

# **KENTUCKY INFRASTRUCTURE AUTHORITY**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2015

# KENTUCKY INFRASTRUCTURE AUTHORITY

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Kentucky Infrastructure Authority  
Frankfort, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

To the Board of Directors  
Kentucky Infrastructure Authority

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note 16 to the financial statements, in 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of Governmental Accounting Standards Board Statement No. 68*. Our opinion is not modified with respect to this matter.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 9, the schedule of the net proportionate share of the net pension liability and schedule of contributions on pages 36 through 37 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.

To the Board of Directors  
Kentucky Infrastructure Authority

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining information on pages 38 and 39 is presented for purposes of additional analysis rather than to present the financial position, respective changes in financial position, and cash flows of the individual funds of the Authority and is not a required part of the basic financial statements.

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

*Blue & Co., LLC*

Lexington, Kentucky  
December 2, 2015

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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As management of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial performance of the Authority for the fiscal year ended June 30, 2015. We encourage readers to read it in conjunction with the Authority's financial statements and the accompanying notes.

### **FINANCIAL HIGHLIGHTS**

- As of the close of fiscal year 2015, the Authority reported ending net position of approximately \$1,033,821,000, an increase of approximately \$27,211,000 (2.70%) in comparison with the prior year.
- The Authority's total debt decreased approximately \$19,672,000 (5.75%) during fiscal year 2015.
- The Authority disbursed approximately \$84,839,000 to borrowers for assistance agreements and approximately \$16,708,000 to local governmental entities in state grants. Principal and interest in the amount of approximately \$75,075,000 was collected from borrowers for assistance agreements.

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

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to those of a private business.

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

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

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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The statement of cash flows provides relevant information about the cash receipts and cash payments of the Authority during the fiscal year. The statement should help users assess the Authority's ability to generate future net cash flows, meet future obligations as they become due, the Authority's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 14 through 35.

### FINANCIAL ANALYSIS OF THE AUTHORITY

#### **Condensed Financial Information Statements of Net Position As of June 30**

	<u>2015</u>	% Increase (Decrease)	<u>2014</u>
Assets:			
Current assets	\$ 450,952,000	-1.48%	\$ 457,719,000
Long-term investments	13,510,000	-43.75%	24,018,000
Long-term receivables	<u>886,602,000</u>	1.79%	<u>870,980,000</u>
Total assets	<u>1,351,064,000</u>	0.12%	<u>1,352,717,000</u>
Deferred outflow of resources	<u>5,331,000</u>	7856.72%	<u>67,000</u>
Total assets and deferrals	<u>1,356,395,000</u>	0.27%	<u>1,352,784,000</u>
Liabilities:			
Current liabilities	30,948,000	-19.85%	38,613,000
Long-term debt	<u>291,342,000</u>	-3.96%	<u>303,349,000</u>
Total liabilities	<u>322,290,000</u>	-5.75%	<u>341,962,000</u>
Deferred inflow of resources	<u>284,000</u>	7.98%	<u>263,000</u>
Total liabilities and deferrals	<u>322,574,000</u>	-5.74%	<u>342,225,000</u>
Net position:			
Restricted net position	<u>\$ 1,033,821,000</u>	2.30%	<u>\$ 1,010,559,000</u>

**Total assets** consist primarily of cash and cash equivalents, investments, and assistance agreements receivable.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

During 2015, the Authority's total cash and cash equivalents and investments decreased approximately \$18,929,000.

At June 30, 2015, investments consist of a current portion of approximately \$363,939,000 and a non-current portion of approximately \$13,510,000. As of June 30, 2015, the current portion is representative of U.S. Government Agency debt securities with maturities longer than three months when purchased, but also having maturities prior to June 30, 2016. The non-current portion is representative of the Authority's investments maintained within the State cash and investment pool and other investments with maturities greater than one year. The Authority's investments tend to consist of a large concentration of investments with a maturity of three months or less when purchased (cash equivalents) in order to maintain sufficient liquidity.

During fiscal year 2015, new loan assistance agreements issued of approximately \$84,839,000 exceeded repayments of assistance agreements receivable of approximately \$59,972,000 and forgiveness of loan principal of \$6,145,000 contributing to the approximately \$18,722,000 increase in net assistance agreements receivable.

**Total liabilities** typically consist of current and non-current portions of revenue bonds payable and related accrued interest thereon. During fiscal year 2015, long-term debt decreased approximately \$12,007,000.

### Condensed Financial Information Statements of Revenues, Expenses, and Changes in Net Position For the Fiscal Years Ended June 30

	2015	% Increase (Decrease)	2014
Operating revenues	\$ 19,288,000	0.82%	\$ 19,132,000
Operating expenses	34,168,000	-22.40%	44,033,000
Operating loss	(14,880,000)	-40.24%	(24,901,000)
Non-operating revenues (expenses):			
Income from investments	395,000	-95.00%	7,899,000
Bond issuance costs	(648,000)	N/A	-0-
Net increase (decrease) in fair market value of investments	64,000	-100.89%	(7,177,000)
Federal grants and reimbursements	33,257,000	-1.74%	33,845,000
Principal forgiveness on loans	(6,145,000)	-57.72%	(14,535,000)
Intergovernmental revenue from the Commonwealth	11,518,000	-48.26%	22,260,000
State appropriations	3,651,000	-1.62%	3,711,000
Miscellaneous expense	(1,000)	N/A	-0-
Change in net position	<u>\$ 27,211,000</u>	28.95%	<u>\$ 21,102,000</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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**Operating revenues** primarily consist of interest and service fee revenue from assistance agreements receivable and grant administration fees. Interest on assistance agreements receivable and related service fees increased approximately \$325,000 from fiscal year 2014.

**Operating expenses** primarily consist of grants, general and administrative costs, and amortization and interest related to revenue bonds payable. Grants are primarily representative of the disbursements made to local taxing districts of the Commonwealth as appropriated during the General Assembly. Current year grants decreased approximately \$6,637,000 from 2014 due to the continued budgetary constraints of the Commonwealth. General and administrative costs increased approximately \$216,000.

**Non-operating revenues and expenses** consist of income from investments, net changes in the fair market value of investments, federal grant revenues and related expenses, intergovernmental revenues and state appropriations. Federal grant revenues and expenditures totaled approximately \$33,257,000 for new loans made to municipalities under federal programs and the administration of the programs. A portion of these funds were awarded under federal regulations that required additional subsidization which the Authority chose to provide as principal forgiveness. For 2015, approximately \$6,145,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net position. For details related to intergovernmental revenues refer to Note 9 of the financial statements. For details on state appropriations refer to Note 10 of the financial statements.

### **LONG-TERM DEBT**

At June 30, 2015, the Authority had approximately \$277,775,000 in bond principal outstanding which is a decrease of 8.11% from last year. The decrease is due to scheduled maturities during the year plus the advance refunding of \$65,695,000 in outstanding Series 2010A bonds. More detailed information about the Authority's long-term liabilities is presented in Note 7 of the financial statements.

**Bond Ratings.** The Authority's appropriation-supported debt rating is A+ from Standard & Poor's, A+ from Fitch and Aa3 from Moody's. This is one step below the Commonwealth's general obligation credit rating of AA- and Aa2. Wastewater and Drinking Water program supported debt rating is Aaa from Moody's and AAA from Standard & Poor's and Fitch. The Governmental Agencies program revenue bonds of the Authority are rated AA by Standard & Poor's.

**Limitations on Debt.** The Authority is required by Kentucky Revised Statute (KRS) 56.870(1) to obtain General Assembly approval for issuance of general fund appropriation-supported debt. For debt related to issues that require no appropriation of state funds, General Assembly approval must be obtained for bonds or notes having a final maturity extending beyond three (3) years, if the aggregate principal amount of the bonds or notes

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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outstanding under any trust indenture or bond resolution exceeds the sum of five hundred million dollars (\$500,000,000). Our outstanding debt, which meets this criterion, is significantly below this limit.

Kentucky Infrastructure Authority's outstanding debt at June 30:

	<u>2015</u>	% Increase (Decrease)	<u>2014</u>
General fund appropriation supported debt	\$ 6,240,000	-23.53%	\$ 8,160,000
Program revenue supported debt	<u>271,535,000</u>	-7.68%	<u>294,115,000</u>
Total	<u>\$ 277,775,000</u>	-8.11%	<u>\$ 302,275,000</u>

### **CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The 2003 General Assembly, in House Bill (HB) 269, identified 271 projects totaling \$59,071,343 for tobacco impacted counties and \$54,861,998 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds in the amount of \$54,765,000 (first year debt service to be paid from tobacco settlement funds) and \$54,765,000 (first year debt service to be paid from multi-county coal severance tax receipts). There was no increase in state appropriation to cover the cost of administering these projects. At the end of fiscal year 2015, all of the projects have been completed.

The 2005 General Assembly, in House Bill 267, identified 507 projects totaling \$120,660,220 for tobacco impacted counties and \$79,395,960 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. At the end of fiscal year 2015, no refunds remained to be disbursed to grantees.

The 2006 General Assembly, in House Bill 380, identified 576 projects totaling approximately \$146,531,000 (corresponding appropriation of \$145 million) for non-coal producing counties and approximately \$71,902,000 (corresponding appropriation of \$70.9 million) for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of fiscal year 2015, approximately \$5.2 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services. The 2006 General Assembly, in House Bill 380, also appropriated \$1,740,000 for funding of water and sewer projects for Community Development Projects. At the end of fiscal year 2015, all funds have been

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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disbursed to grantees for Community Development.

The 2008 General Assembly, in House Bill 608, identified 598 projects totaling \$160,585,000 (corresponding appropriation of \$150 million) for non-coal producing counties and \$79,240,000 (corresponding appropriation of \$75 million) for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of fiscal year 2015, approximately \$10.0 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services.

### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our legislators, citizens, taxpayers, customers, and federal government officials, as well as, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kentucky Infrastructure Authority, Fiscal Officer, 1024 Capital Center Drive, Suite 340, Frankfort, Kentucky, 40601.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENT OF NET POSITION JUNE 30, 2015

### ASSETS

#### Current assets:

Cash and cash equivalents	\$ 29,189,000
Investments, current portion	363,939,000
Federal fund receivables	4,000
Intergovernmental receivables	570,000
Accrued interest receivable, investments	54,000
Accrued interest receivable, assistance agreements	1,682,000
Current maturities of long-term receivables	55,504,000
Other current assets	10,000
Total current assets	<u>450,952,000</u>

Investments	11,029,000
Investments, restricted for debt service	2,481,000
Total noncurrent investments	<u>13,510,000</u>

#### Long-term receivables:

Assistance agreements receivable:	
Principal	942,544,000
Less:	
Current maturities	(55,504,000)
Unamortized discounts	(438,000)
Total long-term receivables	<u>886,602,000</u>
Total assets	<u>1,351,064,000</u>

#### Deferred outflow of resources:

Pension contributions subsequent to the measurement date	255,000
Unamortized deferred amount on refunding	5,076,000
Total assets and deferrals	<u>1,356,395,000</u>

### LIABILITIES

#### Current liabilities:

Current maturities of revenue bonds payable, net of unamortized premiums and discounts	26,527,000
Accrued interest payable	3,346,000
Grants payable	604,000
Other payables	471,000
Total current liabilities	<u>30,948,000</u>

#### Long-term debt:

Revenue bonds payable, less current maturities and unamortized premiums and discounts	287,128,000
Net pension liability	4,214,000
Total liabilities	<u>322,290,000</u>

#### Deferred inflow of resources:

Net difference between projected and actual earnings on pension investments	54,000
Unamortized deferred amount on refunding	230,000
Total liabilities and deferrals	<u>322,574,000</u>

### NET POSITION

Restricted net position	<u>\$ 1,033,821,000</u>
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See the accompanying notes to  
the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDING JUNE 30, 2015

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Operating revenues:	
Assistance agreements:	
Servicing fee	\$ 1,666,000
Interest	14,445,000
Interest received securing revenue bonds	777,000
Amortization of premium	60,000
Grant administration fee	15,000
Amortization of bond premiums	2,325,000
Total operating revenues	<u>19,288,000</u>
Operating expenses:	
General and administrative	3,086,000
Intergovernmental administrative expense reimbursement	4,405,000
Grants	15,233,000
Revenue bonds payable:	
Interest	11,388,000
Arbitrage expense	56,000
Total operating expenses	<u>34,168,000</u>
Operating loss	<u>(14,880,000)</u>
Non-operating revenues (expenses):	
Income from investments	395,000
Bond issuance cost	(648,000)
Net increase in fair value of investments	64,000
Federal grants and reimbursements	33,257,000
Principal forgiveness on loans	(6,145,000)
Intergovernmental revenue from the Commonwealth	11,518,000
State appropriations	3,651,000
Miscellaneous expense	(1,000)
Total non-operating revenues	<u>42,091,000</u>
Change in net position	<u>27,211,000</u>
Net position, beginning of year (as previously stated)	1,010,559,000
Adjustment for net pension liability	<u>(3,949,000)</u>
Net position, beginning of year (as adjusted)	<u>1,006,610,000</u>
Net position, end of year	<u>\$ 1,033,821,000</u>

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See the accompanying notes to  
the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDING JUNE 30, 2015

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Cash flows from operating activities:	
Administrative fees received	\$ 1,681,000
Collections on assistance agreements, net of change in deposit reserve	59,972,000
Advances on assistance agreements	(84,839,000)
Interest received on assistance agreements	15,100,000
Cash payments for grants	(16,708,000)
Cash payments for personnel expenses	(1,604,000)
Cash payments to suppliers for goods and services	(6,225,000)
Net cash used in operating activities	<u>(32,623,000)</u>
Cash flows from noncapital financing activities:	
Principal payments on long-term debt	(28,040,000)
Payments to refund and defease debt	(77,664,000)
Bond issuance cost	(648,000)
Proceeds from new debt issuance	83,234,000
Interest paid on long-term debt	(13,711,000)
Receipt of federal grants	33,253,000
State appropriation	3,227,000
Payments from the Commonwealth	13,448,000
Net cash provided by noncapital financing activities	<u>13,099,000</u>
Cash flows from investing activities:	
Purchase of investment securities	(363,940,000)
Proceeds from sale and maturities of investment securities	378,505,000
Interest and other investment income received	531,000
Net cash provided by investing activities	<u>15,096,000</u>
Net change in cash and cash equivalents	(4,428,000)
Cash and cash equivalents, beginning of year	<u>33,617,000</u>
Cash and cash equivalents, end of year	<u>\$ 29,189,000</u>

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See the accompanying notes to  
the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDING JUNE 30, 2015

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Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (14,880,000)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Amortization of bond premium	(2,325,000)
Amortization of assistance agreements premium	(60,000)
Amortization of bond defeasance included in interest	34,000
Interest paid on long-term debt	13,711,000
Changes in assets and liabilities:	
Increase in accrued interest receivable on assistance agreements	(122,000)
Increase in assistance agreements receivable, net of desposit reserve	(24,867,000)
Increase in other current assets	(10,000)
Decrease in accrued interest payable	(2,357,000)
Decrease in grants payable	(1,475,000)
Decrease in other payables	(334,000)
Change in deferred outflow	(116,000)
Change in deferred inflow	54,000
Change in net pension liability	124,000
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Net cash used in operating activities	<u>\$ (32,623,000)</u>

Supplemental disclosure of noncash investing activities:

Net increase in fair value of investments	<u>\$ 64,000</u>
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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### 1. DESCRIPTION OF ORGANIZATION

In 1972, the General Assembly of Kentucky established the Kentucky Pollution Abatement Authority (the Act, the Authority) after determining that pollution was seriously harming the Commonwealth's water resources and would, if unchecked, endanger the health, safety, welfare and well-being of the public, and would also destroy the natural chemical, physical and biological integrity of the waters of the Commonwealth. The Act was also adopted to maximize federal grant participation in the Commonwealth in respect to works and facilities undertaken by local governmental units in the Commonwealth for the abatement of water pollution and to provide an alternate source of financing for local governmental units. The Act was amended in 1974 and 1978 (a) to remove the prior requirement that federal grant participation be obtained by local units of government as a condition precedent to Authority aid and (b) to grant to the Authority the power to issue tax-exempt industrial development bonds for pollution control facilities.

The General Assembly again amended the Act in 1984 (a) to grant to the Authority the ability to assist local government units with the implementation of water resource projects intended to conserve and develop the water resources of the Commonwealth, including, among other things, all aspects of water supply, flood damage abatements, navigation, water-related recreation and land conservation facilities and (b) to change the name of the Authority to the "Kentucky Pollution Abatement and Water Resources Finance Authority". In 1988, the Act was further amended to, among other things (a) broaden the scope of the Authority's powers to finance "infrastructure projects," (b) establish two revolving funds to assist in the financing of infrastructure projects and (c) change the name of the Authority to the "Kentucky Infrastructure Authority" (KIA). A further amendment to the Act in 1990 provided for the establishment of (a) an additional revolving fund to assist in the financing of solid waste projects and (b) a solid waste grant fund, jointly administered with the Natural Resources Cabinet, intended to defray the capital costs associated with promotion of recycling and other similar solid waste management activities. Amendments to the Act in 2000 expanded the role of the Authority to include regional infrastructure planning coordination, promotion of higher levels of technical, managerial, and financial capacity of water-based utilities, as well as expanding the Authority's more traditional role of infrastructure financing for both governmental agencies and investor-owned, private utilities by adding a new account, the 2020 account, to its array of grant and subsidized loan programs.

In 2004, the Governor of the Commonwealth issued an Executive Order which attached the Authority to the Governor's Office for Local Development (GOLD) for administrative purposes. By Executive Order issued in 2008, the GOLD was reorganized as the Department for Local Government (DLG).

The Kentucky Infrastructure Authority is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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The Authority is authorized by Kentucky Revised Statute (KRS) Chapter 224A to issue notes and bonds to provide loans to governmental agencies and private, investor-owned utilities in Kentucky. The provisions of KRS 224A.165 dictate certain limits on the amount of notes and bonds the Authority can have outstanding. The purpose of the loans is to assist such entities in financing the construction of infrastructure projects. The following provides a description of the Authority's various programs:

### Fund A - Clean Water State Revolving Fund Loan Program

Local wastewater treatment facilities that qualify under the U.S. Environmental Protection Agency (EPA) requirements can be financed through this program. Jointly administered by the Authority and the Energy and Environment Cabinet, loans will be provided at below-market interest rates with repayments not exceeding thirty years. The state's share of construction is funded with state appropriation-supported bonds. The Commonwealth appropriates an amount equal to this fund's debt service to make its bond payments.

### Fund B - Infrastructure Revolving Loan Program

This fund was established to provide financing for the construction or acquisition of infrastructure projects. Loans are made to governmental entities of the Commonwealth that are unable to finance a complete project through other public grant or loan programs, through commercial credit at reasonable rates or from its own resources.

The loans will be at or below market interest rates and will not exceed thirty years. Grants are available, but are reserved for borrowers where the Authority determines both a hardship and extreme health hazard exist. The Commonwealth appropriates an amount equal to this fund's debt service to make its bond payments.

As part of this program, a 2020 water service account has been established to assist in making potable water available to all Kentuckians by the year 2020.

The General Assembly, from time to time, appropriates funds to be administered and disbursed by the Authority in the form of water and wastewater grants. During 2014 and 2013, projects were being administered from the 2003 General Assembly, the 2005 General Assembly, the 2006 General Assembly, and the 2008 General Assembly. Activities for these grants are accounted for in the Fund B.

The Fund E Solid Waste Revolving Loan Program was established to assist local government units in the financing of solid waste projects. The 2002 General Assembly abolished the legal authority for the Authority's solid waste program. On February 8, 2007, the Authority's Board approved a resolution to authorize the transfer of the Fund E (solid waste revolving) program assets to the appropriate accounts in Fund B (infrastructure revolving) program.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### Fund C - Governmental Agencies Program

This program provides local governmental agencies access to funding through the municipal bond market at better terms than could be obtained on an individual basis. Financial assistance is available on a loan basis for up to thirty years for the construction or acquisition of infrastructure projects by governmental entities in the Commonwealth. The loans may be used to totally fund a construction project or they can be used to supplement grants or cash contributions.

### Fund F - Drinking Water State Revolving Fund Loan Program

This fund was established to assist in financing local drinking water treatment and distribution facilities that qualify under EPA requirements. Projects must be recommended by the Kentucky Division of Water from the Project Priority List and must be financially feasible as determined by the Authority's staff. Loan funds are available on short terms for planning and preliminary design work. The state's share of construction is funded with state appropriation-supported bonds. The Commonwealth appropriates an amount equal to this fund's debt service to make its bond payments.

## 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Authority is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Authority's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

### Basis of Accounting

The activities of the Authority are accounted for as an enterprise fund on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenditures are recognized when they are incurred.

### Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results may differ from those estimates.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted market prices in the statement of net position. Unrealized gains and losses are included in the change in net position in the accompanying statements of revenues, expenses and changes in net position.

### Description of Net Position Classes

Accounting principles generally accepted in the United States of America require the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as unspent proceeds.

*Restricted* – This component of net position consists of constraints placed on the use of net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### Amortization of Discounts on Assistance Agreements

Discounts on assistance agreement receivables are amortized using the straight-line method over the life of the related receivable. The results of this method do not materially differ from those that would be obtained by applying the effective interest method.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### Amortization of Bond Premium

Bond premiums are amortized on the straight-line method over the life of the bond issue. The results of this method do not materially differ from those that would be obtained by applying the effective interest method.

### Amortization of Deferred Gain or Loss on Early Retirement of Debt

Deferred gain or loss on early retirement of debt is amortized on the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less. The results of this method do not materially differ from those that would be obtained by applying the effective interest method.

### Operating Revenues and Expenses

The Authority considers interest income received on loans to be operating revenue. In order not to overstate the income from operations, the Authority also includes the interest paid on bonds issued to fund such loans as operating income and expense as well. For the statement of cash flows, the Authority includes interest income received on loans as an operating receipt.

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension. Information about the fiduciary net position of Kentucky Employees' Retirement Systems (KERS) and addition to/deduction from KERS's fiduciary net position have been determined on the same basis as they are reported by the Authority.

## 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2015, cash and cash equivalents consist of the following:

Commercial paper	\$ 25,051,000
First American Government Obligation Fund	3,550,000
State cash and investment pool	<u>588,000</u>
Total cash and cash equivalents	<u>\$ 29,189,000</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

The following schedule presents the carrying amounts of investments by maturity at June 30, 2015:

Investment	Fair Value	Maturity	Rate
Federal Agriculture Management Corporation	\$ 23,993,000	10/15/2015	0.130%
Federal Farm Credit Bks	23,251,000	9/15/2015	0.130%
Federal Home Loan Bks	34,432,000	7/15/2015	0.110%
Federal Home Loan Bks	26,589,000	11/12/2015	0.130%
Federal Home Loan Bks	3,143,000	7/15/2015	0.050%
Federal Home Loan Bks	3,228,000	8/14/2015	0.130%
Federal Home Loan Bks	6,434,000	9/15/2015	0.140%
Federal Home Loan Bks	260,000	7/15/2015	0.000%
Federal Home Loan Bks	178,000	8/14/2015	0.000%
Federal Home Loan Bks	299,000	9/15/2015	0.050%
Federal Home Loan Bks	572,000	11/13/2015	0.110%
Federal Home Loan Bks	434,000	9/15/2015	0.125%
Federal Home Loan Bks	1,494,000	11/13/2015	0.130%
Federal Home Loan Bks	55,160,000	7/15/2015	0.140%
Federal Home Loan Bks	6,711,000	7/15/2015	0.000%
Federal Home Loan Bks	10,046,000	8/14/2015	0.000%
Federal Home Loan Bks	7,626,000	7/15/2015	0.000%
Federal Home Loan Bks	8,366,000	8/14/2015	0.000%
Federal Home Loan Bks	24,470,000	9/15/2015	0.000%
Federal Home Loan Bks	19,976,000	7/15/2015	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	23,252,000	8/17/2015	0.070%
Federal Home Loan Mortgage Corporation (FHLMC)	45,008,000	12/4/2015	0.140%
Federal Home Loan Mortgage Corporation (FHLMC)	1,495,000	2/12/2016	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	832,000	7/15/2015	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	434,000	8/14/2015	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	5,054,000	1/15/2016	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	15,283,000	7/15/2015	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	4,998,000	10/15/2015	0.000%
Federal Home Loan Mortgage Corporation (FHLMC)	2,492,000	1/15/2016	0.625%
Federal Home Loan Mortgage Corporation (FHLMC)	4,576,000	7/15/2015	0.625%
FNMA	706,000	1/15/2016	4.450%
FNMA	579,000	9/15/2015	0.250%
US Treasury Note	1,560,000	10/15/2015	0.250%
US Treasury Note	999,000	12/15/2015	0.250%
US Govt Issue - Invetmt	2,481,000	8/1/2022	2.220%
	<u>366,411,000</u>		
Investment in State Pools	<u>11,038,000</u>		
Total	<u>377,449,000</u>		
Less: current potion	<u>363,939,000</u>		
Long-term Investments	<u>\$ 13,510,000</u>		

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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At June 30, 2015, all of the Authority's investments other than those in U.S. Treasury securities, Federal Agriculture Management Corporation, and discount notes possess a Moody's rating of Aaa or a Standard and Poor's rating of AA+. All investments in Federal Agriculture Management Corporation and discount notes are unrated.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2015, the Authority's investments are neither insured nor registered, but are held by the Authority's custodial agent in the Authority's name.

*Credit Risk:* Under state statutes, the Authority is permitted to invest in the following:

- obligations backed by the full faith and credit of the United States
- obligations of any corporation of the United States Government
- obligations of government sponsored entities
- collateralized or uncollateralized certificates of deposit issued by banks or other interest-bearing accounts in depository institutions chartered by Kentucky or by the United States
- bankers acceptances
- commercial paper
- securities issued by a state or local government, or any instrumentality or agency thereof in the United States
- United States denominated corporate, Yankee, and Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers
- asset-backed securities
- shares of mutual funds, not to exceed 10% of the total funds available for investment
- state and local delinquent property tax claims

*Concentration of Credit Risk:* The Authority places no limit on the amount the Authority may invest in any one issuer, with the exception of investments in mutual funds as indicated above. The Authority's trustee consults with the Office of Financial Management (within the Finance and Administration Cabinet) to determine suitable investments.

At June 30, 2015 the Authority maintained \$11,626,000, of cash and investments with the State Investment Pool of the State Investment Commission of the Commonwealth of Kentucky. The State Investment Commission (the Commission) is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commission delegates the day to day management of the Commonwealth's investments to the Office of Financial Management (OFM). The purpose of the investment pools is to provide: economies of scale that enhance yield, ease of administration for both the user agencies and OFM, and increase accountability and control. All investments shall be permitted investments as defined in KRS 42.500 and as further limited by 200 Kentucky

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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Administrative Regulation (KAR) Chapter 14. Funds residing in the pools are available to be spent at any time. The Authority had no collateral or insurance as security for the balances with the Commission at June 30, 2015, but they own a proportionate interest in the securities held in the respective pools.

*Interest Rate Risk:* The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### 4. REVENUE BOND FUND ACCOUNTS

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2015 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	\$ 137,000	\$ 9,843,000	\$ 9,980,000
Revolving Fund	25,520,000	229,793,000	255,313,000
Debt Service Reserve Fund	-0-	2,480,000	2,480,000
Revenue Fund	2,927,000	4,998,000	7,925,000
Surplus Fund	17,000	119,297,000	119,314,000
Funds in State Pool	588,000	11,038,000	11,626,000
	<u>\$ 29,189,000</u>	<u>\$ 377,449,000</u>	<u>\$ 406,638,000</u>

Trust indentures contain provisions which establish that specific accounts be maintained by the Authority to properly account for the financial activities as described below:

- A. Operating Fund - Designated for paying operating costs incurred by the Authority.
  - B. Revolving Fund - Designated to receive debt service payments from the revolving loan program in order to recycle money for new loans.
  - C. Debt Service Reserve Fund - Designated as an allowance or reserve for the payment of principal and interest on revenue bonds as to which there would otherwise be a default in payment.
  - D. Revenue Fund - This fund is for receipt of principal and interest payments from governmental agencies and are subsequently transferred to the Debt Service Fund or other funds as needed.
  - E. Surplus Fund - This fund is a reserve for advances to municipalities in anticipation of new bond issues, transfers to other funds to cover deficiencies, and other lawful purposes of the Authority.
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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### 5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following reimbursements for expenditures incurred prior to June 30, 2015:

Due from the Commonwealth's General Fund for debt service and general and administrative costs	\$ 424,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	12,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	10,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Non-Coal Producing Counties per 2006 House Bill 380	33,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	77,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	<u>14,000</u>
Total receivable from the Commonwealth	<u><u>\$ 570,000</u></u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

### 6. ASSISTANCE AGREEMENTS RECEIVABLE

Assistance agreements receivable are loans made to governmental entities for construction of infrastructure projects. The principal and interest are due in periodic installments used to either meet the principal or interest requirements of the Authority's revenue bonds or used to fund additional projects. At June 30, 2015, management considered all assistance agreement receivables to be fully collectible. Accordingly, there was no allowance for uncollectible receivables.

A total loan amount is approved for each governmental entity. In addition to the \$942,544,000 in net assistance agreements receivable at June 30, 2015, the Authority has commitments remaining to disburse funds summarized as follows:

Fund A - Clean Water State Revolving Fund Loan Program	\$ 336,909,000
Fund B - Infrastructure Revolving Loan Program	9,676,000
Fund C - Governmental Agencies Program	7,738,000
Fund F - Drinking Water State Revolving Fund Loan Program	<u>74,896,000</u>
Total commitments outstanding	<u><u>\$ 429,219,000</u></u>

### 7. LONG-TERM DEBT, REVENUE BONDS PAYABLE

Long-term debt consists of the following at June 30, 2015:

	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	\$ 221,500,000	\$ 16,690,000	\$ 204,810,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 4.00% to 5.29%, due semi-annually, principal due annually to August 1, 2022	11,545,000	2,425,000	9,120,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	44,730,000	2,865,000	41,865,000
	<u>277,775,000</u>	<u>21,980,000</u>	<u>255,795,000</u>
Bond principal payable	277,775,000	21,980,000	255,795,000
Unamortized premium	<u>35,880,000</u>	<u>4,547,000</u>	<u>31,333,000</u>
Total	<u><u>\$ 313,655,000</u></u>	<u><u>\$ 26,527,000</u></u>	<u><u>\$ 287,128,000</u></u>

Except for cash deposited with the state, all cash and investments of the Authority are held

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

by a trustee bank. Most of these assets are either pledged as collateral for bond indebtedness, have certain investment restrictions as outlined in the bond indentures, or both.

The required annual payments for all debt are as follows:

	Principal	Interest	Total
2016	\$ 21,980,000	\$ 11,773,000	\$ 33,753,000
2017	20,787,000	11,883,000	32,670,000
2018	20,682,000	11,022,000	31,704,000
2019	20,367,000	10,109,000	30,476,000
2020	19,782,000	9,161,000	28,943,000
2021 - 2025	92,875,000	32,745,000	125,620,000
2026 - 2030	72,785,000	11,527,000	84,312,000
2031 - 2032	8,517,000	521,000	9,038,000
	\$ 277,775,000	\$ 98,741,000	\$ 376,516,000

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2015:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Bond principal payable	\$ 302,275,000	\$ 69,235,000	\$ 93,735,000	\$ 277,775,000
Unamortized premiums	31,099,000	13,999,000	9,218,000	35,880,000
Total	\$ 333,374,000	\$ 83,234,000	\$ 102,953,000	\$ 313,655,000

In April 2015, the Authority issued Wastewater and Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2015A, in the aggregate principal of \$64,465,000. The Authority issued the bonds to advance refund \$65,695,000 of the outstanding Series 2010A bonds with a 5% interest rate.

To accomplish this refunding, the Authority purchased, at par, certain direct obligations of the United States of America which bear interest and mature in such a manner as to pay the debt service of the defeased bonds. These direct obligations of the United States of America were deposited with the Trustee in a refunding escrow account and pledged to pay debt service and interest on the bonds to be refunded when due, through the February 1, 2020 redemption date. Upon deposit of the direct obligations with the Trustee, the bonds to be refunded were considered defeased, and the Authority removed the liability from its accounts.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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After payment of the new debt issuance costs, the proceeds from the new debt allocated for the refunding totaled \$77,659,000. The debt service requirement to service the new debt issued for the refunding is calculated as follows:

Proceeds from new debt deposited with Trustee	\$ 77,664,000
Debt issuance cost	500,000
Premium on new bonds	(13,699,000)
New debt	<u>\$ 64,465,000</u>

The cash flow required to service the refunded 2010A bonds and 2015A refunding bonds to maturity is \$93,785,000 and \$90,607,000, respectively, which results in a difference of \$3,178,000.

The economic gain from this refunding transaction is calculated as the difference between the present value of the debt service requirements of the refunded 2010 Series A and the present value of the 2015 Series A debt service requirements, discounted at the effective rate of the 2015 Series A Bonds. The economic gain on the advance refunding is \$2,763,000.

As of June 30, 2015, \$65,695,000 of defeased bonds was outstanding. There were no defeased bonds outstanding at June 30, 2014.

In April 2015, the Authority issued Governmental Agency Program Revenue Bonds Series 2015 in the amount of \$4,770,000 with interest rates ranging from 2.00% to 4.00%.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### 8. GRANT COMMITMENTS

The Authority has committed to disburse grant funds as follows:

Fund B - 2020	\$ 660,000
Total funded by agency funds	<u>660,000</u>
Fund B - 2005 HB 267 Coal IEDF	182,000
Fund B - 2005 HB 267 Tobacco IEDF	490,000
Fund B - 2006 HB 380 Coal	372,000
Fund B - 2006 HB 380 Non Coal	6,479,000
Fund B - 2008 HB 406 / 408 Coal	5,376,000
Fund B - 2008 HB 406 / 408 Non Coal	<u>8,935,000</u>
Total funded by bond funds	<u>21,834,000</u>
Fund B – 2008 HB 410; 2010 HB 1; 2012 HB 265; and 2014 HB 235 Coal Severance	<u>11,732,000</u>
Total grant commitments	<u><u>\$ 34,226,000</u></u>

The primary funding sources for Fund B and Fund B - 2020 are from the Authority's revolving funds and the primary source of funds for the remaining commitments are provided from bond funds made available by specific General Assembly House Bills as listed above.

The funding source of the coal severance projects are from Local Government Economic Development Fund (KRS 42.4592) monies from the single county fund. Administration of the projects has been designated to the Authority by the enumerated General Assembly. The total shown above represents the amount left to disburse for projects with grant assistance agreements at year end.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### 9. INTERGOVERNMENTAL REVENUE

Intergovernmental revenue from the Commonwealth during the fiscal years ended June 30, 2015:

State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	\$ 380,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	91,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	1,109,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Non-Coal Producing Counties per 2006 House Bill 380	1,243,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	1,914,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	4,331,000
Coal Severance Tax Receipts - funding of the water and sewer projects from the Coal Severance per 2012 House Bill 265	<u>2,450,000</u>
Total intergovernmental revenue from the Commonwealth	<u><u>\$ 11,518,000</u></u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### 10. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the fiscal year ended June 30, 2015 consisted of the following:

Appropriations for debt service	\$ 2,326,000
Appropriations for general and administrative costs	<u>1,325,000</u>
Total state appropriations	<u>\$ 3,651,000</u>

### 11. RESTRICTED NET POSITION

Since the use of the Authority's resources is mandated by Kentucky Revised Statute 224A, the Authority considers all net position other than those invested in capital net of related debt, and restricted for debt service, to be restricted by law. Restricted net position consists of the following at June 30, 2015:

Restricted by law	\$ 1,031,340,000
Restricted for debt service	<u>2,481,000</u>
Total restricted net position	<u>\$ 1,033,821,000</u>

### 12. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the year ended June 30, 2015, totaled \$4,405,000, for services provided by the Commonwealth's Energy and Environment Cabinet, Division of Water related to federal grant compliance for the federal funds administered under Fund A and Fund F.

### 13. RELATED PARTY TRANSACTIONS

The Authority incurred expenses for utilities and office space received from the Commonwealth of Kentucky's Department for Local Government (DLG) in the amount of \$31,000 the year ending June 30, 2015. The Authority also received the benefit of administrative services from DLG for 2015 for which no fee was assessed. The Authority incurred expenses for information technology support received from the Commonwealth Office of Technology (COT) in the amount of \$37,000 for the year ending June 30, 2015.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

### 14. RETIREMENT PLANS

All Cabinet employees who work more than one hundred hours per month participate in a defined benefit plan administered by the Kentucky Employees Retirement System (KERS), a cost-sharing multi-employer public employee retirement system. Payroll for the employees of the Authority totaled approximately \$866,000 and \$777,000 for the years ended June 30, 2015 and 2014, respectively.

	<b>Tier 1</b> Participation Prior to 9/1/2008	<b>Tier 2</b> Participation 9/1/2008 through 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
<b>Covered Employees:</b>	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
<b>Benefit Formula:</b>	Final Compensation X	Benefit Factor X Years of Service	Cash Balance Plan
<b>Final Compensation:</b>	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
<b>Benefit Factor:</b>	1.97% - If you do not have 13 months credit for 1/1/1998 - 1/1/1999. 2.00% - If you have 13 months credit for 1/1/1998 - 1/1/1999	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
<b>Reduced Retirement Benefit:</b>	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

At June 30, 2015, the Plan reported a liability of \$4,214,000 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Plan's proportion of the net pension liability was based on a projection of the Plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2015, the Plan's proportion was 0.046969 percent.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### Actuarial Assumptions

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<b>State Contribution</b>	26.79%
<b>Member Contribution</b>	5.00%
<b>Actuarial Valuation Date</b>	June 30, 2014
<b>Actuarial Cost Method</b>	Entry age
<b>Amortization Method</b>	Level percent closed
<b>Remaining amortization period</b>	29 years
<b>Asset valuation method</b>	Five-year smoothed Market
<b>Actuarial assumptions:</b>	
<b>Investment rate of return</b>	7.75%
<b>Inflation Rate</b>	3.50%
<b>Projected salary increases</b>	4.50%
<b>Mortality Tables</b>	1983 Group Annuity Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.
<b>Date of Experience Study</b>	The period July 1, 2005 - June 30 2008

For the year ended June 30, 2015, the Plan recognized pension expenses of \$318,000 and deferred outflows and deferred inflows related to pension from the following sources:

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments \$	-0-	\$ 54,157
Contributions subsequent to the measurement date	255,559	-0-
Total	\$ 255,559	\$ 54,157

The \$255,559 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2016. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$	242,019
2017	\$	(13,539)
2018	\$	(13,539)
2019	\$	(13,539)

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

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

<b>Kentucky Retirement Systems</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Nominal Rate of Return</b>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S. Fixed Income	5%	7.25%
Non U.S. Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	1%	3.25%
Total	100%	

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2014, is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used. Projected future benefit payments for all current plan members were projected through 2116.

The following presents the net pension liability of the Authority, calculated using the discount rate of 7.75%, as well as what the Authority's net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%):

	Decrease (6.75%)	Discount (7.75%)	Increase (8.75%)
The Authority's proportionate share	\$ 4,740,603	\$ 4,213,974	\$ 3,739,172

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS.

In addition to the above defined benefit pension plan, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky and administered by the Kentucky Public Employees' Deferred Compensation Authority. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. There were no contributions made by the Authority during 2015 or 2014. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

Retired Authority employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance-funded on an actuarially-determined basis through the KERS. As indicated above, covered employees hired after September 1, 2008, contribute 1.00% of their salaries to the KERS Insurance Fund. The employer contribution to the Insurance Fund is included in the contribution rates indicated above. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

### 15. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Authority utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

### 16. NEW STANDARDS IMPLEMENTATION

During 2015, the Plan implemented **GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and **GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. These standards require the recognition of the entire net pension liability, a more comprehensive measure of pension expense and enhanced disclosures relating to the pension. The adoption of these standards decreased the previously presented net position as of June 30, 2014, by \$3,949,000. The 2014 financial statements have not been restated as the Plan's pension amounts were not

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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individually calculated at June 30, 2013, and it was not deemed practical to determine its impact on the opening 2014 financial position or the effect on the 2014 change in net position.

### 17. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the financial statements:

**GASB Statement No. 72**, *Fair Value Measurement and Application*, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governments requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statements users about the impact of fair value measurements on a government's financial position.

**GASB Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. The Statement addresses accounting and financial reporting for Postemployment Benefits Other than pensions (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement 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 disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.

**REQUIRED SUPPLEMENTARY INFORMATION**

# KENTUCKY INFRASTRUCTURE AUTHORITY

## SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY JUNE 30, 2015

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	<u>2015</u>
Proportion of the net pension liability (asset)	0.046969%
Proportionate share of the net pension liability	\$ 4,213,974
Covered- employee payroll	\$ 740,934
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	568.74%
Plan fiduciary net position as a percentage of the total pension liability	22.32%

\*Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## SCHEDULE OF CONTRIBUTIONS JUNE 30, 2015

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Statutorily required contribution	\$	<u>2015</u> 244,598
Contribution in relation to the statutorily required contribution		<u>139,421</u>
Contribution deficiency (excess)	\$	105,177
Covered employee payroll	\$	740,934
Contribution as a percentage of covered-employee payroll		18.82%

\*Note: This schedule is intended to present 10 years of the contributions and related ratios. Currently, only those years with information available are presented.

**SUPPLEMENTARY INFORMATION**

**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	Fund A	Fund B	Fund C	Fund F	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 25,387,000	\$ 793,000	\$ 2,960,000	\$ 49,000	\$ 29,189,000
Investments, current portion	260,561,000	12,806,000	21,756,000	68,816,000	363,939,000
Federal funds receivable	4,000	-0-	-0-	-0-	4,000
Intergovernmental receivables	-0-	570,000	-0-	-0-	570,000
Accrued interest receivable, investments	1,000	-0-	53,000	-0-	54,000
Accrued interest receivable, assistance agreements	1,022,000	129,000	48,000	483,000	1,682,000
Current maturities of long-term receivables	36,817,000	5,781,000	2,497,000	10,409,000	55,504,000
Other current assets	-0-	10,000	-0-	-0-	10,000
Total current assets	<u>323,792,000</u>	<u>20,089,000</u>	<u>27,314,000</u>	<u>79,757,000</u>	<u>450,952,000</u>
Investments	35,000	11,169,000	-0-	(175,000)	11,029,000
Investments, restricted for debt service	-0-	-0-	2,481,000	-0-	2,481,000
Total noncurrent investments	<u>35,000</u>	<u>11,169,000</u>	<u>2,481,000</u>	<u>(175,000)</u>	<u>13,510,000</u>
Long-term receivables:					
Assistance agreements receivable:					
Principal	657,075,000	62,984,000	23,295,000	199,190,000	942,544,000
Less:					
Current maturities	(36,817,000)	(5,781,000)	(2,497,000)	(10,409,000)	(55,504,000)
Unamortized discounts	-0-	-0-	(438,000)	-0-	(438,000)
Total long-term receivables	<u>620,258,000</u>	<u>57,203,000</u>	<u>20,360,000</u>	<u>188,781,000</u>	<u>886,602,000</u>
Total assets	<u>944,085,000</u>	<u>88,461,000</u>	<u>50,155,000</u>	<u>268,363,000</u>	<u>1,351,064,000</u>
Deferred outflow of resources:					
Net difference between projected and actual earnings on pension investments	121,000	11,000	14,000	109,000	255,000
Unamortized deferred amount on refunding	4,301,000	-0-	-0-	775,000	5,076,000
Total assets and deferrals	<u>948,507,000</u>	<u>88,472,000</u>	<u>50,169,000</u>	<u>269,247,000</u>	<u>1,356,395,000</u>
<b>LIABILITIES</b>					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized discounts and premiums	20,829,000	-0-	2,474,000	3,224,000	26,527,000
Accrued interest payable	2,666,000	-0-	147,000	533,000	3,346,000
Grants payable	-0-	604,000	-0-	-0-	604,000
Other payables	-0-	426,000	45,000	-0-	471,000
Total current liabilities	<u>23,495,000</u>	<u>1,030,000</u>	<u>2,666,000</u>	<u>3,757,000</u>	<u>30,948,000</u>
Long-term debt:					
Revenue bonds payable, net of current maturities and unamortized discounts and premiums	230,389,000	-0-	9,369,000	47,370,000	287,128,000
Net pension liability	2,002,000	179,000	235,000	1,798,000	4,214,000
Total liabilities	<u>255,886,000</u>	<u>1,209,000</u>	<u>12,270,000</u>	<u>52,925,000</u>	<u>322,290,000</u>
Deferred inflow of resources:					
Pension contributions subsequent to the measurement date	26,000	2,000	3,000	23,000	54,000
Unamortized deferred amount on refunding	-0-	-0-	230,000	-0-	230,000
Total liabilities and deferrals	<u>255,912,000</u>	<u>1,211,000</u>	<u>12,503,000</u>	<u>52,948,000</u>	<u>322,574,000</u>
<b>NET POSITION</b>					
Restricted net position	<u>\$ 692,595,000</u>	<u>\$ 87,261,000</u>	<u>\$ 37,666,000</u>	<u>\$ 216,299,000</u>	<u>\$ 1,033,821,000</u>

See report of independent auditors.

**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	\$ 1,107,000	\$ 113,000	\$ 43,000	\$ 403,000	\$ 1,666,000
Interest	10,193,000	1,020,000	-0-	3,232,000	14,445,000
Interest received securing revenue bonds	-0-	-0-	777,000	-0-	777,000
Amortization of premium	-0-	-0-	60,000	-0-	60,000
Grant administration fee	-0-	15,000	-0-	-0-	15,000
Amortization of bond premiums	1,948,000	3,000	-0-	374,000	2,325,000
Total operating revenues	<u>13,248,000</u>	<u>1,151,000</u>	<u>880,000</u>	<u>4,009,000</u>	<u>19,288,000</u>
Operating expenses:					
General and administrative	767,000	1,493,000	77,000	749,000	3,086,000
Intergovernmental administrative expense reimbursement	853,000	-0-	-0-	3,552,000	4,405,000
Grants	-0-	15,233,000	-0-	-0-	15,233,000
Interest - revenue bonds payable	9,247,000	16,000	326,000	1,799,000	11,388,000
Arbitrage expense	-0-	-0-	56,000	-0-	56,000
Total operating expenses	<u>10,867,000</u>	<u>16,742,000</u>	<u>459,000</u>	<u>6,100,000</u>	<u>34,168,000</u>
Operating income (loss)	<u>2,381,000</u>	<u>(15,591,000)</u>	<u>421,000</u>	<u>(2,091,000)</u>	<u>(14,880,000)</u>
Nonoperating revenues (expenses):					
Income from investments	193,000	11,000	153,000	38,000	395,000
Bond Issuance Cost	(386,000)	-0-	(70,000)	(192,000)	(648,000)
Net decrease in fair value of investments	52,000	-0-	(1,000)	13,000	64,000
Federal grants and reimbursements	17,087,000	-0-	-0-	16,170,000	33,257,000
Principal forgiveness on loans	(2,365,000)	8,000	(437,000)	(3,351,000)	(6,145,000)
Intergovernmental revenue from the Commonwealth	-0-	11,518,000	-0-	-0-	11,518,000
State appropriations	1,694,000	1,562,000	-0-	395,000	3,651,000
Miscellaneous expense	-0-	(1,000)	-0-	-0-	(1,000)
Total nonoperating revenues (expenses)	<u>16,275,000</u>	<u>13,098,000</u>	<u>(355,000)</u>	<u>13,073,000</u>	<u>42,091,000</u>
Change in net position	18,656,000	(2,493,000)	66,000	10,982,000	27,211,000
Net position, beginning of year (as previously stated)	675,816,000	89,921,000	37,820,000	207,002,000	1,010,559,000
Adjustment for net pension liability	(1,877,000)	(167,000)	(220,000)	(1,685,000)	(3,949,000)
Net Position, beginning of year (as adjusted)	<u>673,939,000</u>	<u>89,754,000</u>	<u>37,600,000</u>	<u>205,317,000</u>	<u>1,006,610,000</u>
Net position, end of year	<u>\$ 692,595,000</u>	<u>\$ 87,261,000</u>	<u>\$ 37,666,000</u>	<u>\$ 216,299,000</u>	<u>\$ 1,033,821,000</u>

9See report of independent auditors.