonds and purchase any Series 2004B Bonds that are unable to be remarketed. The SBPA had an expiration date of January 28, 2007. On December 22, 2006, the Commission entered into the First Amendment to the SBPA, which extended the expiration date of the SBPA to January 28, 2012. On June 30, 2011, the Commission entered into the Second Amendment to the SBPA, which extended the expiration date of the SBPA to January 28, 2015. On October 31, 2014, the Commission entered into the Third Amendment to the SBPA, which extended the expiration date of the SBPA to January 1, 2017.

The Series 2004B Bonds outstanding at June 30, 2016 consist of the following:

<u>Description</u>	<u>Due to be Redeemed Or Repaid During Year Ending June 30</u>	<u>Interest Rate</u>	<u>Outstanding Balance</u>
Term Bonds	2017 - 2023	Daily Variable Rate	\$ 7,125,000

In January 2004, the Commission entered into an interest rate swap agreement with a bank whereby the Commission will pay interest at a fixed rate and will receive interest at a variable rate on \$7,000,000 of the Series 2004B Bonds (see Note Q).

Senior Subordinated Bond Anticipation Note Series 2014: On September 29, 2014, the Commission signed a Note Purchase Agreement with a bank for a Senior Subordinated Bond Anticipation Note, Series 2014 (the "Series 2014 Note") to refund a portion of the outstanding balance of the Series 2004A Bonds. The Series 2014 Note is in the principal amount of \$6,335,000, bears interest at an annual rate of 0.96%, and matured on May 1, 2016. The Series 2014 Note is subject to prepayment prior to maturity at the option of the Commission on November 1, 2015 or any date thereafter, at a prepayment price equal to the principal amount thereof, plus accrued interest to the prepayment date. The Commission fully redeemed the Series 2014 Note on December 1, 2015.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE I -- DEDICATED TAX REVENUE BONDS PAYABLE AND DEFERRED REFUNDING - CONTINUED**

Debt service on all outstanding bonds at June 30, 2016 is as follows (due to redemption of the full outstanding balance in fiscal year 2017 all are presented as current – see Note A):

Payable During Year Ending June 30	Principal	Interest	Total
2017	\$ 7,125,000	\$ 8,788	\$ 7,133,788
<b>Total</b>	<b>\$ 7,125,000</b>	<b>\$ 8,788</b>	<b>\$ 7,133,788</b>

\* Annualized interest rate of 0.37% at June 30, 2016 used to calculate future interest payments on the Series 2004B Bonds.

Security and Guarantee: The Series 2004 Bonds are secured by a lien against the 2% Dedicated Tax levied by Louisville/Jefferson County Metro Government (“Metro Government”) for the exclusive purpose of repaying these outstanding debts. The 2% Dedicated Tax is to remain in effect until September 25, 2033 or until the date on which all of the Series 2004 Bonds are retired or no longer outstanding, whichever occurs first. The Series 2004 Bonds are also secured by a lien against 1% of the 3% Operations Tax levied annually by Metro Government. Both the 2% Dedicated Tax and the 3% Operations Tax are further described in Note O.

The Series 2004 Bonds are guaranteed by a municipal bond insurance policy and a debt service reserve insurance policy issued by a financial guaranty insurance company.

**NOTE J -- BOND ISSUANCE PREMIUM**

In connection with the issuance of the Series 2004 Bonds, the Commission recognized a bond issuance premium of \$939,007. This bond issuance premium is being amortized using the effective interest method over the term of the Series 2004B Bonds with the unamortized balance reflected as an increase to net bonds payable. The unamortized balance of the bond issuance premium at June 30, 2016 was \$123,897.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE K -- RETIREMENT PLAN**

**General Information**

*Plan description.* Employees of the Commission are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the Kentucky Retirement Systems. The Kentucky Retirement Systems was created by state statute under KRS 61.645. The Kentucky Retirement Systems Board of Trustees is responsible for the proper operation and administration of the Kentucky Retirement Systems. The Kentucky Retirement Systems issues a publically available financial report that can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

*Benefits provided.* KRS 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. Tier 1 members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. A description of benefits for members of other tiers can be obtained by contacting the Kentucky Retirement System at the address or telephone number outlined above.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered Structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

*Contributions.* Contributions for employees are established in the statutes governing the Kentucky Retirement Systems and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. Employees that entered the plan after September 1, 2008 are required to contribute 6% of their annual creditable compensation. Five percent (5%) of the contribution was deposited to the member's account while the 1% 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 1:420E). The Commission makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions for the Commission were \$811,782 based on a rate of 17.06% of covered payroll. By law, employer contributions are required to be paid. The Kentucky Retirement System may intercept the Commission'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 any unfunded liability.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE K -- RETIREMENT PLAN - CONTINUED**

Net Pension Liability

The Commission's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Payroll Growth	4.00%, including inflation
Investment rate of return	7.50% per annum, compounded annual for retirement and insurance benefits.

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. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE K -- RETIREMENT PLAN - CONTINUED**

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Combined Equity	5.40%	44.00%
Combined Fixed Income	1.50%	19.00%
Real Return (Diversified Inflation Strategies)	3.50%	10.00%
Real Estate	4.50%	5.00%
Absolute Return (Diversified Hedge Funds)	4.25%	10.00%
Private Equity	8.50%	10.00%
Cash	-0.25%	2.00%
		100.00%

The long-term expected rate of return on pension plan investments was established by the Kentucky Retirement Systems Board of Trustees as 7.50% based on a blending of the factors described above.

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 7.50%.
- 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.

*Discount rate.* The discount rate used to measure the total pension liability was 7.50%. 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 Commission will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the Kentucky Retirement Systems 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.

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of the Commission calculated using the discount rate of 7.50%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE K -- RETIREMENT PLAN – CONTINUED**

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Bureau's net pension liability	\$ 10,040,227	\$ 7,864,668	\$ 6,001,496

Pension Expense (Income) and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to Pensions

*Pension expense.* For the year ended June 30, 2016, the Commission recognized pension expense of \$889,232.

*Deferred outflows of resources and deferred inflows of resources.* For the year ended June 30, 2016, the Commission reported deferred outflows of resources of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Difference between expected and actual experience	\$ 65,358
Difference between projected and actual investment earns on plan investments	70,500
Change of assumptions	793,066
Contributions subsequent to the measurement date of June 30, 2015	<u>577,669</u>
Total	<u><u>\$ 1,506,593</u></u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction to net pension liability in the following measurement period.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE K -- RETIREMENT PLAN – CONTINUED**

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

**Deferred Inflows of Resources**

Original Deferral Year	Original Deferral Amount	2016	2017	2018	2019	2020
2014	\$ 671,000	\$ (167,750)	\$ (167,750)	\$ (167,750)	\$ (167,750)	\$ -
2015	(444,077)	-	111,019	111,019	111,019	111,019
	<u>\$ 226,923</u>	<u>\$ (167,750)</u>	<u>\$ (56,731)</u>	<u>\$ (56,731)</u>	<u>\$ (56,731)</u>	<u>\$ 111,019</u>
Amortization - 2016						<u>\$ 167,750</u>
Unamortized Amount 2016						<u>\$ 59,173</u>

**Deferred Outflows of Resources**

Original Deferral Original Deferral Year	Original Deferral Amount	2017	2018	2019	2020	Total
2015	<u>\$ 928,924</u>	<u>\$ 232,231</u>	<u>\$ 232,231</u>	<u>\$ 232,231</u>	<u>\$ 232,231</u>	<u>\$ 928,924</u>

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

Payable to the Pension Plan

At June 30, 2016, the Commission reported a payable of \$81,742 (included in accounts payable and accrued expenses amount on the Statement of Net Position and on the Balance Sheet - Governmental Funds) for the outstanding amount of contributions to the pension plan required at June 30, 2016.

GLSC

The GLSC adopted a simple Individual Retirement Account on January 1, 2004 for the benefit of its full-time employees. The GLSC matches contributions up to 3% of each participant's compensation. The GLSC matching contributions related to the Plan were \$7,608 for the year ended June 30, 2016.



LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE L -- LEASES**

The Commission is obligated under an operating lease for office space that expires in September 2023. The lease allows for cancellation in September 2018 with payment of the unamortized portion of any tenant improvements plus three months' rent. However, the Commission does not intend to cancel the lease and the full lease term is disclosed below. The Commission is obligated under an operating lease for retail space that expires in February 2017. Rental expense under continuing obligations was \$428,473 for the year ended June 30, 2016.

At June 30, 2016, obligations under operating leases with initial or remaining non-cancellable lease terms longer than one year were as follows:

Year Ending June 30	<u>Operating Leases</u>
2017	\$ 372,900
2018	317,100
2019	334,722
2020	340,596
2021	340,596
2022-2024	<u>766,341</u>
<b>Total</b>	<b><u>\$ 2,472,255</u></b>

Sublease income was \$14,331 for the year ended June 30, 2016. The total amount of minimum rentals to be received in the future under non-cancellable subleases was \$8,316 as of June 30, 2016.

The Commission is not obligated under any capital leases as of June 30, 2016.

**NOTE M -- VACATION AND PTO**

All full-time employees are eligible for paid vacation based on the number of years of service. Vacation days may be carried over to the succeeding fiscal year, up to a maximum of five (5) days. No payment can be made in lieu of vacation, except in the event of termination, resignation, or retirement. Accrued vacation was \$58,945 at June 30, 2016. Accrued vacation is reported in the statement of net position under accrued expenses.

All full-time employees are eligible for paid time off ("PTO") based on the number of months worked during the year. PTO is earned as service is performed and days may be accumulated and carried over year-to-year, up to a maximum of 60 days. PTO is not payable upon termination of employment with the only exception being an employee who retires from the Commission. The Commission will compensate a retiring employee any unused PTO time to a maximum of 60 days upon retirement from the Commission. Accrued PTO was \$209,160 at June 30, 2016. PTO is reported in the statement of net position under compensated absences.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE N -- DUE TO OTHER GOVERNMENTAL UNITS**

The amount due to other governmental units consists of monies collected and due from the Revenue Commission for the 1% Additional Dedicated Tax, which are payable to another governmental unit to support the renovation or expansion of the Kentucky International Convention Center.

**NOTE O -- TRANSIENT ROOM TAX**

Sections 91A.350 through 91A.394 (the "Tourism and Conventions Commission Act") of the Kentucky Revised Statutes provides that a tourist and convention commission established thereunder shall submit annually to the local government which established the commission a request for funds for the operation of the commission and that the local government shall provide funds for the operation of the commission by imposing a transient room tax at a rate (in the case of a consolidated local government) of not more than three percent (3%) of the rent on every occupancy of a suite, room, or rooms charged by all persons, companies, corporations, or other like or similar persons, groups, or organizations doing business as motor courts, motels, hotels, inn, or like or similar accommodations businesses (the "3% Operations Tax"). The Tourism and Conventions Commission Act further provides that, in addition to the 3% Operations Tax described above, a consolidated local government may impose a transient room tax at a rate of not more than 1.5% for the purpose of funding additional promotion of tourism and convention business (the "1.5% Operations Tax"). The primary source of the Commission's revenue is the 3% Operations Tax and the 1.5% Operations Tax. Monies collected from these transient room taxes support the operations of the Commission. A fee of 1.25% of tax collected is retained by the Revenue Commission for collection services. Net tax collected and interest are remitted on a monthly basis.

The Tourism and Conventions Commission Act further provides that a consolidated local government may levy an additional transient room tax at a rate of not more than 2% (the "2% Dedicated Tax") and that all amounts collected from such tax shall be applied toward the retirement of bonds issued under the Tourism and Conventions Commission Act to finance the expansion, construction, or operation of a governmental convention center useful to the promotion of tourism located in the central business district of the consolidated local government. In 1995, Louisville Metro levied the 2% Dedicated Tax on every occupancy of a suite, room, or rooms charged by all persons, companies, corporations, or other like or similar persons, groups, or organizations doing business as motor courts, motels, hotels, inns, or like or similar accommodations businesses in Jefferson County, Kentucky. Monies collected from the Dedicated Tax are applied toward the payment of the Commission's Series 2004 Bonds and Series 2014 Note, which are described in Note I. A fee of 1.25% of tax collected is retained by the Revenue Commission for collection services. Net tax collected and interest are remitted on a monthly basis. The 2% Dedicated Tax is to remain in effect until June 23, 2046 or until the date on which all of the outstanding bonds of the Commission secured by the 2% Dedicated Tax are retired or no longer outstanding, whichever occurs first.

The Tourism and Conventions Commission Act further provides that on or after August 1, 2014 a consolidated local government may impose a special transient room tax at a rate of not more than 1% (the "1% Additional Dedicated Tax") for the purpose of meeting the operating expenses of a convention center and financing the renovation or expansion of a convention center that is government-owned and located in the central business district of the consolidated local government, except that revenue derived from the 1% Additional Dedicated Tax shall not be used to meet the operating expenses of a convention center until any debt issued for financing such renovation or expansion is retired. In 2014, Louisville Metro levied the 1% Additional Dedicated Tax on every occupancy of a suite, room, or rooms charged by all persons, companies, corporations, or other like or similar persons, groups, or organizations doing business as motor courts, motels, hotels, inns, or like or similar accommodations businesses in Jefferson County, Kentucky. Monies collected from the 1% Additional Dedicated Tax must be used for the purposes of financing the renovation or expansion of the Kentucky International Convention Center and are reported in the governmental funds balance sheet and the statement of net position under restricted cash. A fee of 1.25% of tax collected is retained by the Revenue Commission for collection services. Net tax collected and interest are remitted on a monthly basis. Monies due from the Revenue Commission for the 1% Additional Dedicated Tax at year-end are reported in the governmental funds balance sheet and the statement of net position under due from other governmental units. Both the monies on-hand and the monies due from the Revenue Commission for the 1% Additional Dedicated Tax are collectively reported as a liability in the governmental funds balance sheet and the statement of net position under due to other governmental units (Note N). The 1% Additional Dedicated Tax is to remain in effect until June 23, 2046 or until the date on which all of the outstanding bonds of the Commission secured by the 2% Dedicated Tax are retired or no longer outstanding, whichever occurs first.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE P -- STATE MATCHING FUNDS**

The Commission is eligible to receive funding under KRS 142.400, which imposes a tax ("1% Statewide Transient Room Tax") at the rate of 1.0% of the rent (exclusive of any other local or state taxes paid by the person or entity renting the accommodations) for every occupancy of any suite, room, rooms, or cabins charged by all persons, companies, corporations, groups, or organizations doing business as motor courts, motels, hotels, inns, tourist camps, or similar accommodations businesses. Receipts from the 1% Statewide Transient Room Tax are deposited into the Tourism, Meeting and Convention Marketing Fund administered by the Tourism Cabinet, with the approval of the Governor's Office for Policy and Management, and used for the sole purpose of marketing and promoting tourism in the Commonwealth, including expenditures (except expenditures for capital construction projects) to market and promote events and venues related to meetings, conventions, trade shows, cultural activities, historical sites, recreation, entertainment, natural phenomena, areas of scenic beauty, craft marketing, and any other economic activity that brings tourists and visitors to the Commonwealth. The Tourism Cabinet distributes a portion of the 1% Statewide Transient Room Tax to tourism and convention commissions established under the Act, including the Commission, based on the amount of the commission's expenses each year for marketing and promoting tourism in the Commonwealth, subject to an annual maximum amount determined by the Tourism Cabinet. The revenues earned under the Act totaled \$577,922 for the year ended June 30, 2016.

**NOTE Q -- DERIVATIVE FINANCIAL INSTRUMENTS**

The Commission entered into an interest rate swap agreement with a bank on January 28, 2004 to reduce its exposure to adverse fluctuations in market interest rates on a portion of the Series 2004B Bonds. The notional amount of the swap agreement is \$7,000,000. The agreement requires the Commission to pay the bank interest calculated at a fixed rate of 4.34%. The bank is required to pay the Commission interest calculated using a variable rate based on the Bond Market Association Municipal Swap Index (0.37% annualized at June 30, 2016). Payments between the Commission and the bank are netted and a net settlement amount is paid monthly. The agreement contains an interest rate cap whereby the bank's interest rate risk exposure is limited, which precludes the use of hedge accounting. The agreement expires on December 1, 2020.

The fair value of the interest rate swap represented a deferred inflow of resources of \$1,139,173 at June 30, 2016. The Commission recorded a net loss on its interest rate swap of \$245,053 for the year ended June 30, 2016. The net loss on the interest rate swap includes losses of \$295,268 for the monthly swap settlement, which were partially offset by a gain from the change in fair market value for the year of \$50,215.

Credit risk is the risk that a counterparty will be unable to fulfill its obligation. The counterparty to the interest rate swap has a senior unsecured credit rating issued by S&P of A- and Moody's of A3. As the interest rate swap was in a liability position at June 30, 2016, the Commission was not exposed to any loss on the interest rate swap due to credit risk at year-end.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The Commission is exposed to interest rate risk through the interest rate swap. The fair value of the interest rate swap will generally decline with a decrease in interest rates and increase when interest rates rise. This change in valuation does not affect the Commission's cash flow.

The interest rate swap was terminated on July 1, 2016. See Note A for details.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE R -- CHANGES IN LONG-TERM LIABILITIES AND DEFERRED INFLOWS OF RESOURCES**

Long-term liability and deferred inflow of resources activity for the year ended June 30, 2016 was as follows:

	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016	Due within one year
Dedicated tax revenue bonds	\$ 7,125,000	\$ -	\$ -	\$ 7,125,000	\$ 7,125,000
Bond issuance premium	123,897	-	-	123,897	123,897
Total bonds payable	7,248,897	-	-	7,248,897	7,248,897
Interest rate swap liability	1,189,388	-	(50,215)	1,139,173	1,139,173
Interest payable	7,412	-	(5,243)	2,169	2,169
Lease payable	2,433	-	(2,433)	-	-
Compensated absences	171,144	38,016	-	209,160	-
Net pension liability	6,009,000	1,855,668	-	7,864,668	-
Deferred inflow - pension	671,000	(444,077)	(167,750)	59,173	56,731
	<u>\$ 15,299,274</u>	<u>\$ 1,449,607</u>	<u>\$ (225,641)</u>	<u>\$ 16,523,240</u>	<u>\$ 8,446,970</u>

**NOTE S -- DISCRETELY PRESENTED COMPONENT UNIT**

The Greater Louisville Sports Commission (the "GLSC") is a legally separate, tax-exempt 501(c)(3), component unit of the Commission. The GLSC acts primarily to foster national and international amateur sports competition, and for other charitable purposes to make the Greater Louisville area a hub of amateur sports and promote the general welfare and common good of amateur sports in the Greater Louisville area. Although it is legally separate from the Commission, the GLSC is fiscally dependent upon the Commission. This causes the relationship between the Commission and the GLSC to be that of related entities resulting in the need for inclusion as a discretely presented component unit in the financial statements of the Commission.

**NOTE T -- BLENDED COMPONENT UNIT**

The Louisville Tourism Foundation (the "Foundation") is a legally separate, tax-exempt 501(c)(3), component unit of the Commission. The Foundation acts primarily to promote tourism and to raise funds for such purpose. Although it is legally separate from the Commission, the Foundation is reported as a blended component unit of the Commission because the Foundation is governed by the same Board of Directors. The Foundation had \$9,561 of total assets and net position as of June 30, 2016. The Foundation recognized revenues of \$485 and expenses of \$0 during the year ended June 30, 2016. Additional information regarding this blended component unit may be obtained through the Commission.

LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2016

**NOTE U -- RELATED PARTY TRANSACTIONS**

Operating Expenses on the Statement of Activities includes \$450,000 that was paid to the GLSC to support its operations. The Commission issued an interest-free loan of \$500,000 to GLSC on May 31, 2016. The loan is to be repaid to the Commission in four (4) annual installments of \$125,000 each beginning October 1, 2017. The loan is reported as an Other Financing Use on the Statement of Revenues, Expenditures, and Changes in Fund Balance and in Due From Related Parties on the Statement of Net Position.

**NOTE V -- CONTINGENCIES**

The Commission has entered into various contracts which require future payments to organizations for future conventions and meetings to be held in Louisville; however if such conventions and meetings are cancelled by the respective organizations, no payments are due.

**SUPPLEMENTARY INFORMATION**

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL**

Year ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>REVENUES</b>				
Transient room tax	\$ 23,666,366	\$ 23,666,366	\$ 25,431,290	\$ 1,764,924
Membership dues	272,000	272,000	277,515	5,515
Advertising	359,900	359,900	244,309	(115,591)
Merchandise, net	94,500	94,500	113,329	18,829
Services and fees	276,876	276,876	228,997	(47,879)
Matching funds	575,000	575,000	577,922	2,922
Investment income	62,400	62,400	34,081	(28,319)
Other income	47,732	47,732	44,789	(2,943)
<b>Total Revenues</b>	<u>25,354,774</u>	<u>25,354,774</u>	<u>26,952,232</u>	<u>1,597,458</u>
<b>EXPENDITURES</b>				
Rent	427,320	427,320	428,456	1,136
Parking	64,000	64,000	66,321	2,321
Maintenance	68,775	68,775	40,580	(28,195)
Utilities	6,600	6,600	5,674	(926)
Telephone	85,880	85,880	77,294	(8,586)
Supplies	76,590	76,590	95,971	19,381
Postage	130,089	130,089	85,484	(44,605)
Data processing	75,945	75,945	67,112	(8,833)
Payroll, full-time	3,940,649	4,120,649	4,102,234	(18,415)
Payroll, part-time	380,315	380,315	341,856	(38,459)
Payroll taxes	365,737	365,737	342,096	(23,641)
Commissions and incentive pay	776,625	706,625	646,071	(60,554)
Pension plan	804,767	804,767	811,782	7,015
Employee relations	122,040	122,040	135,507	13,467
Employee benefits	353,989	353,989	349,628	(4,361)
Professional fees	157,000	187,000	123,027	(63,973)
Insurance	50,600	50,600	49,428	(1,172)
Dues and subscriptions	105,148	105,148	82,979	(22,169)
Printing	621,500	621,500	492,033	(129,467)
Advertising	1,615,000	1,615,000	1,563,337	(51,663)
Promotional items	587,912	575,912	526,399	(49,513)
Photography and video	92,000	92,000	86,684	(5,316)
Website marketing	623,200	623,200	581,516	(41,684)
Mass marketing	426,248	426,248	424,186	(2,062)
Client events and site visits	293,830	293,830	221,625	(72,205)
Travel and trade shows	1,132,463	1,132,463	998,067	(134,396)
Entertainment	125,755	125,755	163,703	37,948
Sponsorships and events	3,565,243	3,730,243	3,445,152	(285,091)
Capital expenditures	52,700	52,700	57,348	4,648
Research	242,895	348,395	380,471	32,076
Loss in interest rate swap	309,225	309,225	295,268	(13,957)
Interest expense	30,576	30,576	29,337	(1,239)
Other bond fees	115,000	115,000	148,065	33,065
<b>Total Expenditures</b>	<u>17,825,616</u>	<u>18,224,116</u>	<u>17,264,691</u>	<u>(959,425)</u>
<b>Excess of Revenues Over Expenditures</b>	7,529,158	7,130,658	9,687,541	2,556,883
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan to related party	-	(500,000)	(500,000)	-
Fund Balance, Beginning of Year	12,925,002	12,925,002	12,925,002	-
<b>Fund Balance, End of Year</b>	<u>\$ 20,454,160</u>	<u>\$ 19,555,660</u>	<u>\$ 22,112,543</u>	<u>\$ 2,556,883</u>

See independent auditor's report

**LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION**

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS AND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended June 30, 2016

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS**

Year Ended June 30,	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Actual Covered Member Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
2014	0.18521%	\$ 6,009,000	\$ 4,504,431	133.40%	66.80%
2015	0.18292%	\$ 7,864,668	\$ 4,758,394	165.28%	59.97%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The data provided in the schedule is as of the measurement date of KRS's net pension liability, which is June 30, 2015.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30,	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess/(Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 574,316	\$ 574,316	\$ -	\$ 4,504,431	12.75%
2016	\$ 577,669	\$ 577,669	\$ -	\$ 4,758,394	12.14%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they



LOUISVILLE AND JEFFERSON COUNTY VISITORS AND  
CONVENTION COMMISSION

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

*Valuation date:* Actuarially determined contribution rates for 2016 were calculated based on the June 30, 2015 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed Remaining
amortization period	29 years
Asset valuation	5-year smoothed market
Inflation	3.25 percent
Salary increases	4.00%
Investment Rate of Return	7.50 percent, net of investment expense, including Inflation
Retirement age	65 years or 27 years of service regardless of age

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Commissioners  
Louisville and Jefferson County Visitors and  
Convention Commission  
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 Louisville and Jefferson County Visitors and Convention Commission ("the Commission") as of and for the year ended June 30, 2016 and the related notes to the financial statements which collectively comprise the Commission's basic financial statement and have issued our report thereon dated October 31, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 Commission'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*.

**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* (Continued)**

**Purpose of this Report**

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

A handwritten signature in black ink that reads "M. J. Chilton, Muddley, LLP". The signature is written in a cursive style.

Louisville, Kentucky  
October 31, 2016