

**KENTUCKY INFRASTRUCTURE AUTHORITY**

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016 AND 2015**

# KENTUCKY INFRASTRUCTURE AUTHORITY

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Kentucky Infrastructure Authority  
Frankfort, Kentucky

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 years ended June 30, 2016 and 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.

To the Board of Directors  
Kentucky Infrastructure Authority

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 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, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note 18 to the financial statements, in 2016, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. 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 8, the schedule of the net proportionate share of the net pension liability and schedule of contributions on pages 40 through 41 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 42 through 45 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Blue & Co., LLC*

Lexington, Kentucky  
December 12, 2016

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016 AND 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, 2016. We encourage readers to read it in conjunction with the Authority's audited financial statements and the accompanying notes.

### **FINANCIAL HIGHLIGHTS**

- As of the close of fiscal year 2016, the Authority reported an ending net position of approximately \$1,067,615,000, an increase of approximately \$33,794,000 (3.27%) in comparison with the prior year.
- The Authority's total liabilities decreased approximately \$22,691,000 (7.04%) during fiscal year 2016.
- The Authority disbursed approximately \$98,586,000 to borrowers for eligible expenditures under loan assistance agreements and approximately \$10,735,000 to local governmental entities for state grants. Principal and interest in the amount of approximately \$73,629,000 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 shows how the Authority's net position changed during the most recent two fiscal years. 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, 2016 AND 2015

The statement of cash flows provides relevant information about the cash receipts and cash payments of the Authority during the fiscal year. The statement shows the differences between actual cash receipts and 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 13 through 39.

### **FINANCIAL ANALYSIS OF THE AUTHORITY**

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

	2016	% Increase (Decrease)	2015	% Increase (Decrease)	2014
Assets:					
Current assets	\$ 429,149,000	-4.83%	\$ 450,942,000	-1.48%	\$ 457,719,000
Long-term investments	9,629,000	-28.73%	13,510,000	-43.75%	24,018,000
Long-term receivables	920,392,000	3.81%	886,602,000	1.79%	870,980,000
Capital assets, net	23,000	130.00%	10,000	N/A	-0-
Total assets	<u>1,359,193,000</u>	0.60%	<u>1,351,064,000</u>	-0.12%	<u>1,352,717,000</u>
Deferred outflow of resources	<u>8,218,000</u>	54.15%	<u>5,331,000</u>	7856.72%	<u>67,000</u>
Total assets and deferrals	<u>1,367,411,000</u>	0.81%	<u>1,356,395,000</u>	0.27%	<u>1,352,784,000</u>
Liabilities:					
Current liabilities	30,742,000	-0.67%	30,948,000	-19.85%	38,613,000
Long-term debt	<u>268,857,000</u>	-7.72%	<u>291,342,000</u>	-3.96%	<u>303,349,000</u>
Total liabilities	<u>299,599,000</u>	-7.04%	<u>322,290,000</u>	-5.75%	<u>341,962,000</u>
Deferred inflow of resources	<u>197,000</u>	-30.63%	<u>284,000</u>	7.98%	<u>263,000</u>
Total liabilities and deferrals	<u>299,796,000</u>	-7.06%	<u>322,574,000</u>	-5.74%	<u>342,225,000</u>
Net position:					
Restricted net position	<u>\$ 1,067,615,000</u>	3.27%	<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.

During 2016, the Authority's total cash and cash equivalents and investments decreased approximately \$29,067,000.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016 AND 2015

At June 30, 2016, investments consist of a current portion of approximately \$365,807,000 and a non-current portion of approximately \$9,629,000. 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, 2017. 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 primarily consist of a concentration of investments with a maturity of three months or less when purchased (cash equivalents) in order to maintain sufficient liquidity.

During fiscal year 2016, new loan assistance agreements issued of approximately \$98,586,000 exceeded repayments of assistance agreements receivable of approximately \$57,758,000 and forgiveness of loan principal of \$5,362,000 contributing to the approximately \$35,527,000 increase in net assistance agreements receivable.

**Total liabilities** consist of bonds payable and related accrued interest; miscellaneous accounts and state grants payable, and accrued pension liabilities.

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

	2016	% Increase (Decrease)	2015	% Increase (Decrease)	2014
Operating revenues	\$ 20,256,000	5.02%	\$ 19,288,000	0.82%	\$ 19,132,000
Operating expenses	31,816,000	-6.88%	34,168,000	-22.40%	44,033,000
Operating loss	(11,560,000)	-22.31%	(14,880,000)	-40.24%	(24,901,000)
Non-operating revenues (expenses):					
Investment Income	1,058,000	130.50%	459,000	-36.43%	722,000
Bond issuance costs	(386,000)	-40.43%	(648,000)	N/A	-0-
Federal grants and reimbursements	28,958,000	-12.93%	33,257,000	-1.74%	33,845,000
Principal forgiveness on assistance agreements	(5,362,000)	-12.74%	(6,145,000)	-57.72%	(14,535,000)
Intergovernmental revenue from the Commonwealth	13,410,000	16.43%	11,518,000	-48.26%	22,260,000
State appropriations	7,676,000	110.24%	3,651,000	-1.62%	3,711,000
Miscellaneous expense	-0-	-100.00%	(1,000)	N/A	-0-
Change in net position	<u>\$ 33,794,000</u>	24.19%	<u>\$ 27,211,000</u>	28.95%	<u>\$ 21,102,000</u>

**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 \$539,000 (3.18%) from fiscal year 2015.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016 AND 2015

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**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 \$4,813,000 (31.60%) from 2015 due to the continued budgetary constraints of the Commonwealth. General and administrative costs increased approximately \$185,000 (5.99%) due to \$295,000 in net pension adjustments under GASB Statement No. 68.

**Non-operating revenues and expenses** consist of income from investments, net changes in the fair market value of investments, federal grant revenues and required principal forgiveness, intergovernmental revenues and state appropriations. Federal grant revenues and expenditures totaled approximately \$28,958,000 for new loans made to municipalities under federal programs and the cost of 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 2016, approximately \$5,362,000 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, 2016, the Authority had approximately \$249,175,000 in bond principal outstanding which is a decrease of 10.30% from last year. The decrease is due to scheduled maturities during the year. More detailed information about the Authority's long-term liabilities is presented in Note 7 of the financial statements.

**Bond Ratings.** As of June 30, 2016, the 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. There was no appropriation supported debt outstanding at this date.

**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 outstanding under any trust indenture or bond resolution exceeds the sum of five hundred million dollars (\$500,000,000) (KRS 224A. 165 (2) (b)). The Authority's outstanding debt, which meets this criterion, is significantly below this limit.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016 AND 2015

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Outstanding debt at June 30 consists of the following:

	<u>2016</u>	<u>% Increase (Decrease)</u>	<u>2015</u>	<u>% Increase (Decrease)</u>	<u>2014</u>
General fund appropriation supported debt \$	-0-	-100.00%	\$ 6,240,000	-23.53%	\$ 8,160,000
Program revenue supported debt	<u>249,175,000</u>	<u>-8.23%</u>	<u>271,535,000</u>	<u>-7.68%</u>	<u>294,115,000</u>
Total	<u>\$ 249,175,000</u>	<u>-10.30%</u>	<u>\$ 277,775,000</u>	<u>-8.11%</u>	<u>\$ 302,275,000</u>

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

The Authority administers grants under numerous House Bills. At June 30, 2016 approximately \$22,885,000 remained to be disbursed as outlined in Note 8, Grant Commitments.

### **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. For questions about this report or for additional financial information, contact Kentucky Infrastructure Authority, Fiscal Officer, 1024 Capital Center Drive, Suite 340, Frankfort, Kentucky, 40601.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF NET POSITION JUNE 30, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,135,000	\$ 29,189,000
Investments, current portion	365,807,000	363,939,000
Federal grant receivables	-0-	4,000
Intergovernmental receivables	2,529,000	570,000
Accrued interest receivable, investments	53,000	54,000
Accrued interest receivable, assistance agreements	1,384,000	1,682,000
Current maturities of long-term receivables	57,241,000	55,504,000
Total current assets	429,149,000	450,942,000
Investments	7,148,000	11,029,000
Investments, restricted for debt service	2,481,000	2,481,000
Total noncurrent investments	9,629,000	13,510,000
Long-term receivables:		
Assistance agreements receivable:		
Principal	978,010,000	942,544,000
Less:		
Current maturities	(57,241,000)	(55,504,000)
Unamortized discounts	(377,000)	(438,000)
Total long-term receivables	920,392,000	886,602,000
Capital assets, net	23,000	10,000
Total assets	1,359,193,000	1,351,064,000
Deferred outflow of resources:		
Penison related	808,000	255,000
Unamortized deferred amount on refunding	7,410,000	5,076,000
Total assets and deferrals	1,367,411,000	1,356,395,000
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of revenue bonds payable, net of unamortized premiums and discounts	23,740,000	26,527,000
Accrued interest payable	4,281,000	3,346,000
State treasury advances for capitalization grant matching funds	1,701,000	-0-
Grants payable	289,000	604,000
Other payables	731,000	471,000
Total current liabilities	30,742,000	30,948,000
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized premiums and discounts	263,677,000	287,128,000
Net pension liability	5,180,000	4,214,000
Total liabilities	299,599,000	322,290,000
Deferred inflow of resources:		
Penison related	-0-	54,000
Unamortized deferred amount on refunding	197,000	230,000
Total liabilities and deferrals	299,796,000	322,574,000
<b>NET POSITION</b>		
Restricted net position	\$ 1,067,615,000	\$ 1,033,821,000

See the accompanying notes to the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDING JUNE 30, 2016 AND 2015

	2016	2015
Operating revenues:		
Assistance agreements:		
Servicing fee	\$ 1,854,000	\$ 1,666,000
Interest income	15,573,000	15,222,000
Amortization of discounts	61,000	60,000
Grant administration fee	14,000	15,000
Amortization of bond premiums	2,754,000	2,325,000
Total operating revenues	20,256,000	19,288,000
Operating expenses:		
General and administrative	3,271,000	3,086,000
Intergovernmental administrative expense reimbursement	5,028,000	4,405,000
State grant expenditures	10,420,000	15,233,000
Revenue bonds payable:		
Interest	13,090,000	11,388,000
Arbitrage expense	7,000	56,000
Total operating expenses	31,816,000	34,168,000
Operating loss	(11,560,000)	(14,880,000)
Non-operating revenues (expenses):		
Investment Income	1,058,000	459,000
Bond Issuance Cost	(386,000)	(648,000)
Federal grants	28,958,000	33,257,000
Principal forgiveness on assistance agreements	(5,362,000)	(6,145,000)
Intergovernmental revenue from the Commonwealth	13,410,000	11,518,000
State appropriations	7,676,000	3,651,000
Miscellaneous revenue (expense)	-0-	(1,000)
Total non-operating revenues	45,354,000	42,091,000
Change in net position	33,794,000	27,211,000
Net position, beginning of year	1,033,821,000	1,006,610,000
Net position, end of year	\$ 1,067,615,000	\$ 1,033,821,000

See the accompanying notes to the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Administrative fees received	\$ 1,868,000	\$ 1,681,000
Collections on assistance agreements	57,758,000	59,972,000
Advances on assistance agreements	(98,586,000)	(84,839,000)
Interest received on assistance agreements	15,871,000	15,100,000
Cash payments for grants	(10,735,000)	(16,708,000)
Cash payments for personnel expenses	(1,357,000)	(1,604,000)
Cash payments to suppliers for goods and services	(4,642,000)	(6,214,000)
Net cash used in operating activities	(39,823,000)	(32,612,000)
Cash flows from noncapital financing activities:		
Payments on long-term debt	(26,770,000)	(28,040,000)
Payments to refund and defease debt	(59,719,000)	(77,664,000)
Bond issuance cost	(386,000)	(648,000)
Proceeds from new debt issuance	60,161,000	83,234,000
Interest paid on long-term debt	(11,656,000)	(13,711,000)
Receipt of federal grants	28,962,000	33,253,000
State appropriation	7,676,000	3,227,000
Payments from the Commonwealth	11,451,000	13,448,000
Net cash provided by noncapital financing activities	9,719,000	13,099,000
Cash flows from noncapital financing activities:		
Purchase of capital assets	(21,000)	(11,000)
Cash flows from investing activities:		
Purchase of investment securities	(373,000,000)	(363,940,000)
Proceeds from sale and maturities of investment securities	375,383,000	378,505,000
Interest and other investment income received	688,000	531,000
Net cash provided by investing activities	3,071,000	15,096,000
Net change in cash and cash equivalents	(27,054,000)	(4,428,000)
Cash and cash equivalents, beginning of year	29,189,000	33,617,000
Cash and cash equivalents, end of year	\$ 2,135,000	\$ 29,189,000

See the accompanying notes to the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2016 AND 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (11,560,000)	\$ (14,880,000)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of bond premium	(2,754,000)	(2,325,000)
Amortization of assistance agreements discounts	(61,000)	(60,000)
Amortization of bond defeasance included in interest	478,000	34,000
Depreciation of capital assets	8,000	1,000
Interest paid on long-term debt	11,656,000	13,711,000
Changes in assets and liabilities:		
Decrease (increase ) in accrued interest receivable on assistance agreements	298,000	(122,000)
Increase in assistance agreements receivable	(40,828,000)	(24,867,000)
Increase (decrease) in accrued interest payable	935,000	(2,357,000)
Increase in state treasury advances	1,701,000	-0-
Decrease in grants payable	(315,000)	(1,475,000)
Increase (decrease) in other payables	260,000	(334,000)
Change in deferred outflow	(553,000)	(116,000)
Change in deferred inflow	(54,000)	54,000
Change in net pension liability	966,000	124,000
Net cash used in operating activities	\$ (39,823,000)	\$ (32,612,000)
Supplemental disclosure of noncash investing activities:		
Net increase in fair value of investments	\$ 370,000	\$ 64,000

See the accompanying notes to the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 1. DESCRIPTION OF ORGANIZATION

In 1972, the General Assembly of Kentucky established the Kentucky Pollution Abatement Authority (KPAA) 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 KPAA aid and (b) to grant to KPAA 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 KPAA 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 KPAA 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 agency'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 agency to the "Kentucky Infrastructure Authority" (the Authority). 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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 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. Projects must be ranked on the Priority List by the Kentucky Division of Water and must be financially feasible as determined by the Authority's staff. Loans are provided at below-market interest rates with repayments not to exceed thirty years. Loan funds are available on short terms for planning and preliminary design work. The state's share of construction (state match funds) is funded with state appropriation – supported bonds for which the Commonwealth appropriates an amount equal to the related debt.

### 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.

Loans are provided at or below market rates with repayments not to 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 was 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 2016 and 2015, 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 loan) program assets to the appropriate accounts in the Fund B (infrastructure revolving loan) program.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 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 in the form of loans with repayment terms not to exceed 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 ranked on the Priority List by the Kentucky Division of Water and must be financially feasible as determined by the Authority's staff. Loans are provided at below-market interest rates with repayments not to exceed thirty years. Loans funds are available on short terms for planning and preliminary design work. The state's share of construction (state match funds) is funded with state appropriation-supported bonds for which the Commonwealth appropriates an amount equal to the related debt service.

## 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, 2016 AND 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.

### 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.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 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 as operating revenue. The Authority includes the interest paid on bonds issued to fund such loans as operating 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, deferred inflows of resources related to pension expense, 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 KERS.

### Reclassification of Capital Assets

During fiscal year 2016, the Authority elected to reclassify \$10,000 in other current assets in the statement of net position as of June 30, 2015 to a separate line item classified as Capital Assets, net. Total current assets decreased by \$10,000 as a result the reclassification. No other accounts were affected.

## 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2016 and 2015, cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Commercial paper	\$ -0-	\$ 25,051,000
First American Government Obligation Fund	1,202,000	3,550,000
State cash and investment pool	<u>933,000</u>	<u>588,000</u>
Total cash and cash equivalents	<u>\$ 2,135,000</u>	<u>\$ 29,189,000</u>

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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The following schedule presents the carrying amounts of investments by maturity at June 30, 2016:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rate</u>	<u>Credit Rating</u>
Federal Home Loan Bank Discount Notes	\$ 10,985,000	07/13/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	57,749,000	07/15/16	0.38%	AAA
Federal Home Loan Bank Discount Notes	6,286,000	08/12/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	34,300,000	08/15/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	127,241,000	09/14/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	2,992,000	09/15/16	0.00%	AAA
U S Treasury Bill	126,254,000	08/11/16	0.19%	N/A
U S Treasury Notes	2,481,000	08/01/22	5.12%	N/A
	<u>368,288,000</u>			
Investment in state pool	7,148,000			
Total	<u>375,436,000</u>			
Less: current portion	<u>365,807,000</u>			
Long-term investments	<u>\$ 9,629,000</u>			

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

Investment	Fair Value	Maturity	Rate	Credit Rating
Federal Agriculture Management Corporation	\$ 23,993,000	10/15/2015	0.130%	AA+
Federal Farm Credit Bank Discount Notes	23,251,000	9/15/2015	0.130%	AAA
Federal Home Loan Bank Discount Notes	34,432,000	7/15/2015	0.110%	AAA
Federal Home Loan Bank Discount Notes	26,589,000	11/12/2015	0.130%	AAA
Federal Home Loan Bank Discount Notes	3,143,000	7/15/2015	0.050%	AAA
Federal Home Loan Bank Discount Notes	3,228,000	8/14/2015	0.130%	AAA
Federal Home Loan Bank Discount Notes	6,434,000	9/15/2015	0.140%	AAA
Federal Home Loan Bank Discount Notes	260,000	7/15/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	178,000	8/14/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	299,000	9/15/2015	0.050%	AAA
Federal Home Loan Bank Discount Notes	572,000	11/13/2015	0.110%	AAA
Federal Home Loan Bank Discount Notes	434,000	9/15/2015	0.125%	AAA
Federal Home Loan Bank Discount Notes	1,494,000	11/13/2015	0.130%	AAA
Federal Home Loan Bank Discount Notes	55,160,000	7/15/2015	0.140%	AAA
Federal Home Loan Bank Discount Notes	6,711,000	7/15/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	10,046,000	8/14/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	7,626,000	7/15/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	8,366,000	8/14/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	24,470,000	9/15/2015	0.000%	AAA
Federal Home Loan Bank Discount Notes	19,976,000	7/15/2015	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	23,252,000	8/17/2015	0.070%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	45,008,000	12/4/2015	0.140%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	1,495,000	2/12/2016	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	832,000	7/15/2015	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	434,000	8/14/2015	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	5,054,000	1/15/2016	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	15,283,000	7/15/2015	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	4,998,000	10/15/2015	0.000%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	2,492,000	1/15/2016	0.625%	AAA
Federal Home Loan Mortgage Corporation (FHLMC)	4,576,000	7/15/2015	0.625%	AAA
FNMA	706,000	1/15/2016	4.450%	AAA
FNMA	579,000	9/15/2015	0.250%	AAA
US Treasury Note	1,560,000	10/15/2015	0.250%	N/A
US Treasury Note	999,000	12/15/2015	0.250%	N/A
US Treasury Note	2,481,000	8/1/2022	5.120%	N/A
	<u>366,411,000</u>			
Investment in state pool	11,038,000			
Total	<u>377,449,000</u>			
Less: current portion	363,939,000			
Long-term investments	<u>\$ 13,510,000</u>			

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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At June 30, 2016 and 2015, all of the Authority's investments, other than those in U.S. Treasury securities, possess a Moody's rating of Aaa or a Standard and Poor's rating of AA+.

*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, 2016 and 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 it 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 (Finance and Administration Cabinet) to determine suitable investments.

At June 30, 2016 and 2015 the Authority maintained \$8,081,000 and \$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 Administrative Regulation (KAR) Chapter 14. Funds 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, 2016, but they own a proportionate interest in the securities held in the respective pools.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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*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, 2016 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	\$ 42,000	\$ 10,479,000	\$ 10,521,000
Revolving Fund	1,072,000	204,972,000	206,044,000
Debt Service Reserve Fund	-0-	2,481,000	2,481,000
Revenue Fund	1,000	3,038,000	3,039,000
Surplus Fund	87,000	147,318,000	147,405,000
Funds in State Pool	933,000	7,148,000	8,081,000
	<u>\$ 2,135,000</u>	<u>\$ 375,436,000</u>	<u>\$ 377,571,000</u>

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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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- C. Debt Service Reserve Fund - Designated as an allowance or reserve for the payment of principal and interest on revenue bonds for 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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following reimbursements for expenditures incurred prior to June 30, 2016 and 2015:

	2016	2015
State Property and Building Commission bond issue - funding of the state match for the KIA Fund F Federally Assisted Drinking Water Program per 2014 House Bill 235 (*)	\$ 1,701,000	\$ -0-
Due from the Commonwealth's General Fund for debt service and general and administrative costs	679,000	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	-0-	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	-0-	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	58,000	33,000
State Property and Building Commission bond issue - funding of water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	36,000	77,000
State Property and Building Commission bond issue - funding of water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	55,000	14,000
	\$ 2,529,000	\$ 570,000

\* The State Treasury periodically authorizes disbursement of funds by the Authority representing the state match for awarded EPA capitalization grants. The disbursements are recorded as a current liability, "State Treasury Advances for Capitalization Grant Matching Funds", until the State Property and Building Commission issues bonds as the final funding source for the state match. Income as well as a receivable from the State Property and Building Commission is recorded by the Authority at the same time of the original disbursement.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 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, 2016, 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 \$977,633,000 and \$942,106,000 in net assistance agreements receivable at June 30, 2016 and 2015, respectively, the Authority has commitments remaining to disburse funds summarized as follows:

	2016	2015
Fund A - Clean Water State Revolving Fund Loan Program	\$ 294,639,000	\$ 336,909,000
Fund B - Infrastructure Revolving Loan Program	9,673,000	9,676,000
Fund C - Governmental Agencies Program	5,095,000	7,738,000
Fund F - Drinking Water State Revolving Fund Loan Program	93,139,000	74,896,000
Total commitments outstanding	\$ 402,546,000	\$ 429,219,000

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

Long-term debt consists of the following at June 30, 2016:

	Balance	Current	Long-term
Fund A, Wastewater Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	\$ 200,045,000	\$ 15,760,000	\$ 184,285,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 2.00% to 5.29%, due semi-annually, principal due annually to August 1, 2022	10,000,000	1,860,000	8,140,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	39,130,000	2,570,000	36,560,000
	249,175,000	20,190,000	228,985,000
Bond principal payable	38,242,000	3,550,000	34,692,000
Unamortized premium	\$ 287,417,000	\$ 23,740,000	\$ 263,677,000
Total	\$ 287,417,000	\$ 23,740,000	\$ 263,677,000

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

	Balance	Current	Long-term
Fund A, Wastewater 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
	277,775,000	21,980,000	255,795,000
Bond principal payable	35,880,000	4,547,000	31,333,000
Unamortized premium	\$ 313,655,000	\$ 26,527,000	\$ 287,128,000
Total	\$ 313,655,000	\$ 26,527,000	\$ 287,128,000

Except for cash deposited with the state, all cash and investments of the Authority are held 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
2017	\$ 20,190,000	\$ 10,832,000	\$ 31,022,000
2018	20,060,000	10,586,000	30,646,000
2019	19,715,000	9,705,000	29,420,000
2020	19,095,000	8,792,000	27,887,000
2021	18,980,000	8,012,000	26,992,000
2022 - 2026	86,355,000	27,397,000	113,752,000
2027 - 2031	62,530,000	7,976,000	70,506,000
2032	2,250,000	82,000	2,332,000
	\$ 249,175,000	\$ 83,382,000	\$ 332,557,000

## KENTUCKY INFRASTRUCTURE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2016:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Bond principal payable	\$ 277,775,000	\$ 49,070,000	\$ 77,670,000	\$ 249,175,000
Unamortized premiums	35,880,000	11,091,000	8,729,000	38,242,000
Total	\$ 313,655,000	\$ 60,161,000	\$ 86,399,000	\$ 287,417,000

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 March 2016, the Authority issued Wastewater and Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2016A, in the aggregate principal of \$49,070,000. The Authority issued the bonds to advance refund \$27,750,000 and \$23,150,000 of the outstanding Series 2010A and 2012A bonds, respectively, all of which have 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 when due, through the February 1, 2020 and February 1, 2022 redemption dates on the 2010A and 2012A bonds to be refunded, respectively. Upon deposit of the direct obligations with the Trustee, the bonds to be refunded were considered defeased and the Authority removed the liabilities from its accounts.

After payment of the new debt issuance costs, the proceeds from the new debt allocated for the refunding totaled \$59,779,000. The debt service requirement to service the new debt issued for the refunding is calculated as follows:

Proceeds from new debt deposited with Trustee	\$ 59,779,000
Debt issuance costs	382,000
Premium on new bonds	(11,091,000)
New debt	\$ 49,070,000

The cash flow required to service the refunded 2010A and 2012A bonds and the 2016A refunding bonds to maturity is \$75,103,000 and \$71,064,000, respectively, which results in a difference of \$4,039,000.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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The economic gain from this refunding transaction is calculated as the difference between the present value of the aggregate debt service requirements of the refunded 2010 Series A and the 2012 Series A, and the present value of the 2016 Series A debt service requirements, discounted at the effective rate of the 2016 Series A Bonds. The economic gain on the advance refunding is \$3,619,000.

As of June 30, 2016 and 2015, \$116,595,000 and \$65,695,000, respectively, of defeased bonds were outstanding.

### 8. GRANT COMMITMENTS – FUND B

The Authority has committed to disburse grant funds from Fund B as follows:

	2016	2015
Funded by Fund B agency funds:		
2020 Account	\$ 2,000	\$ 660,000
Funded by Fund B bond funds:		
2005 HB 267 Coal IEDF	64,000	182,000
2005 HB 267 Tobacco IEDF	285,000	490,000
2006 HB 380 Coal	204,000	372,000
2006 HB 380 Non Coal	3,831,000	6,479,000
2008 HB 406 / 608 Coal	3,833,000	5,376,000
2008 HB 406 / 608 Non Coal	6,843,000	8,935,000
Total funded by Fund B bond funds	15,060,000	21,834,000
2008 HB410; 2010 HB1; 2012 HB365; 2014 HB235 Coal Severance	7,823,000	11,732,000
Total grant commitments	\$ 22,883,000	\$ 33,566,000

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 is 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, 2016 AND 2015

### 9. INTERGOVERNMENTAL REVENUE

Intergovernmental revenue from the Commonwealth during the fiscal years ended June 30, 2016 and 2015:

	2016	2015
State Property and Building Commission bond issue - funding of the state match for the KIA Fund A Federally Assisted Wastewater Program per 2005 House Bill 267 and 2006 House Bill 380	\$ 3,515,000	\$ -0-
State Property and Building Commission bond issue - funding of the state match for the KIA Fund F Federally Assisted Drinking Water Program per 2005 House Bill 267 and 2006 House Bill 380	2,919,000	-0-
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	101,000	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	77,000	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	123,000	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	2,645,000	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	1,542,000	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	2,042,000	4,331,000
Coal Severance Tax Receipts – funding of the water and sewer projects from the Coal Severance per 2012 House Bill 265	446,000	2,450,000
Total intergovernmental revenue from the Commonwealth	\$ 13,410,000	\$ 11,518,000

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 10. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the years ended June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Appropriations for debt service	\$ 6,399,000	\$ 2,326,000
Appropriations for general and administrative costs	<u>1,277,000</u>	<u>1,325,000</u>
Total state appropriations	<u>\$ 7,676,000</u>	<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:

	<u>2016</u>	<u>2015</u>
Restricted by law	\$ 1,065,134,000	\$ 1,031,340,000
Restricted for debt service	<u>2,481,000</u>	<u>2,481,000</u>
Total restricted net position	<u>\$ 1,067,615,000</u>	<u>\$ 1,033,821,000</u>

### 12. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the years ended June 30, 2016 and 2015, totaled \$5,028,000 and \$4,405,000, for services provided by the Commonwealth Energy and Environment Cabinet's 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 \$29,000 and \$31,000 for the years ending June 30, 2016 and 2015, respectively. The Authority also received the benefit of administrative services from DLG for 2016 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 \$38,000 and \$37,000 for the years ending June 30, 2016 and 2015, respectively.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 14. RETIREMENT PLANS

All employees who work more than one hundred hours per month participate in a defined benefit plan administered by Kentucky Employee Retirement System (KERS), a cost-sharing multi-employer public employee retirement system.

	<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 KERS.		
<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 year 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, 2016 AND 2015

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
	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

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Benefit and contribution rates are established by the state statute. Per KRS 61.565, contribution requirements of the active employees and the participating organization are established and may be amended by the KERS board. For the fiscal year ended June 30, 2016, the Authority's employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The Authority was contractually required to contribute 30.4 percent and 7.93 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively. This amount was actuarially determined to, when combined with employee contributions, be expected to finance the cost of benefits earned during the year, with an additional amount to finance any unfunded accrued liability. The Authority's total contributions to KERS nonhazardous pension plans for the year ended June 30, 2016 was \$241,061.

At June 30, 2016, the Authority reported a liability of \$5,180,000 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on contributions to the pension plan relative to the total contributions of all participating entities for the year ended June 30, 2015. At June 30, 2016, the Authority's proportion was 0.051624 percent.

<b>Actuarial Assumptions</b>	<b>2016</b>	<b>2015</b>
<b>Actuarial Valuation Date</b>	June 30, 2015	June 30, 2014
<b>Actuarial Cost Method</b>	Entry age	Entry age
<b>Amortization Method</b>	Level percent closed	Level percent closed
<b>Remaining amortization period</b>	28 years	29 years
<b>Asset valuation method</b>	Five-year smoothed market	Five-year smoothed market
<b>Actuarial assumptions:</b>		
<b>Investment rate of return</b>	7.50%	7.75%
<b>Inflation Rate</b>	3.25%	3.50%
<b>Projected salary increases</b>	4.00%	4.50%
<b>Mortality Tables:</b>		
<b>Active member</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)	1994 Group Annuity Mortality Table
<b>Health retired members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)	1983 Group Annuity Table as of June 30, 2006
<b>Disable members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males)	1983 Group Annuity Table as of June 30, 2006, set forward 5 years for the period after disability retirement.
<b>Date of Experience Study</b>	The period July 1, 2008 - June 30, 2013	The period July 1, 2005 - June 30, 2008

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

For the year ended June 30, 2016, the Authority recognized pension expenses of \$598,184 and deferred outflows related to pension from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 11,064	\$ -0-
Net difference between projected and actual earnings on investments	14,750	-0-
Change of assumption	248,245	-0-
Changes in proportion and difference between employer contributions and proportionate share of contributions	292,856	-0-
Contributions subsequent to the measurement date	241,061	-0-
Total	\$ 807,976	\$ -0-

The \$241,061 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows

### **Deferred Amounts to be Recognized in Fiscal Years Following the Reporting Date**

<u>Fiscal Years</u>			
2017	\$	246,718	
2018		246,718	
2019		62,665	
2020		10,814	
Total	\$	566,915	

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

	Deferred Outflows	Deferred Inflows
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:

### Deferred Amounts to be Recognized in Fiscal Years Following the Reporting Date

Fiscal Years			
2016	\$		(13,540)
2017			(13,539)
2018			(13,539)
2019			(13,539)
Total	\$		(54,157)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed was for the period covering fiscal years 2008 through 2013 and 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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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The 2016 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

### Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.3%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
	100%	

The 2015 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

### Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S Fixed Income	5%	7.25%
Non U.S. Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
	100%	

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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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 28-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, 2015 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. 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 2117.

The following presents the net pension liability of the Authority at June 30, 2016, calculated using the discount rate of 7.50%, 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 (6.50%) or one percentage point higher (8.50%):

	1% Decrease (6.50%)	Discount (7.50%)	1% Increase (8.50%)
The Authority's proportionate share	\$ 5,833,550	\$ 5,178,863	\$ 4,625,023

The following presents the net pension liability of the Authority at June 30, 2015, 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%):

	1% Decrease (6.75%)	Discount (7.75%)	1% Increase (8.75%)
The Authority's proportionate share	\$ 4,740,603	\$ 4,213,974	\$ 3,739,172

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. 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. The Kentucky Public Employees Deferred Compensation Authority (KPEDCA) issues a publicly available financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 15. POST-EMPLOYMENT HEALTH CARE BENEFITS

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.

June 30,	Statutorily Required Contribution Rate (As a Percentage of Covered Payroll)	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed
2016	7.93%	\$ 61,985	\$ 61,985	100%
2015	7.93%	\$ 65,697	\$ 65,697	100%
2014	9.50%	\$ 73,433	\$ 73,433	100%

### 16. 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.

### 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If an asset or liability has a specified (contractual) term, the level 2 inputs must be observable for substantially the full term of the asset or liability.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

- *U.S. Treasury and U.S. Agency Securities:* Valued using quoted prices in active markets for similar securities and interest rates.

The following table sets forth by level within hierarchy, the Authority's investment at fair value for June 30, 2016:

<b>Assets at Fair Value as of June 30, 2016</b>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment in State Pool	\$ 71,000	\$ 7,077,000	\$ -0-	\$ 7,148,000
Federal Home Loan Bank Discount Notes	-0-	239,553,000	-0-	239,553,000
U.S Treasury Bill	-0-	126,254,000	-0-	126,254,000
U.S Treasury Notes	-0-	2,481,000	-0-	2,481,000
	\$ 71,000	\$ 375,365,000	\$ -0-	\$ 375,436,000

The following table sets forth by level within hierarchy, the Authority's investment at fair value for June 30, 2015:

<b>Assets at Fair Value as of June 30, 2015</b>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment in State Pool	\$ 68,000	\$ 10,970,000	\$ -0-	\$ 11,038,000
Federal Agriculture Management Corporation	-0-	23,993,000	-0-	23,993,000
Federal Farm Credit Bank Discount Notes	-0-	23,251,000	-0-	23,251,000
Federal Home Loan Bank Discount Notes	-0-	209,418,000	-0-	209,418,000
Federal Home Loan Mortgage Corporation (FHLMC)	-0-	103,424,000	-0-	103,424,000
FNMA	-0-	1,285,000	-0-	1,285,000
U.S Treasury Notes	-0-	5,040,000	-0-	5,040,000
	\$ 68,000	\$ 377,381,000	\$ -0-	\$ 377,449,000

The Authority's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2016 and 2015.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 18. NEW STANDARDS IMPLEMENTATION

During 2016, the Authority implemented **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 statement users about the impact of fair value measurements on a government's financial position.

### 19. 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. 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.

**GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68 and No. 78***, will be effective for periods beginning after June 15, 2016. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting practice, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**REQUIRED SUPPLEMENTARY INFORMATION**

# KENTUCKY INFRASTRUCTURE AUTHORITY

## SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY JUNE 30, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.0516%	0.0497%
Proportionate share of the net pension liability	\$ 5,178,848	\$ 4,214,000
Covered employee payroll	\$ 828,620	\$ 772,709
Proportionate share of the net pension liability as a percentage of its covered employee payroll	625.00%	545.35%
Pension plan fiduciary net position as a percentage of the total pension liability	22.32%	18.83%

\*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, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 241,061	\$ 255,559
Contribution in relation to the statutorily required contribution	\$ 241,061	\$ 255,559
Contribution deficiency (excess)	\$ -0-	\$ -0-
Covered employee payroll	\$ 781,651	\$ 828,620
Contribution as a percentage of covered employee payroll	30.84%	30.84%

\*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, 2016

	Fund A	Fund B	Fund C	Fund F	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 782,000	\$ 1,031,000	\$ 14,000	\$ 308,000	\$ 2,135,000
Investments, current portion	260,184,000	16,449,000	22,405,000	66,769,000	365,807,000
Intergovernmental receivables	-0-	828,000	-0-	1,701,000	2,529,000
Accrued interest receivable, investments	-0-	-0-	53,000	-0-	53,000
Accrued interest receivable, assistance agreements	872,000	135,000	106,000	271,000	1,384,000
Current maturities of long-term receivables	39,458,000	3,995,000	2,744,000	11,044,000	57,241,000
Total current assets	301,296,000	22,438,000	25,322,000	80,093,000	429,149,000
Investments	7,000	7,138,000	3,000	-0-	7,148,000
Investments, restricted for debt service	-0-	-0-	2,481,000	-0-	2,481,000
Total noncurrent investments	7,000	7,138,000	2,484,000	-0-	9,629,000
Long-term receivables:					
Assistance agreements receivable:					
Principal	688,334,000	60,339,000	24,654,000	204,683,000	978,010,000
Less:					
Current maturities	(39,458,000)	(3,995,000)	(2,744,000)	(11,044,000)	(57,241,000)
Unamortized Discount	-0-	-0-	(377,000)	-0-	(377,000)
Total long-term receivables	648,876,000	56,344,000	21,533,000	193,639,000	920,392,000
Capital assets, net	-0-	23,000	-0-	-0-	23,000
Total assets	950,179,000	85,943,000	49,339,000	273,732,000	1,359,193,000
Deferred outflow of resources:					
Penison related	381,000	33,000	47,000	347,000	808,000
Unamortized deferred amount on refunding	6,139,000	-0-	-0-	1,271,000	7,410,000
Total assets and deferrals	956,699,000	85,976,000	49,386,000	275,350,000	1,367,411,000
<b>LIABILITIES</b>					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized discounts and premiums	18,701,000	-0-	1,886,000	3,153,000	23,740,000
Accrued interest payable	3,453,000	-0-	158,000	670,000	4,281,000
State treasury for capitalization grant matching funds	-0-	-0-	-0-	1,701,000	1,701,000
Grants payable	-0-	289,000	-0-	-0-	289,000
Other payables	-0-	679,000	52,000	-0-	731,000
Total current liabilities	22,154,000	968,000	2,096,000	5,524,000	30,742,000
Long-term debt:					
Revenue bonds payable, net of current maturities and unamortized discounts and premiums	213,136,000	-0-	8,363,000	42,178,000	263,677,000
Net pension liability	2,456,000	218,000	293,000	2,213,000	5,180,000
Total liabilities	237,746,000	1,186,000	10,752,000	49,915,000	299,599,000
Deferred inflow of resources:					
Unamortized deferred amount on refunding	-0-	-0-	197,000	-0-	197,000
Total liabilities and deferrals	237,746,000	1,186,000	10,949,000	49,915,000	299,796,000
<b>NET POSITION</b>					
Restricted net position	\$ 718,953,000	\$ 84,790,000	\$ 38,437,000	\$ 225,435,000	\$ 1,067,615,000

See report of independent auditors.

# 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	323,792,000	20,089,000	27,314,000	79,757,000	450,952,000
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	35,000	11,169,000	2,481,000	(175,000)	13,510,000
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	620,258,000	57,203,000	20,360,000	188,781,000	886,602,000
Total assets	944,085,000	88,461,000	50,155,000	268,363,000	1,351,064,000
Deferred outflow of resources:					
Pension related	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	948,507,000	88,472,000	50,169,000	269,247,000	1,356,395,000
<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	23,495,000	1,030,000	2,666,000	3,757,000	30,948,000
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	255,886,000	1,209,000	12,270,000	52,925,000	322,290,000
Deferred inflow of resources:					
Pension related	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	255,912,000	1,211,000	12,503,000	52,948,000	322,574,000
<b>NET POSITION</b>					
Restricted net position	\$ 692,595,000	\$ 87,261,000	\$ 37,666,000	\$ 216,299,000	\$ 1,033,821,000

See report of independent auditors.

## KENTUCKY INFRASTRUCTURE AUTHORITY

### COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	\$ 1,228,000	\$ 116,000	\$ 44,000	\$ 466,000	\$ 1,854,000
Interest income	10,602,000	907,000	870,000	3,194,000	15,573,000
Amortization of premium	-0-	-0-	61,000	-0-	61,000
Grant administration fee	-0-	14,000	-0-	-0-	14,000
Amortization of bond premiums	2,189,000	-0-	49,000	516,000	2,754,000
Total operating revenues	14,019,000	1,037,000	1,024,000	4,176,000	20,256,000
Operating expenses:					
General and administrative	989,000	1,294,000	72,000	916,000	3,271,000
Intergovernmental administrative expense reimbursement	1,005,000	-0-	-0-	4,023,000	5,028,000
State grant expenditures	-0-	10,420,000	-0-	-0-	10,420,000
Interest - revenue bonds payable	10,648,000	-0-	346,000	2,096,000	13,090,000
Arbitrage expense	-0-	-0-	7,000	-0-	7,000
Total operating expenses	12,642,000	11,714,000	425,000	7,035,000	31,816,000
Operating income (loss)	1,377,000	(10,677,000)	599,000	(2,859,000)	(11,560,000)
Non-operating revenues (expenses):					
Investment Income	669,000	37,000	172,000	180,000	1,058,000
Bond Issuance Cost	(322,000)	-0-	-0-	(64,000)	(386,000)
Federal grants	19,314,000	-0-	-0-	9,644,000	28,958,000
Principal forgiveness on assistance agreements	(1,738,000)	(23,000)	-0-	(3,601,000)	(5,362,000)
Intergovernmental revenue from the Commonwealth	3,515,000	6,915,000	-0-	2,980,000	13,410,000
State appropriations	3,543,000	1,277,000	-0-	2,856,000	7,676,000
Miscellaneous revenue	-0-	-0-	-0-	-0-	-0-
Total non-operating revenues (expenses)	24,981,000	8,206,000	172,000	11,995,000	45,354,000
Change in net position	26,358,000	(2,471,000)	771,000	9,136,000	33,794,000
Net position, beginning of year	692,595,000	87,261,000	37,666,000	216,299,000	1,033,821,000
Net position, end of year	\$ 718,953,000	\$ 84,790,000	\$ 38,437,000	\$ 225,435,000	\$ 1,067,615,000

See report of independent auditors.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES 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 Income	10,193,000	1,020,000	777,000	3,232,000	15,222,000
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
State grant expenditures	-0-	15,233,000	-0-	-0-	15,233,000
Revenue bonds payable:					
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>
Non-operating revenues (expenses):					
Investment Income	245,000	11,000	152,000	51,000	459,000
Bond Issuance Cost	(386,000)	-0-	(70,000)	(192,000)	(648,000)
Federal grants	17,087,000	-0-	-0-	16,170,000	33,257,000
Principal forgiveness on assistance agreements	(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 non-operating 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	<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>

See report of independent auditors.