

# **KENTUCKY INFRASTRUCTURE AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

# 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 business-type activities of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of June 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplementary information included in the accompanying schedules on pages 37 and 38 is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Blue & Co., LLC*

December 5, 2012

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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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 years ended June 30, 2012 and 2011. We encourage readers to read it in conjunction with the Authority's financial statements and the accompanying notes.

### **FINANCIAL HIGHLIGHTS**

- As of the close of fiscal year 2012, the Authority reported combined ending net assets of approximately \$918,854,000 an increase of approximately \$101,138,000 (12.4%) in comparison with the prior year.
- The Authority's total debt increased approximately \$58,320,000 (18.2%) during fiscal year 2012.
- The Authority disbursed approximately \$157,891,000 to borrowers for assistance agreements and approximately \$47,747,000 to local governmental entities in state grants. Principal and interest in the amount of approximately \$52,186,000 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 assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets 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, 2012

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13 - 36.

### FINANCIAL ANALYSIS OF THE AUTHORITY

#### Condensed Financial Information Statement of Net Assets As of June 30

	<u>2012</u>	<u>% Increase (Decrease)</u>	<u>2011</u>	<u>% Increase (Decrease)</u>	<u>2010</u>
Assets:					
Current assets	\$ 482,463,000	10.43%	\$ 436,894,000	8.09%	\$ 404,176,000
Long-term investments	20,191,000	3.14%	19,576,000	-88.28%	167,002,000
Long-term receivables	802,498,000	15.67%	693,771,000	25.51%	552,782,000
Net capital assets	-0-	n/a	-0-	-100.00%	6,000
Other assets	<u>2,544,000</u>	7.77%	<u>2,361,000</u>	-8.24%	<u>2,573,000</u>
Total assets	<u>1,307,696,000</u>	13.46%	<u>1,152,602,000</u>	2.31%	<u>1,126,539,000</u>
Liabilities:					
Current liabilities	30,051,000	-13.90%	34,901,000	-5.66%	36,995,000
Long-term debt	<u>359,091,000</u>	19.58%	<u>300,285,000</u>	-6.42%	<u>320,870,000</u>
Total liabilities	<u>389,142,000</u>	16.10%	<u>335,186,000</u>	-6.34%	<u>357,865,000</u>
Net assets:					
Invested in capital net of related debt	-0-	n/a	-0-	-100.00%	6,000
Restricted net assets	<u>918,554,000</u>	12.37%	<u>817,416,000</u>	6.34%	<u>768,668,000</u>
Total net assets	<u>\$ 918,554,000</u>	12.37%	<u>\$ 817,416,000</u>	6.34%	<u>\$ 768,674,000</u>

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

During 2012, the Authority's total cash and cash equivalents and investments increased approximately \$44,145,000. During 2011, the Authority's total cash and cash equivalents and investments decreased approximately \$107,093,000.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

At June 30, 2012, investments consist of a current portion of approximately \$1,691,000 and a non-current portion of approximately \$20,191,000. As of June 30, 2012, 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, 2013. The non-current portion is representative of the Authority's investments maintained within the State cash and investment pool and other investments with maturities greater than one year. The Authority's investments tend to consist of a large concentration of investments with a maturity of three months or less when purchased (cash equivalents) in order to maintain sufficient liquidity.

During fiscal year 2012, new loan assistance agreements issued of approximately \$157,891,000 exceeded repayments of assistance agreements receivable of approximately \$38,708,000 and forgiveness of loan principal of \$3,097,000, primarily under American Reinvestment and Recovery Act Awards, contributing to the approximately \$116,147,000 increase in net assistance agreements receivable. During fiscal year 2011, new loan assistance agreements issued of approximately \$191,775,000 exceeded repayments of assistance agreements receivable of approximately \$40,566,000 and forgiveness of loan principal of \$13,510,000, primarily under American Reinvestment and Recovery Act Awards, contributing to the approximately \$137,699,000 increase in net assistance agreements receivable.

**Total liabilities** typically consist of current and non-current portions of revenue bonds payable and related accrued interest thereon. During fiscal year 2012, long-term debt increased approximately \$58,806,000.

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

	2012	% Increase (Decrease)	2011	% Increase (Decrease)	2010
Operating revenues	\$ 16,461,000	15.32%	\$ 14,274,000	9.12%	\$ 13,081,000
Operating expenses	<u>63,433,000</u>	-41.31%	<u>108,072,000</u>	-24.26%	<u>142,698,000</u>
Operating loss	(46,972,000)	-49.92%	(93,798,000)	-27.63%	(129,617,000)
Nonoperating revenues (expenses):					
Income from investments	915,000	-86.77%	6,914,000	-24.84%	9,199,000
Net increase (decrease) in fair market value of investments	245,000	-106.87%	(3,567,000)	-51.52%	(7,357,000)
Federal grants and reimbursements	39,732,000	-18.01%	48,460,000	-9.81%	53,734,000
Principal forgiveness on loans	(3,097,000)	-77.07%	(13,510,000)	-27.45%	(18,623,000)
Intergovernmental revenue from the Commonwealth	50,988,000	-41.22%	86,739,000	-36.63%	136,885,000
State appropriations	<u>59,327,000</u>	238.94%	<u>17,504,000</u>	5.35%	<u>16,616,000</u>
Change in net assets	<u>\$ 101,138,000</u>	107.49%	<u>\$ 48,742,000</u>	-19.88%	<u>\$ 60,837,000</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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**Operating revenues** primarily consist of interest and service fee revenue from assistance agreements receivable and grant administration fees. Interest on assistance agreements receivable and related service fees increased approximately \$2,169,000 from fiscal year 2011. Grant administration fees decreased approximately \$90,000 as a result of fewer grant starts during 2012.

**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 \$43,577,000 from 2011. The decrease is primarily attributable to the budgetary constraints of the Commonwealth that resulted in fewer awards for fiscal year 2012. General and administrative costs decreased approximately \$50,000 due to the decrease in grant administration.

**Nonoperating revenues and expenses** consist of income from investments, net changes in the fair market value of investments, federal grant revenues and related expenses, intergovernmental revenues and state appropriations. Federal grant revenues and expenditures totaled approximately \$39,732,000 for new loans made to municipalities under federal programs. A portion of these funds were awarded under the American Reinvestment and Recovery Act (ARRA) and, as such, were required to be forgiven under the terms of the ARRA programs. For 2012, approximately \$3,097,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net assets. For details related to intergovernmental revenues refer to Note 11 of the financial statements. For details on state appropriations refer to Note 12 of the financial statements.

### **LONG-TERM DEBT**

At June 30, 2012, the Authority had approximately \$343,830,000 in bond principal outstanding which is an increase of 15.3% from last year. The increase is due to \$111,345,000 in Series 2012 Revenue Bonds issued in April 2012. More detailed information about the Authority's long-term liabilities is presented in Note 8 of the financial statements.

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



# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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**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). Our outstanding debt, which meets this criterion, is significantly below this limit.

Kentucky Infrastructure Authority's Outstanding Debt at June 30:

	<u>2012</u>	% Increase (Decrease)	<u>2011</u>	% Increase (Decrease)	<u>2010</u>
General fund appropriation supported debt	\$ 13,070,000	-81.03%	\$ 68,895,000	-14.78%	\$ 80,840,000
Program revenue supported debt	<u>330,760,000</u>	44.16%	<u>229,445,000</u>	-2.94%	<u>236,405,000</u>
Total	<u>\$ 343,830,000</u>	15.25%	<u>\$ 298,340,000</u>	-5.96%	<u>\$ 317,245,000</u>

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

The 2003 General Assembly, in House Bill (HB) 269, identified 271 projects totaling \$59,071,343 for tobacco impacted counties and \$54,861,998 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds in the amount of \$54,765,000 (first year debt service to be paid from tobacco settlement funds) and \$54,765,000 (first year debt service to be paid from multi-county coal severance tax receipts). There was no increase in state appropriation to cover the cost of administering these projects. At the end of fiscal year 2012, approximately \$657,000 remained to be disbursed to grantees. The majority of the projects have been completed. The remaining projects should be nearing completion within the next few years.

The 2005 General Assembly, in House Bill 267, identified 507 projects totaling \$120,660,220 for tobacco impacted counties and \$79,395,960 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. At the end of fiscal year 2012, approximately \$5.3 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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The 2006 General Assembly, in House Bill 380, identified 576 projects totaling approximately \$146,531,000 (corresponding appropriation of \$145 million) for non-coal producing counties and approximately \$71,902,000 (corresponding appropriation of \$70.9 million) for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of fiscal year 2012, approximately \$19.3 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services. The 2006 General Assembly, in House Bill 380, also appropriated \$1,740,000 for funding of water and sewer projects for Community Development Projects. At the end of fiscal year 2012, approximately \$397,000 remained to be disbursed to grantees for Community Development.

The 2008 General Assembly, in House Bill 608, identified 598 projects totaling \$160,585,000 (corresponding appropriation of \$150 million) for non-coal producing counties and \$79,240,000 (corresponding appropriation of \$75 million) for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of fiscal year 2012, approximately \$50.2 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services.

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

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

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF NET ASSETS JUNE 30, 2012 AND 2011

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 434,658,000	\$ 195,551,000
Investments, current portion	1,691,000	197,268,000
Federal funds receivable	-0-	1,237,000
Intergovernmental receivables	4,079,000	8,380,000
Accrued interest receivable, investments	127,000	259,000
Accrued interest receivable, assistance agreements	1,556,000	1,267,000
Current maturities of long-term receivables	40,352,000	32,932,000
Total current assets	482,463,000	436,894,000
Investments	14,095,000	13,480,000
Investments, restricted for debt service	6,096,000	6,096,000
Total noncurrent investments	20,191,000	19,576,000
Long-term receivables:		
Assistance agreements receivable:		
Principal	845,831,000	729,674,000
Less:		
Current maturities	(40,352,000)	(32,932,000)
Deposit reserve	(2,362,000)	(2,291,000)
Unamortized premiums	(619,000)	(680,000)
Total long-term receivables	802,498,000	693,771,000
Other assets:		
Unamortized costs of issuance	2,544,000	2,361,000
Total assets	1,307,696,000	1,152,602,000
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of revenue bonds payable, net of unamortized premiums, discounts and deferred gain/loss on refunding	20,049,000	20,535,000
Accrued interest payable	5,322,000	4,779,000
Due to the State investment pool	-0-	206,000
Grants payable	4,402,000	9,226,000
Other payables	278,000	155,000
Total current liabilities	30,051,000	34,901,000
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized premiums, discounts and deferred gain/loss on refunding	359,091,000	300,285,000
Total liabilities	389,142,000	335,186,000
<b>NET ASSETS</b>		
Restricted net assets	\$ 918,554,000	\$ 817,416,000

See the accompanying notes to the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS JUNE 30, 2012 AND 2011

	2012	2011
Operating revenues:		
Assistance agreements:		
Servicing fee	\$ 1,007,000	\$ 972,000
Interest	12,427,000	10,352,000
Interest received securing revenue bonds	1,373,000	1,314,000
Amortization of premium	60,000	60,000
Grant administration fee	151,000	241,000
Amortization of bond premiums	1,443,000	1,335,000
Total operating revenues	16,461,000	14,274,000
Operating expenses:		
General and administrative	2,869,000	2,919,000
Intergovernmental administrative expense reimbursement	3,813,000	3,324,000
Grants	42,923,000	86,500,000
Revenue bonds payable:		
Amortization of discount	14,000	22,000
Amortization of costs of issuance	202,000	212,000
Interest	13,483,000	15,089,000
Arbitrage expense	17,000	-0-
Loss on early extinguishment of bonds payable	112,000	-0-
Depreciation	-0-	6,000
Total operating expenses	63,433,000	108,072,000
Operating loss	(46,972,000)	(93,798,000)
Nonoperating revenues (expenses):		
Income from investments	915,000	6,914,000
Net increase (decrease) in fair value of investments	245,000	(3,567,000)
Federal grants and reimbursements	39,732,000	48,460,000
Principal forgiveness on loans	(3,097,000)	(13,510,000)
Intergovernmental revenue from the Commonwealth	50,988,000	86,739,000
State appropriations	59,327,000	17,504,000
Total nonoperating revenues	148,110,000	142,540,000
Change in net assets	101,138,000	48,742,000
Net assets, beginning of year	817,416,000	768,674,000
Net assets, end of year	\$ 918,554,000	\$ 817,416,000

See the accompanying notes to  
the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Administrative fees received	\$ 1,158,000	\$ 1,213,000
Collections on assistance agreements, net of change in deposit reserve	38,708,000	40,566,000
Advances on assistance agreements	(157,891,000)	(191,775,000)
Interest received on assistance agreements	13,511,000	11,773,000
Cash payments for grants	(47,747,000)	(91,395,000)
Cash payments for personnel expenses	(1,094,000)	(1,140,000)
Cash payments to suppliers for goods and services	(5,669,000)	(4,781,000)
Net cash used in operating activities	(159,024,000)	(235,539,000)
Cash flows from noncapital financing activities:		
Proceeds from the issuance of revenue and revenue refunding bonds, net of issuance costs	125,000,000	-0-
Principal payments on long-term debt	(65,855,000)	(18,905,000)
Interest paid on long-term debt	(12,852,000)	(12,976,000)
Receipt of federal grants, net	40,969,000	47,262,000
State appropriation	59,327,000	17,504,000
Payments from the Commonwealth	55,289,000	91,997,000
Net cash provided by noncapital financing activities	201,878,000	124,882,000
Cash flows from investing activities:		
Purchase of investment securities	(907,798,000)	(125,972,000)
Proceeds from sale and maturities of investment securities	1,103,005,000	302,250,000
Interest and other investment income received	1,046,000	7,130,000
Net cash provided by (used in) investing activities	196,253,000	183,408,000
Increase in cash and cash equivalents	239,107,000	72,751,000
Cash and cash equivalents at beginning of year	195,551,000	122,800,000
Cash and cash equivalents at end of year	\$ 434,658,000	\$ 195,551,000

See the accompanying notes to  
the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (46,972,000)	\$ (93,798,000)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of bond discount and cost of issuance	216,000	234,000
Amortization of bond premium	(1,443,000)	(1,335,000)
Amortization of assistance agreements premium	(60,000)	(60,000)
Principal forgiveness on loans	(3,097,000)	(13,510,000)
Amortization of bond defeasance included in interest	87,000	232,000
Loss on early extinguishment of bonds payable	112,000	-0-
Interest paid on long-term debt	12,852,000	12,976,000
Depreciation	-0-	6,000
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable on assistance agreements	(289,000)	107,000
Increase in assistance agreements receivable, net of desposit reserve	(116,086,000)	(137,699,000)
Increase in accrued interest payable	543,000	1,880,000
Decrease in due to Division of Water	-0-	(37,000)
Increase (decrease) in due to State investment pool	(206,000)	206,000
Decrease in grants payable	(4,824,000)	(4,894,000)
Increase in other payables	143,000	153,000
Net cash used in operating activities	\$ (159,024,000)	\$ (235,539,000)
Supplemental disclosure of noncash investing activities:		
Net increase (decrease) in fair value of investments	\$ 245,000	\$ (3,567,000)

See the accompanying notes to the financial statements.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 1. DESCRIPTION OF ORGANIZATION

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

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

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

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

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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

### Fund B - Infrastructure Revolving Loan Program

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

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

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

The General Assembly, from time to time, appropriates funds to be administered and disbursed by the Authority in the form of water and wastewater grants. During 2010 and 2009, 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 Fund B.

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

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## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### Fund C - Governmental Agencies Program

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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

### Basis of Accounting

The financial statements of the Authority are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenditures are recognized when they are incurred. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those FASB pronouncements conflict with or contradict GASB pronouncements. Under the provisions of GASB Statement No. 20, the Authority has elected not to follow FASB pronouncements issued after November 30, 1989.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### Basis of Presentation

The Authority follows the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (Statement No. 34), Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, which establish the financial reporting standards for all state and local government entities.

Statement No. 34 established standards for external financial reporting for all state and local government entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

*Invested in capital, net of related debt* – This component of net assets 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as unspent proceeds.

*Restricted* – This component of net assets consists of constraints placed on net assets use 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 assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

### 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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 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 financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of revenues, expenses and changes in net 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.

### Amortization of Bond Discount and Debt Issuance Costs

Bond discounts and debt issuance costs are amortized on the straight-line method over the life of the bond issue.

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

Deferred 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.

### Capital Assets

The Authority's policy is to capitalize purchases of assets over \$5,000 with a useful life of more than one year. All capital assets are valued at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from five to ten years, and is recorded in the statement of revenues, expenses and changes in net assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are reported as expenditures.

### Statement of Cash Flows

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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### Operating Revenues and Expenses

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

### 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2012 and 2011, cash and cash equivalents consist of the following:

	<u>2012</u>	<u>2011</u>
First American Government Obligation Fund	\$ 407,898,000	\$ 168,636,000
State cash and investment pool	1,753,000	467,000
Commercial paper	25,007,000	25,000,000
JP Morgan U.S. Treasury Plus Agency Fund	<u>-0-</u>	<u>1,448,000</u>
Total cash and cash equivalents	<u>\$ 434,658,000</u>	<u>\$ 195,551,000</u>

The following schedule presents the carrying amounts of investments by maturity at June 30, 2012:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rate</u>
U.S. Treasury Bond	\$ 197,000	11/15/2012	n/a
U.S. Treasury Bond	1,494,000	5/15/2013	n/a
U.S. Treasury Notes State and Local Governments Series	1,315,000	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	2,300,000	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	<u>2,481,000</u>	8/1/2022	5.120%
	7,787,000		
Investments in State Pool	<u>14,095,000</u>		
Total	21,882,000		
Less: current portion	<u>1,691,000</u>		
Long-term investments	<u>\$ 20,191,000</u>		

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

The following schedule presents the carrying amounts of investments by maturity at June 30, 2011:

Investment	Fair Value	Maturity	Rate
Federal Home Loan Bank	\$ 24,863,000	7/8/2011	0.750%
Fannie Mae Medium Term Notes (FNMA MTN)	23,966,000	8/15/2011	3.625%
Federal Farm Credit Banks	24,944,000	9/1/2011	0.680%
Federal Home Loan Bank	24,890,000	10/11/2011	0.975%
FNMA MTN	24,874,000	11/3/2011	1.215%
U.S. Treasury Notes State and Local Governments Series	286,000	11/15/2011	n/a
U.S. Treasury Notes State and Local Governments Series	14,134,000	11/15/2011	1.750%
Federal Home Loan Bank	9,192,000	12/1/2011	0.800%
Federal Home Loan Bank	2,878,000	12/9/2011	1.125%
U.S. Treasury Notes State and Local Governments Series	23,767,000	12/15/2011	1.125%
U.S. Treasury Notes State and Local Governments Series	19,000	12/15/2011	1.125%
U.S. Treasury Notes State and Local Governments Series	350,000	12/15/2011	1.125%
Federal Farm Credit Banks	9,127,000	1/12/2012	1.100%
Federal Home Loan Bank	3,895,000	1/26/2012	2.100%
FNMA MTN	3,038,000	1/30/2012	2.000%
Federal Farm Credit Banks	7,045,000	3/9/2012	1.125%
U.S. Treasury Bond Stripped Principal Payment	196,000	11/15/2012	n/a
U.S. Treasury Bond Stripped Principal Payment	1,486,000	5/15/2013	n/a
U.S. Treasury Notes State and Local Governments Series	1,315,000	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	2,300,000	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	2,481,000	8/1/2022	5.120%
	<u>205,046,000</u>		
Investments in State Pool	11,798,000		
Total	<u>216,844,000</u>		
Less: current portion	197,268,000		
Long-term investments	<u>\$ 19,576,000</u>		

At June 30, 2012 and 2011, 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 AAA.

**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, 2012 and 2011, 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

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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

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

At June 30, 2012, the Authority maintained \$15,848,000 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 KAR Chapter 14. Funds residing in the pools are available to be spent at any time. The Authority had no collateral or insurance as security for the balances with the State Investment Commission at June 30, 2012, but they own a proportionate interest in the securities held in the respective pools.

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

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### 4. REVENUE BOND FUND ACCOUNTS

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2012 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating fund	\$ 8,474,000	\$ -0-	\$ 8,474,000
Revolving fund	358,676,000	-0-	358,676,000
Government agency fund	-0-	-0-	-0-
Debt service reserve fund	-0-	6,096,000	6,096,000
Revenue fund	4,051,000	1,691,000	5,742,000
Surplus fund	61,684,000	-0-	61,684,000
Funds in state pool	1,753,000	14,095,000	15,848,000
Cost of issuance fund	20,000	-0-	20,000
	<u>\$ 434,658,000</u>	<u>\$ 21,882,000</u>	<u>\$ 456,540,000</u>

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2011 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating fund	\$ 8,139,000	\$ 19,000	\$ 8,158,000
Revolving fund	139,993,000	196,963,000	336,956,000
Government agency fund	1,448,000	-0-	1,448,000
Debt service reserve fund	-0-	6,096,000	6,096,000
Revenue fund	4,322,000	-0-	4,322,000
Surplus fund	41,182,000	1,968,000	43,150,000
Funds in state pool	467,000	11,798,000	12,265,000
	<u>\$ 195,551,000</u>	<u>\$ 216,844,000</u>	<u>\$ 412,395,000</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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

A. Operating Fund

Designated for paying operating costs incurred by the Authority.

B. Revolving Fund

Designated to receive debt service payments from the revolving loan program in order to recycle money for new loans.

C. Government Agency Fund

This account is for funds invested during the construction phase of new loans. The money is disbursed under the direction of the Authority in accordance with the loan assistance agreement.

D. Debt Service Reserve Fund

Designated as an allowance or reserve for the payment of principal and interest on revenue bonds as to which there would otherwise be a default in payment.

E. Debt Service Fund

Funds designated for the sole purpose of paying principal and interest on revenue bonds payable as they come due.

F. 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.

G. Surplus Fund

This fund is a reserve for the 1989 Series A refunding issue, advances to municipalities in anticipation of new bond issues, and transfers to other funds to cover deficiencies.



# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### H. Rebate Fund

Funds designated for the purpose of paying anticipated liability due to the federal government based on excess earnings of specific bond issues.

### I. Cost of Issuance Fund

Funds designated and established for a Series of Bonds in accordance with the General Indenture and Series Trust Indenture to pay the costs associated with the issuance of the Series 2012 Bonds.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 5. INTERGOVERNMENTAL RECEIVABLES

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

	<u>2012</u>	<u>2011</u>
Due from the Commonwealth's General Fund for debt service and general and administrative costs	\$ 234,000	\$ 117,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	167,000	157,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	121,000	436,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	365,000	498,000
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	889,000	994,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	653,000	1,493,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	<u>1,650,000</u>	<u>4,685,000</u>
Total receivable from the Commonwealth	<u>\$ 4,079,000</u>	<u>\$ 8,380,000</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 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 and interest requirements of the Authority's revenue bonds or used to fund additional projects.

A total loan amount is approved for each governmental entity. In addition to the \$842,850,000 in net assistance agreements receivable at June 30, 2012, the Authority has commitments remaining to disburse funds summarized as follows:

Fund A - Clean Water State Revolving Fund Loan Program	\$ 297,898,000
Fund A - Clean Water State Revolving Fund Loan Program - ARRA	5,581,000
Fund B - Infrastructure Revolving Loan Program	9,096,000
Fund C - Governmental Agencies Program	9,895,000
Fund F - Drinking Water State Revolving Fund Loan Program	52,613,000
Fund F - Drinking Water State Revolving Fund Loan Program - ARRA	<u>372,000</u>
Total commitments outstanding	<u>\$ 375,455,000</u>

### 7. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Office equipment	\$ 79,000	\$ -0-	\$ -0-	\$ 79,000
Less accumulated depreciation	<u>(79,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(79,000)</u>
Capital assets - net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Capital asset activity during the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Office equipment	\$ 79,000	\$ -0-	\$ -0-	\$ 79,000
Less accumulated depreciation	(73,000)	(6,000)	-0-	(79,000)
Capital assets - net	\$ 6,000	\$ (6,000)	\$ -0-	\$ -0-

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

Long-term debt consists of the following at June 30, 2012:

	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	\$ 268,740,000	\$ 13,356,000	\$ 255,384,000
Fund B, Infrastructure Revolving Fund Revenue Bonds, interest 5.70%, due semi-annually, principal due on June 1, 2013	455,000	455,000	-0-
Fund B, Solid Waste Revolving Fund Revenue and Revenue Refunding Bonds, interest 3.75% to 5.25%, due semi-annually, principal due annually to June 1, 2015	670,000	230,000	440,000
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	22,300,000	2,415,000	19,885,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	51,665,000	1,609,000	50,056,000
Total	343,830,000	18,065,000	325,765,000
Unamortized premium	35,090,000	1,986,000	33,104,000
Unamortized deferred gain (loss) on early refunding	220,000	(2,000)	222,000
	\$ 379,140,000	\$ 20,049,000	\$ 359,091,000

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Long-term debt consists of the following at June 30, 2011:

	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 1.50% to 6.00%, due semi-annually, principal due annually to February 1, 2029	\$ 197,110,000	\$ 9,195,000	\$ 187,915,000
Fund B, Infrastructure Revolving Fund Revenue Bonds, interest 2.75% to 5.95%, due semi-annually, principal due annually to June 1, 2021	38,030,000	5,140,000	32,890,000
Fund B, Solid Waste Revolving Fund Revenue and Revenue Refunding Bonds, interest 3.25% to 5.70%, due semi-annually, principal due annually to June 1, 2015	1,330,000	660,000	670,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 3.00% to 5.29%, due semi-annually, principal due annually to August 1, 2022	25,385,000	3,085,000	22,300,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 1.50% to 6.00%, due semi-annually, principal due annually to February 1, 2029	36,485,000	1,375,000	35,110,000
Total	298,340,000	19,455,000	278,885,000
Unamortized premium	22,655,000	1,334,000	21,321,000
Unamortized discount	(85,000)	(22,000)	(63,000)
Unamortized deferred gain (loss) on early refunding	(90,000)	(232,000)	142,000
	\$ 320,820,000	\$ 20,535,000	\$ 300,285,000

Except for cash deposited with the state, all cash and investments of the Authority are held by trustee banks. Most of these assets are either pledged as collateral for bond indebtedness, have certain investment restrictions as outlined in the bond indentures, or both.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

The required annual payments for all debt are as follows:

	Prinicipal	Interest	Total
2013	\$ 18,065,000	\$ 14,695,000	\$ 32,760,000
2014	23,490,000	14,911,000	38,401,000
2015	28,040,000	13,790,000	41,830,000
2016	20,145,000	12,743,000	32,888,000
2017	19,905,000	11,867,000	31,772,000
2018 - 2022	96,735,000	46,289,000	143,024,000
2023 - 2027	88,830,000	24,209,000	113,039,000
2028 - 2032	48,620,000	5,016,000	53,636,000
	\$ 343,830,000	\$ 143,520,000	\$ 487,350,000

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Bond principal payable	\$ 298,340,000	\$ 111,345,000	\$ 65,855,000	\$ 343,830,000
Unamortized premiums	22,655,000	14,529,000	2,094,000	35,090,000
Unamortized discounts	(85,000)	-0-	(85,000)	-0-
Unamortized deferred gain (loss) on early refunding	(90,000)	-0-	(310,000)	220,000
	\$ 320,820,000	\$ 125,874,000	\$ 67,554,000	\$ 379,140,000

During 2012, the Authority paid principal of \$53,325,000 to redeem outstanding bonds prior to their maturity dates. These early redemptions were funded by appropriations from the State.

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Bond principal payable	\$ 317,245,000	\$ -0-	\$ 18,905,000	\$ 298,340,000
Unamortized premiums	23,990,000	-0-	1,335,000	22,655,000
Unamortized discounts	(107,000)	-0-	(22,000)	(85,000)
Unamortized deferred gain (loss) on early refunding	(322,000)	-0-	(232,000)	(90,000)
	\$ 340,806,000	\$ -0-	\$ 19,986,000	\$ 320,820,000

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 9. DEPOSIT RESERVE

Due to the structure of the maturities in the bond issue that refunded all outstanding debt in the Fund C program in fiscal year 2005, loans in the original 1993F series issue did not have level debt service. In an effort to create a fixed payment over the life of the loan, the borrowers are voluntarily paying more than the required principal amount due in the early years of the loan repayments. The excess between the required principal amount due and the actual fixed payment amount is deposited into a deposit reserve account which will be used to pay the difference between the required payment and the actual payment in the later years of the loan repayment schedule. By providing the borrowers a fixed payment over the life of a loan, the Authority hopes to aid in the budgeting and cash flow management of the payees.

### 10. GRANT COMMITMENTS

The Authority has committed to disburse grant funds as follows:

	<u>Amount</u>
Fund B	\$ 509,000
Fund B - 2020	<u>1,053,000</u>
Total funded by agency funds	<u>1,562,000</u>
Fund B - 2003 HB 269 Coal Development	600,000
Fund B - 2003 HB 269 Tobacco Development	57,000
Fund B - 2005 HB 267 Coal IEDF	2,357,000
Fund B - 2005 HB 267 Tobacco IEDF	2,896,000
Fund B - 2006 HB 380 Coal	5,272,000
Fund B - 2006 HB 380 Non Coal	13,997,000
Fund B - 2006 HB 380 Community Development	397,000
Fund B - 2008 HB 406 / 608 Coal	18,354,000
Fund B - 2008 HB 406 / 608 Non Coal	<u>31,829,000</u>
Total funded by bond funds	<u>75,759,000</u>
Fund B – 2008 HB 410 & 2010 HB 1 Coal Severance	<u>13,214,000</u>
Total grant commitments	<u><u>\$ 90,535,000</u></u>

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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

The funding source of the coal severance projects are from Local Government Economic Development Fund (KRS 42.4592) moneys 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, 2012 AND 2011

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### 11. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue from the Commonwealth during the fiscal years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
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	\$ 2,301,000	\$ -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	3,000,000	-0-
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	899,000	2,178,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	1,446,000	3,940,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	3,657,000	3,914,000
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	6,336,000	9,173,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	6,675,000	15,272,000
Coal Severance Tax Receipts - funding of the water and sewer projects from the Coal Severance per 2008 House Bill 410	-0-	3,959,000
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	18,390,000	42,973,000
Coal Severance Tax Receipts - funding of the water and sewer projects from the Coal Severance per 2010 Special Session House Bill 1	<u>8,284,000</u>	<u>5,330,000</u>
Total intergovernmental revenue from the Commonwealth	<u>\$ 50,988,000</u>	<u>\$ 86,739,000</u>

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 12. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the fiscal years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Appropriations for debt service	\$ 57,964,000	\$ 16,003,000
Appropriations for general and administrative costs	<u>1,363,000</u>	<u>1,501,000</u>
Total state appropriations	<u>\$ 59,327,000</u>	<u>\$ 17,504,000</u>

### 13. RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Restricted by law	\$ 912,458,000	\$ 811,320,000
Restricted for debt service	<u>6,096,000</u>	<u>6,096,000</u>
Total restricted net assets	<u>\$ 918,554,000</u>	<u>\$ 817,416,000</u>

### 14. PRIOR YEARS' DEBT DEFEASANCE

In prior years, the Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Authority's financial statements. The total amount of defeased debt from advance refunding that remains outstanding at June 30, 2012 is \$7,230,000.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 15. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the years ended June 30, 2012 and 2011 totaled \$3,813,000 and \$3,324,000, respectively, for services provided by the Commonwealth's Energy and Environment Cabinet, Division of Water related to federal grant compliance for the federal funds administered under Funds A and Funds F.

### 16. RELATED PARTY TRANSACTIONS

The Authority incurred expenses for utilities and office space received from the Commonwealth of Kentucky's Department of Local Governments (DLG) in the amounts of \$28,000 and \$29,000 for the years ending June 30, 2012 and 2011, respectively. The Authority also received the benefit of administrative services from DLG for 2012 and 2011 for which no fee was assessed.

### 17. RETIREMENT PLANS

The employees of the Kentucky Infrastructure Authority participate in the Kentucky Employees Retirement Systems (KERS) of the Commonwealth of Kentucky, which is a cost-sharing multiple-employer defined benefit pension plan. The plan provides retirement, disability and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature.

Covered employees hired before September 1, 2008 who retire at or after age 65, with 48 months of credited service, are entitled to an annual retirement benefit equal to 1.97% to 2.20% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after 27 years of service and receive full benefits or retire after age 55 or after 25 years of service and receive reduced retirement benefits. The KERS also provides death and disability benefits. Benefits are established by State statute.

Covered employees hired after September 1, 2008 who retire, at or after age 65 with a minimum of 60 months of credited service or when the employee's age plus their years of service credit equal 87 and they are at least 57 years of age, are entitled to an annual retirement benefit equal to 1.10% to 2.00% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the last five full fiscal years. The employee may also be eligible for a reduced retirement benefit at 60 years of age and a minimum of 120 months of credited service. The KERS also provides death and disability benefits. Benefits are established by state statute.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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Covered employees hired before September 1, 2008 are required by state statute to contribute 5.00% of their salaries to the plan. Covered employees hired after September 1, 2008 are required to contribute 5.00% of their salaries to the plan and 1.00% to the KERS Insurance Fund. The Authority was required by the same statute to contribute 19.82% of the covered employees' salaries for the year ended June 30, 2012. Subsequent to June 30, 2012, the rate is 23.61%. The contribution requirement for the year ended June 30, 2012 totals approximately \$195,000, consisting of approximately \$153,000 from the Authority and \$42,000 from employees. The contribution requirement for the year ended June 30, 2011 totals approximately \$176,000, consisting of approximately \$136,000 from the Authority and \$40,000 from employees. The contribution requirement for the year ended June 30, 2010 totaled approximately \$121,000, consisting of approximately \$106,000 from the Authority and \$15,000 from employees. The Authority's total payroll was approximately \$806,000 and \$837,000 for the years ending June 30, 2012 and 2011, respectively.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Employees Retirement System's Annual Financial Reports, which are a matter of public record. The most recent actuarial valuation was as of June 30, 2011. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the KERS.

In addition to the above defined benefit pension plan, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky and administered by the Kentucky Public Employees' Deferred Compensation Authority. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. There were no contributions made by the Authority during 2012 or 2011. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

### **18. 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. 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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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### 19. 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.

### 20. 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. 63**, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," issued June 2011, is effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's net position.

**GASB Statement No. 65**, "*Items Previously Reported as Assets and Liabilities*," issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

**GASB Statement No. 68**, "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*," issued June 2012, is effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. A cost-sharing employer that does not have a special funding situation, is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

## **SUPPLEMENTARY INFORMATION**

**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	Fund A	Fund B	Fund C	Fund F	Eliminations	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 327,229,000	\$ 17,579,000	\$ 26,416,000	\$ 63,434,000	\$ -0-	\$ 434,658,000
Investments, current portion	-0-	-0-	1,691,000	-0-	-0-	1,691,000
Due from Fund A	-0-	129,000	-0-	-0-	(129,000)	-0-
Intergovernmental receivables	-0-	4,079,000	-0-	-0-	-0-	4,079,000
Accrued interest receivable, investments	5,000	1,000	120,000	1,000	-0-	127,000
Accrued interest receivable, assistance agreements	951,000	126,000	105,000	374,000	-0-	1,556,000
Current maturities of long-term receivables	24,231,000	3,767,000	5,639,000	6,715,000	-0-	40,352,000
Total current assets	<u>352,416,000</u>	<u>25,681,000</u>	<u>33,971,000</u>	<u>70,523,000</u>	<u>(129,000)</u>	<u>482,463,000</u>
Investments	11,000	14,054,000	3,000	27,000	-0-	14,095,000
Investments, restricted for debt service	-0-	-0-	6,096,000	-0-	-0-	6,096,000
Total noncurrent investments	<u>11,000</u>	<u>14,054,000</u>	<u>6,099,000</u>	<u>27,000</u>	<u>-0-</u>	<u>20,191,000</u>
Long-term receivables:						
Assistance agreements receivable:						
Principal	584,972,000	59,248,000	30,949,000	170,662,000	-0-	845,831,000
Less:						
Current maturities	(24,231,000)	(3,767,000)	(5,639,000)	(6,715,000)	-0-	(40,352,000)
Deposit reserve	-0-	-0-	(2,362,000)	-0-	-0-	(2,362,000)
Unamortized premiums	-0-	-0-	(619,000)	-0-	-0-	(619,000)
Total long-term receivables	<u>560,741,000</u>	<u>55,481,000</u>	<u>22,329,000</u>	<u>163,947,000</u>	<u>-0-</u>	<u>802,498,000</u>
Other assets:						
Unamortized costs of issuance	1,994,000	8,000	147,000	395,000	-0-	2,544,000
Total assets	<u>915,162,000</u>	<u>95,224,000</u>	<u>62,546,000</u>	<u>234,893,000</u>	<u>(129,000)</u>	<u>1,307,696,000</u>
<b>LIABILITIES</b>						
Current liabilities:						
Current maturities of revenue bonds payable, net of unamortized discounts, premiums, and deferred gain/loss on early retirement of debt	14,928,000	676,000	2,516,000	1,929,000	-0-	20,049,000
Accrued interest payable	4,127,000	5,000	462,000	728,000	-0-	5,322,000
Grants payable	-0-	4,402,000	-0-	-0-	-0-	4,402,000
Due to Fund B	129,000	-0-	-0-	-0-	(129,000)	-0-
Other payables	-0-	240,000	38,000	-0-	-0-	278,000
Total current liabilities	<u>19,184,000</u>	<u>5,323,000</u>	<u>3,016,000</u>	<u>2,657,000</u>	<u>(129,000)</u>	<u>30,051,000</u>
Long-term debt:						
Revenue bonds payable, net of current maturities and unamortized discounts, premiums, and deferred gain/loss on early retirement of debt	282,822,000	448,000	20,249,000	55,572,000	0	359,091,000
Total liabilities	<u>302,006,000</u>	<u>5,771,000</u>	<u>23,265,000</u>	<u>58,229,000</u>	<u>(129,000)</u>	<u>389,142,000</u>
<b>NET ASSETS</b>						
Restricted net assets	<u>\$ 613,156,000</u>	<u>\$ 89,453,000</u>	<u>\$ 39,281,000</u>	<u>\$ 176,664,000</u>	<u>\$ -0-</u>	<u>\$ 918,554,000</u>



**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Fund A</u>	<u>Fund B</u>	<u>Fund C</u>	<u>Fund F</u>	<u>Total</u>
Operating revenues:					
Assistance agreements:					
Servicing fee	\$ 546,000	\$ 105,000	\$ 62,000	\$ 294,000	\$ 1,007,000
Interest	8,320,000	1,239,000	-0-	2,868,000	12,427,000
Interest received securing revenue bonds	-0-	-0-	1,373,000	-0-	1,373,000
Amortization of premium	-0-	-0-	60,000	-0-	60,000
Grant administration fee	-0-	151,000	-0-	-0-	151,000
Amortization of bond premiums	1,207,000	33,000	-0-	203,000	1,443,000
Total operating revenues	<u>10,073,000</u>	<u>1,528,000</u>	<u>1,495,000</u>	<u>3,365,000</u>	<u>16,461,000</u>
Operating expenses:					
General and administrative	564,000	1,673,000	210,000	422,000	2,869,000
Intergovernmental administrative expense reimbursement	539,000	-0-	-0-	3,274,000	3,813,000
Grants	-0-	42,923,000	-0-	-0-	42,923,000
Revenue bonds payable:					
Amortization of discount	1,000	12,000	-0-	1,000	14,000
Amortization of costs of issuance	121,000	36,000	25,000	20,000	202,000
Interest	9,691,000	987,000	1,022,000	1,783,000	13,483,000
Arbitrage expense	-0-	-0-	17,000	-0-	17,000
Loss (gain) on early extinguishment of bonds payable	132,000	(96,000)	-0-	76,000	112,000
Total operating expenses	<u>11,048,000</u>	<u>45,535,000</u>	<u>1,274,000</u>	<u>5,576,000</u>	<u>63,433,000</u>
Operating income (loss)	<u>(975,000)</u>	<u>(44,007,000)</u>	<u>221,000</u>	<u>(2,211,000)</u>	<u>(46,972,000)</u>
Nonoperating revenues (expenses):					
Income (loss) from investments	581,000	19,000	438,000	(123,000)	915,000
Net increase (decrease) in fair value of investments	152,000	92,000	(136,000)	137,000	245,000
Federal grants and reimbursements	21,840,000	-0-	-0-	17,892,000	39,732,000
Principal forgiveness on loans	(1,493,000)	(1,369,000)	-0-	(235,000)	(3,097,000)
Intergovernmental revenue from the Commonwealth	2,300,000	45,688,000	-0-	3,000,000	50,988,000
State appropriations	11,898,000	40,660,000	-0-	6,769,000	59,327,000
Total nonoperating revenues	<u>35,278,000</u>	<u>85,090,000</u>	<u>302,000</u>	<u>27,440,000</u>	<u>148,110,000</u>
Change in net assets	<u>34,303,000</u>	<u>41,083,000</u>	<u>523,000</u>	<u>25,229,000</u>	<u>101,138,000</u>
Net assets, beginning of year	<u>578,853,000</u>	<u>48,370,000</u>	<u>38,758,000</u>	<u>151,435,000</u>	<u>817,416,000</u>
Net assets, end of year	<u>\$ 613,156,000</u>	<u>\$ 89,453,000</u>	<u>\$ 39,281,000</u>	<u>\$ 176,664,000</u>	<u>\$ 918,554,000</u>