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KENTUCKY INFRASTRUCTURE AUTHORITY

FRANKFORT, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2003 and 2002

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KENTUCKY INFRASTRUCTURE AUTHORITY
FRANKFORT, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited the accompanying financial statements of the Kentucky Infrastructure Authority, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Infrastructure 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

As discussed in Note 1, the financial statements present only the Kentucky Infrastructure Authority and are not intended to present fairly the financial position of the Commonwealth of Kentucky and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Infrastructure Authority, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2003, on our consideration of the Kentucky Infrastructure Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Kentucky Infrastructure Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Berger + Company CPA PSC

Berger & Company, CPA, PSC
October 1, 2003

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Management's Discussion and Analysis

As management of the Kentucky Infrastructure Authority, we offer readers of the Kentucky Infrastructure Authority's financial statements this brief narrative overview and analysis of the financial activities of the Kentucky Infrastructure Authority for the fiscal year ended June 30, 2003.

Financial Highlights

- As of the close of the current fiscal year, the Kentucky Infrastructure Authority reported combined ending retained earnings of $406,143,170, an increase of $40,817,485 in comparison with the prior year.
- The Kentucky Infrastructure Authority's total debt decreased by $8,332,438 (3.7%) during the current fiscal year. The key factor in this decrease was no new money bond issues for State General Fund supported debt.
- The Kentucky Infrastructure Authority disbursed $52,285,953 to borrowers for assistance agreements and collected $32,845,809 principal and interest from borrowers for assistance agreements.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Kentucky Infrastructure Authority's basic financial statements. The Kentucky Infrastructure Authority's basic financial statements comprise two components: 1) proprietary fund financial statements, and 2) notes to the financial statement. This report also contains other supplementary information in addition to the basic financial statements themselves.

1. Overview of the Financial Statements

Proprietary fund financial statements. The proprietary fund financial statements are designed to provide readers with a broad overview of the Kentucky Infrastructure Authority's finances, in a manner similar to a private-sector business. The Kentucky Infrastructure Authority is a proprietary fund component unit of the Commonwealth of Kentucky.

The proprietary fund financial statements can be found on pages 2-5 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements. The notes to the financial statements can be found on pages 9-21 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents the schedule of expenditure of federal awards, together with related notes, as required by the Single Audit Act Amendments of 1996. The schedule of expenditure of federal awards and related notes can be found on pages 21 of this report.

Individual fund statements and schedules can be found on pages 23-26 of this report.

2. Proprietary Fund Financial Analysis

Retained Earnings. The Kentucky Infrastructure Authority's combined retained earnings increased 11.1% between fiscal years 2002 and 2003 to $406,143,170 (See Table A-1.) despite an operating loss of $4,890,807 (See Table A-2) which resulted from increased expenditures related to initiatives set forth in SB409 from the 2000 General Assembly, the increased number of grant expenditures as opposed to loans and a transfer of $1,000,000 to the State's general fund to assist in balancing the budget. In addition, the Kentucky Infrastructure Authority administered 111 water and sewer grants funded by single county coal severance tax receipts that were assigned to the Department for Local Government. The Kentucky Infrastructure Authority received no increase in state appropriation to cover the cost of project administration. The Department for Local Government, in the Comprehensive Annual Financial Report, reports expenditures for these grants for the Commonwealth of Kentucky.

Federal grant revenue increased 5 percent due to increased activity in the Drinking Water State Revolving Fund, which may be partially attributable to longer construction period resulting from the mild winter conditions. Investment interest income decreased 1.7 percent to $6,544,898 in spite of cash and investment increases due to a change in investment strategy to increase cash flow flexibility, the recession and poor market conditions.

In addition, two factors severely limit the Kentucky Infrastructure Authority's revenue position relating to solid waste: 1) by Executive Order of the Governor in fiscal year 2002, $2 million was provided in grant funds (as opposed to loans) from Fund E for the Kentucky Certified Clean Counties program to fund the clean up of illegal dumps; and 2) Legislative changes by the 2002 General Assembly relegated the Kentucky Infrastructure Authority's role in funding solid waste projects to that of a conduit for issuing bonds, the proceeds of which are to be utilized by the Cabinet for Natural Resources and Environmental Protection. Interestingly, the legislative authority for the continuation of the Fund E solid waste loan program was deleted.

Table A-1
Kentucky Infrastrucutre Authority's Retained Earnings

	Total		Total Percentage Change
	2002	2003	2002-2003
Current Assets	148,388,379	157,768,106	6.32%
Equipment (Net)	50,573	33,716	-33.33%
Long Term Investment	105,064,877	98,587,707	-6.16%
Long Term Receivables (Net)	334,995,068	364,444,208	8.79%
Other Assets	2,188,246	2,113,319	-3.42%
Total Assets	590,687,143	622,947,056	5.46%
Current Liabilities	17,145,965	17,893,636	4.36%
Long Term Liabilities	208,185,033	198,910,250	-4.46%
Total Liabilities	225,330,998	216,803,886	-3.78%
Retained Earnings	365,356,145	406,143,170	11.16%
Total Liabilities & RE	590,687,143	622,947,056	5.46%

Table A-2
Changes in Kentucky Infrastructure Authority's Retained Earnings

	Total		Total Percentage Change
	2002	2003	2002-2003
Program revenues			
Assistance agreements	12,994,852	12,542,351	-3.48%
General revenues			
Interest	6,657,197	6,544,898	-1.69%
Net increase in FMV investments	1,404,355	2,756,454	96.28%
Other	5,866	2,659	-54.67%
Total Revenues	21,062,270	21,846,362	

Expenses			
Clean Water SRF (Fund A)	3,057,790	2,445,132	-20.04%
Infrastructure Revolving (Fund B)	14,518,684	18,543,798	27.72%
Governmental Agencies (Fund C)	4,026,686	3,381,214	-16.03%
Solid Waste (Fund E)	1,166,315	893,729	-23.37%
Drinking Water SRF (Fund F)	2,317,047	1,473,296	-36.41%
Total Expenses	25,086,522	26,737,169	6.58%
Operating Income (Loss)	-4,024,252	-4,890,807	21.53%
Federal grants	28,746,071	30,267,009	5.29%
Excess (deficiency) before special items and transfers	24,721,819	25,376,202	2.65%
Transfer from Transportation Cabinet		-1,000,000	100.00%
Donated Capital	341,078		-100.00%
Transfers for debt service	14,324,067	16,441,283	14.78%
Net Income	39,386,964	40,817,485	3.63%

3. Long-term Debt

At year-end, the Kentucky Infrastructure Authority had $217 million in bonds outstanding – a decrease of 3.57 percent from last year – as shown in Table A-3. More detailed information about the Kentucky Infrastructure Authority's long-term liabilities is presented in Note 7 to the financial statements.

New debt resulted from issuing bonds to refund previous issues in Fund A, Fund B and Fund E programs to achieve savings in the cost of debt service KIA issued a Composit Issue in the amount of $16,875,000 during the year to refund bonds with a carrying amount of $15,745,000 for the programs. In addition, KIA issued new money and refunding bonds in the Fund C program. The issue, $13,420,000 provided funds for four new projects with construction costs of $5,632,436 with the remaining funds used to refund bonds with a carrying amount of $7,315,000. See additional information on the refundings in Note 10 to the financial statements.

Bond Ratings. The Kentucky Infrastructure Authority's appropriation supported debt rating is A+ from Standard & Poor's, AA- from Fitch and Aa3 from Moody's. This is one step below the Commonwealth's general obligation credit rating of AA- and Aa2. Standard & Poor's has rated the revenue bonds of the Kentucky Infrastructure Authority A- since October 2002.

Limitations on Debt. The Kentucky Infrastructure Authority is required by 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 one hundred twenty-five million dollars ($125,000,000). Our outstanding debt in the Fund C program, which meets this criterion, is significantly below this limit.

Table A-3
Kentucky Infrastructure Authority's Outstanding Debt

	Total 2002	Total 2003	Total Percentage Change 2002-2003
General fund appropriation supported debt	161,355,000	152,800,000	-5.3%
Program revenue supported debt	63,505,000	64,025,000	.82%
Total	224,860,000	216,825,000	-3.57%

4. Items Expected to have a Significant Impact on Future Financial Position

In the coming year, the Kentucky Infrastructure Authority will continue to administer 111 water and sewer related projects funded through coal severance tax receipts in order to provide a single state agency contact for the industry. While the Department for Local Government will actually disburse funds, the Kentucky Infrastructure Authority will provide project administration activities. There has been no increase in state appropriation to cover administrative costs including staff.

As discussed above, the 2002 General Assembly abolished the legal authority for the Kentucky Infrastructure Authority's solid waste program. It is anticipated that the remaining funds in the program will be used to complete the Certified Clean Counties program within the next 1-2 years.

The 2003 General Assembly identified 267 projects totalling $59,071,343 for tobacco impacted counties and $54,861,998 for coal producing counties to be disbursed and administered by KIA 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.

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Contacting the Kentucky Infrastructure 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 Kentucky Infrastructure Authority's finances and to demonstrate the Kentucky Infrastructure Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Fiscal Officer, 375 Versailles Road, Frankfort, Kentucky, 40601-3646.

KENTUCKY INFRASTRUCTURE AUTHORITY
BALANCE SHEETS
JUNE 30, 2003 AND 2002

ASSETS

	2003	2002
Current assets:		
Cash and cash equivalents	$ 81,728,245	$ 59,211,371
Investments, current portion	51,609,285	65,297,027
Federal Funds Receivable	532,081	681,446
Accrued interest receivable, investments	1,801,116	1,706,195
Accrued interest receivable, loans	1,196,438	1,165,585
Current maturities of long-term receivables	20,900,941	20,326,755
Total current assets	157,768,106	148,388,379
Equipment	84,289	84,289
Less: Accumulated Depreciation	(50,573)	(33,716)
Net Equipment	33,716	50,573
Investments	98,587,707	105,064,877
Long-term receivables:		
Assistance agreements receivable:		
Principal	410,917,950	380,127,328
Less:		
Current maturities	(20,900,941)	(20,326,755)
Deposit reserve	(19,531,690)	(19,325,846)
Unamortized discounts	(4,852,976)	(5,510,119)
Funds held for governmental agencies	(1,188,135)	
Total long-term receivables	364,444,208	334,964,608
Other assets:		
Unamortized costs of issuance	2,113,319	2,188,246
Total assets	$ 622,947,056	$ 590,656,683

See accompanying notes.

KENTUCKY INFRASTRUCTURE AUTHORITY
BALANCE SHEETS
JUNE 30, 2003 AND 2002

LIABILITIES AND RETAINED EARNINGS

	2003	2002
Current Liabilities		
Current maturities of revenue bonds payable, less unamortized discounts, premiums and deferred loss on early retirement of debt	$ 15,356,138	$ 14,480,345
Accrued interest payable	1,996,619	2,080,655
Due to Division of Water	391,028	188,691
Other payables	149,851	462,826
Total current liabilities	17,893,636	17,212,517
Long-term debt:		
Revenue bonds payable, less current maturities and net of unamortized discounts, premiums and deferred loss on early retirement of debt	198,910,250	208,118,481
Total long-term debt	198,910,250	208,118,481
Total liabilities	216,803,886	225,330,998
Retained earnings	406,143,170	365,325,685
Total liabilities and retained earnings	$ 622,947,056	$ 590,656,683

See accompanying notes.

KENTUCKY INFRASTRUCTURE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
Years ended June 30, 2003 and 2002

	2003	2002
Operating revenues:		
Assistance agreements:		
Servicing fee	$ 691,281	$ 622,527
Interest	11,386,888	11,957,395
Amortization of discount	398,658	383,256
Amortization of bond premiums	65,524	31,674
Income from investments	6,544,898	6,657,197
Miscellaneous Income	2,659	5,866
Net increase (decrease) in fair market value of investments	2,756,454	1,456,470
Total operating revenues	21,846,362	21,114,385
Operating expenses:		
General and administrative	1,641,555	3,431,445
Intergovernmental administrative expense reimbursement	1,466,697	2,128,669
Grants	12,912,366	8,096,384
Depreciation	16,857	16,857
Revenue bonds payable:		
Amortization of discount	96,320	139,449
Amortization of costs of issuance	169,596	192,720
Interest on reserves	285,638	514,585
Interest	10,148,140	10,648,988
Total operating expenses	26,737,169	25,169,097
Operating income	(4,890,807)	(4,054,712)
Nonoperating revenues:		
Federal grants and reimbursements	30,267,009	28,746,071
Income before operating transfers	25,376,202	24,691,359
Operating transfers to State general fund	(1,000,000)	
Operating transfers from Transportation Cabinet		341,078
Operating transfers in for debt service	16,441,283	14,324,067
Net income	40,817,485	39,356,504
Retained earnings, beginning of year,	365,325,685	325,969,181
Retained earnings at end of year	$ 406,143,170	$ 365,325,685

See accompanying notes.

KENTUCKY INFRASTRUCTURE AUTHORITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$ 691,281	$ 622,527
Collections on assistance agreements	21,489,774	21,240,274
Advances on assistance agreements	(52,285,952)	(32,516,596)
Grants	(12,912,366)	(8,096,384)
Miscellaneous income	2,659	5,866
Interest received on loans	11,356,035	12,193,062
Cash payments to suppliers for goods and services	(3,218,890)	(5,058,448)
Net cash used in operating activities	(34,877,459)	(11,609,699)
Cash flows from noncapital financing activities:		
Proceeds from the issuance of revenue and revenue refunding bonds	30,295,000	68,020,000
Receipt of grants, net	30,416,374	28,757,641
State appropriation for debt service	16,441,283	14,324,067
Transfer to State General Fund	(1,000,000)	
Operating transfers from Transportation Cabinet		341,078
Receipt of bond premiums and accrued interest on bond proceeds	670,740	1,455,452
Payment of bond discount and costs of issuance	(821,780)	(712,381)
Payment to refund bond escrow agent	(24,725,486)	
Principal payments on long-term debt	(15,270,000)	(12,965,000)
Interest paid on long-term debt	(10,099,400)	(10,518,254)
Net cash provided by noncapital financing activities	25,906,731	88,702,603
Cash flows from investing activities:		
Purchase of investment securities	(147,007,994)	(216,856,685)
Proceeds from sale and maturities of investment securities	172,045,619	168,507,203
Investment income received	6,449,977	6,833,723
Net cash provided by (used in) investing activities	31,487,602	(41,515,759)
Increase (decrease) in cash and cash equivalents	22,516,874	35,577,145
Cash and cash equivalents at beginning of year	59,211,371	23,634,226
Cash and cash equivalents at end of year	$ 81,728,245	$ 59,211,371
Reconciliation of operating income to net cash used in operating activities:		
Operating income	$ (4,890,807)	$ (4,054,712)
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization and Depreciation	282,773	349,026
Amortization of discount	(398,658)	(383,256)
Amortization of bond premium	(65,524)	(31,674)
Investment Income	(6,544,898)	(6,657,197)
Interest expense	10,433,778	11,163,573
Net (increase) decrease in fair market value of investments	(2,756,454)	(1,456,470)
Change in assets and liabilities:		
Increase (decrease) in other payables	(312,975)	312,975
Increase in funds held for government agencies	1,188,135	
Decrease in accrued loan interest receivable	(30,853)	235,667
Increase in due to NREPC	202,337	188,691
Increase in assistance agreements receivable	(31,984,313)	(11,276,322)
Net cash used in operating activities	$ (34,877,459)	$ (11,609,699)

See accompanying notes.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Kentucky Infrastructure Authority is presented to assist in understanding the combined financial statements. The combined financial statements and notes are representations of the Kentucky Infrastructure 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 Presentation:

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.

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.

Scope of Entity:

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." 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.

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.

Investments:

The Authority has adopted Statement No. 31 of the Governmental Accounting Standards Board, "Accounting for Certain Investments and for External Investment Pools" in 1998. Under Statement No. 31, all investments are valued at their fair values in the balance sheets. Unrealized gains and losses are included in the statements of revenues, expenses and changes in retained earnings.

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.

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.

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 and investment interest received on the unspent proceeds of these bonds 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 but list investment interest income and bond interest paid as nonoperating items in order to match them in the same cash flow category with the corresponding bond principal or investment on the statement of cash flows.

Industrial Development Bonds:

The Authority has issued Pollution Control Revenue Bonds in accordance with the statutes governing the issuance of Industrial Revenue Bonds for various projects since 1980. These bonds do not constitute a general debt, liability or moral obligation of the Authority or the Commonwealth of Kentucky. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these bonds.

NOTE 2 - FUND DESCRIPTIONS

The Authority is authorized by 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 - Waste Water Revolving Loan Program:

Local waste water treatment facilities that qualify under the U.S. Environmental Protection Agency requirements can be financed through this program. Jointly administered by the KIA and the Natural Resources Cabinet, loans will be provided at below-market interest rates with repayments not exceeding twenty years. 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 any type of infrastructure that will enhance economic development and job creation. 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. Loans or grants are made to utilities which are governmental agencies and or investor owned with emphasis on regionalization, uniform system of accounts and cost based rates.

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 any infrastructure owned 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 E - Solid Waste Revolving Loan Program:

This fund was established to assist local government units in the financing of solid waste projects. Financial assistance is available for the useful life of the project or thirty years, whichever is shorter. Grants are also available from this fund. Jointly administered by the Natural Resources Cabinet, the fund provides grants up to $75,000 per project per funding cycle to defray capital costs associated with solid waste management activities. The Commonwealth appropriates an amount equal to this fund's debt service to make its bond payments.

Fund F – Drinking Water Revolving Loan Fund

This fund was established to assist in financing local drinking water treatment and distribution facilities that qualify under U. S. Environmental Protection Agency (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 KIA staff. Loan funds are available on short terms for planning and preliminary design work.

NOTE 3 - REVENUE BOND FUND ACCOUNTS

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2003 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating fund	$ 367,953	$ 1,895,524	$ 2,263,477
Revolving fund	18,684,249	97,662,081	116,346,330
Government agency fund	44,984,364	10,645,306	55,629,670
Debt service reserve fund	4,008,666	4,824,249	8,832,915
Debt service fund	4,924,088		4,924,088
Revenue fund	770,480		770,480
Surplus fund	6,496,488	32,070,055	38,566,543
Rebate fund		86	86
Cost of issuance fund	48,722		48,722
Cash in State System	1,443,235	3,099,691	4,542,926
Total	$ 81,728,245	$150,196,992	$231,925,237

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2002 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating fund	$ 451,216	$ 1,332,427	$ 1,783,643
Revolving fund	27,268,475	80,645,058	107,913,533
Government agency fund	15,989,859	49,601,757	65,591,616
Debt service reserve fund	3,659,070	3,925,493	7,584,563
Debt service fund	4,885,803		4,885,803
Revenue fund	1,219,556		1,219,556
Surplus fund	5,701,457	29,910,983	35,612,440
Rebate fund	86		86
Cost of issuance fund	18,516		18,516
Cash in State System	17,333	4,946,186	4,963,519
Total	$ 59,211,371	$170,361,904	$229,573,275

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 which 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.

H. Rebate Fund

Funds designated for the purpose of paying anticipated liability due to the internal revenue service based on excess earnings of specific bond issues.

I. Cost of Issuance Fund

Upon issuance, a portion of the proceeds are set aside to pay the cost associated with the issue (attorneys' fees, etc.). After all fees are paid, any remaining funds are transferred to the Bond or Note Payment Fund.

J. Capitalized Interest Fund

Funds designated for the purpose of paying capitalized interest associated with the revenue bond and bond anticipation notes.

K. Project Fund

Funds designated for the purpose of construction projects associated with the issuance of revenue bond anticipation notes.

NOTE 4 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following schedules present the carrying amounts of cash and cash equivalents by credit risk category at June 30:

	Category 1	Category 2	Category 3	Carrying Amount
June 30, 2003				
Cash	$	$ 25,089,634	$	$ 25,089,634
U.S. Government Money Market		55,195,376		55,195,376
Total	$ -0-	$80,285,010	$ -0-	$80,285,010
Cash Deposited With State				1,443,235
Total				$81,728,245
June 30, 2002				
Cash	$	$ 12,025,565	$	$ 12,025,565
U.S. Government Money Market		7,734,559		7,734,559
Commercial paper		39,433,914		39,433,914
Total	$ -0-	$59,194,038	$ -0-	$59,194,038
Cash Deposited With State				17,333
Total				$59,211,371

The above schedules classify the carrying amounts of cash and cash equivalents as to credit risk by the three categories described below:

Category (1) - Amounts covered by federal depository insurance or collateralized with securities held by the Authority or the Authority's agent in the Authority's name. (An agent is an organization with which the Authority has a contractual relationship to hold securities owned or pledged to the Authority.)

Category (2) - Amounts collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category (3) - Amounts which are uninsured and uncollateralized or which are collateralized, but the securities are held by the financial institution's trust department or agent in the institution's name.

The following schedules present the carrying amounts of investments by credit risk category at June 30:

June 30, 2003	Category 1	Category 2	Category 3	Carrying Amount
U.S. Government Securities	$	$135,685,029		$135,685,029
Commercial paper		11,412,272		11,412,272
	$ -0-	$147,097,301	$ -0-	$147,097,301
Cash Deposited With State				3,099,691
				150,196,992
Less: Current portion: State			0	
Current portion: Other			51,609,285	51,609,285
				$98,587,707
June 30, 2002				
U.S. Government Securities	$	$157,073,146		$157,073,146
Commercial paper		8,342,574		8,342,574
	$ -0-	$165,415,720	$ -0-	$165,415,720
Cash Deposited With State				4,946,184
				170,361,904
Less: Current portion: State			55,691	
Current portion: Other			65,241,336	65,297,027
				$105,064,877

The above schedules classify the carrying amounts of investments as to credit risk by the three categories described below:

Category (1) - Securities which are either fully insured, registered or which are held by the Authority or the Authority's agent in the Authority's name.

Category (2) - Securities which are neither insured nor registered, but are held by the Authority's counter party in the Authority's name. (A counter party is the issuer of a security or the purchasing agent for the Authority. If an organization is both an agent and counter party then the organization is considered to be a counter party.)

Category (3) - Uninsured and unregistered securities which are held by the Authority's agent or counter party, but not in the Authority's name.

NOTE 5 - 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 $410,917,950 in assistance agreements receivable at June 30, 2003, the Authority has commitments remaining to disburse funds summarized as follows:

Fund A - Waste Water Revolving Loan Program	$ 20,747,643
Fund C - Governmental Agencies Program	6,670,001
Fund F – Drinking Water Revolving Loan Program	16,482,922
Total commitments outstanding	$ 43,900,566

NOTE 6 - DEPOSIT RESERVE

Fund C bond indentures have established a debt service reserve. The municipalities' initial deposit from the revenue bond proceeds to the debt service reserve is a restricted asset of the Authority established for additional security in the event of any loan defaults regarding the assistance agreements receivable. The Authority has legal title to such funds, subject to the right of bondholders to claim such funds in the event the Authority fails to make timely payment on such bonds. It is the intent of the Authority to rebate these deposits to the governmental agencies upon repayment of loans.

NOTE 7 - LONG-TERM DEBT REVENUE BONDS PAYABLE

Long-term debt consists of the following:

	June 30, 2003		
Kentucky Infrastructure Authority Revenue Bonds:	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest of 3.00% to 7.10%, due semi-annually, principal due annually to June 1, 2021	$ 40,695,000	$2,580,000	$ 38,115,000
Fund B, Infrastructure Revolving Fund Revenue Bonds, interest of 4.00% to 8.40%, due semi-annually, principal due annually to June 1, 2021	96,670,000	6,470,000	90,200,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest of 3.10% to 7.85%, due semi-annually, principal due annually to August 1, 2018	64,025,000	6,115,000	57,910,000
Fund E, Solid Waste Revolving Fund Revenue Bonds, interest of 3.00% to 6.80%, due semi-annually, principal due annually to June 1, 2015	5,590,000	455,000	5,135,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest of 3.00% to 6.00%, due semi-annually, principal due annually to June 1, 2021	$ 9,845,000	$ 390,000	$ 9,455,000
	216,825,000	16,010,000	200,815,000
Plus: Unamortized premiums	1,676,059	105,924	1,570,135
Less: Unamortized discounts	(791,101)	(99,984)	(691,117)
Unamortized deferred loss on early retirement of debt	(3,443,570)	(659,802)	(2,783,768)
	$214,266,388	$15,356,138	$198,910,250

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

The required annual payments for all debt for each of the next five fiscal years are as follows:

	Principal	Interest	Total
2004	$ 16,010,000	$10,518,195	$ 26,528,195
2005	15,060,000	9,784,474	24,844,474
2006	15,785,000	9,097,388	24,882,388
2007	16,425,000	8,353,333	24,778,333
2008	17,205,000	7,565,045	24,770,045
2009 – 2013	72,755,000	26,150,721	98,905,721
2014 – 2018	44,765,000	10,682,327	55,447,327
2019 – 2023	18,820,000	1,857,175	20,677,175
	$216,825,000	$84,008,658	$300,833,658

NOTE 9 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 trust account assets and the liabilities for the defeased bonds 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, 2003 is $28,790,000.

NOTE 10 DEFEASED DEBT

During the year ended June 30, 2003, the Authority issued Governmental Agencies Program Revenue and Revenue Refunding Bonds, 2002 Series K, Wastewater Revolving Fund Program Revenue Refunding Bonds, 2002 Series H, Infrastructure Revolving Fund Program Revenue Refunding Bonds, 2002 Series N, Infrastructure Revolving Fund Program Revenue Refunding Bonds, 2002 Series OT, Infrastructure Revolving Fund Program Revenue Refunding Bonds, 2002 Series O and Solid Waste Revolving Fund Program Revenue Refunding Bonds, 2002 Series F. Partial proceeds from the bonds were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to advance refund outstanding bonds as follows:

Governmental Agencies Program Revenue and Revenue Refunding Bonds, 2002 Series K, interest of 2.5% to 5.0%, due semi-annually, principal due annually to August 1, 2022. Par value of $13,420,000, $7,684,395 escrowed to refund bonds as follows:

Series Name	Maturity	Principal Amount
1991 Series D	8/1/2003	$ 410,000
1991 Series D	8/1/2004	$ 330,000
1991 Series D	8/1/2005	$ 355,000
1991 Series D	8/1/2006	$ 380,000
1991 Series D	8/1/2011	$2,290,000
1993 Series E	8/1/2004	$ 275,000
1993 Series E	8/1/2005	$ 290,000
1993 Series E	8/1/2006	$ 305,000
1993 Series E	8/1/2007	$ 325,000
1993 Series E	8/1/2018	$ 340,000
1993 Series E	8/1/2013	$2,015,000

Wastewater Revolving Fund Program Revenue Refunding Bonds, 2002 Series H, interest of 2.0% to 5.0%, due semi-annually, principal due annually to June 1, 2015. Par value of $11,770,000, $12,023,737 escrowed to refund bonds as follows:

Series Name	Maturity	Principal Amount
1993 Series B	6/1/2006	$ 585,000
1993 Series B	6/1/2007	$ 615,000
1993 Series B	6/1/2008	$ 650,000
1993 Series B	6/1/2013	$3,825,000
1995 Series D	6/1/2011	$ 955,000
1995 Series D	6/1/2012	$1,055,000
1995 Series D	6/1/2013	$1,060,000
1995 Series D	6/1/2015	$2,300,000

Infrastructure Revolving Fund Program Revenue Refunding Bonds, 2002 Series N, interest of 2.0%, due semi-annually, principal due June 1, 2004. Par value of $275,000, $270,918 escrowed to refund bonds as follows:

Series Name	Maturity	Principal Amount
1991 Series C	6/1/2004	$ 260,000

Infrastructure Revolving Fund Program Revenue Refunding Bonds, 2002 Series O, interest of 2.0% to 4.0%, due semi-annually, principal due June 1, 2012 and Infrastructure Revolving Fund Program Revenue Refunding Bonds, 2002 Series OT, interest of 2.25% to 2.75%, due semi-annually, principal due June 1, 2004. Par value of $3,865,000 and $290,000, respectively, $4,050,176 escrowed to refund bonds as follows:

Series Name	Maturity	Principal Amount
1991 Series D	6/1/2004	$ 410,000
1991 Series D	6/1/2005	$ 330,000
1991 Series D	6/1/2006	$ 355,000
1991 Series D	6/1/2011	$1,215,000
1992 Series H	6/1/2004	$ 180,000
1992 Series H	6/1/2005	$ 190,000
1992 Series H	6/1/2006	$ 200,000
1992 Series H	6/1/2007	$ 215,000
1992 Series H	6/1/2012	$1,315,000

Solid Waste Revolving Fund Program Revenue Refunding Bonds, 2002 Series F, interest of 2.0% to 5.0%, due semi-annually, principal due June 1, 2015. Par value of $675,000, $694,258 escrowed to refund bonds as follows:

Series Name	Maturity	Principal Amount
1993 Series B	6/1/2007	$ 20,000
1993 Series B	6/1/2008	$ 25,000
1993 Series B	6/1/2013	$ 140,000
1995 Series C	6/1/2015	$ 440,000

The advanced refunding has met the requirements of in-substance debt defeasance and the refunded debt has been removed from long-term debt in the accompanying balance sheets.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,770,742. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015 using the straight-line method. KIA completed the advance refunding to reduce its total debt service payments over the next 12 years by $1,836,139 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,510,701.

NOTE 11 GRANT COMMITTMENTS

KIA has committed to disburse grants totaling $54,156,414 and $2,417,978 in Fund B and Fund E, respectively. The Transportation Cabinet will transfer $1,630,903 to KIA to cover a portion of the Fund E commitments. In addition, the 2003 General Assembly awarded $59,071,343 to tobacco impacted counties and $54,861,998 to coal producing counties in grants for water and sewer projects to be administered by KIA. Disbursements of these funds will begin in fiscal year 2004.

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Grant Name	CFDA Number	Grant Period	Expenditures	Passed Through To Other Agencies (Including Revenue Redistributions)
Direct Programs:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	10/1995 - 9/2002	-	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	10/1996 - 9/2002	15,661	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	10/1997 - 9/2003	79,122	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	10/1998 - 9/2003	171,382	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	9/1999 - 9/2003	12,944,641	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	10/2000 - 9/2003	1,616,086	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	10/2001 - 9/2004	-	-
Total Capitalization Grants for Clean Water State Revolving Funds			$ 14,826,892	$ -
Direct Programs:				
Capitalization Grants for Drinking Water State Revolving Fund	66.468	9/1998 - 9/2003	95,250	56,517
Capitalization Grants for Drinking Water State Revolving Fund	66.468	4/1999 - 9/2003	-	4,105
Capitalization Grants for Drinking Water State Revolving Fund	66.468	7/2000 - 9/2003	8,339,127	-
Capitalization Grants for Drinking Water State Revolving Fund	66.468	10/2000 - 9/2003	4,755,628	488,611
Capitalization Grants for Drinking Water State Revolving Fund	66.468	1/2002 - 9/2004	-	707,464
Capitalization Grants for Drinking Water State Revolving Fund	66.468	1/2002 - 9/2005	-	-
Total Capitalization Grants for Drinking Water State Revolving Funds			$ 13,190,005	$ 1,256,697
Total U. S. Environmental Protection Agency			$ 28,016,897	$ 1,256,697
Total All Programs			$ 28,016,897	$ 1,256,697

See notes to the schedule of expenditures of federal awards

KENTUCKY INFRASTRUCTURE AUTHORITY
NOTES TO THE SUPPLEMENTARY SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2003

NOTE 1 - BASIS OF ACCOUNTING

The supplementary schedule of expenditures of federal awards is presented on the modified cash basis of accounting.

BERGER & COMPANY
CPA, PSC

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTAL INFORMATION

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Our report on our audit of the basic financial statements of the Kentucky Infrastructure Authority for the year ended June 30, 2003, appears on page 1. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in the schedules on pages 25 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berger & Company CPA PSC

Berger & Company, CPA, PSC
October 1, 2003

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KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINING BALANCE SHEET
June 30, 2003

ASSETS

	Fund A	Fund B
Current assets:		
Cash and cash equivalents	$ 19,829,567	$ 43,157,645
Investments, current portion	33,869,288	7,423,138
Federal Funds Receivable	141,053	
Accrued interest receivable, investments	1,157,351	284,750
Accrued interest receivable, loans	626,355	150,501
Current maturities of long-term receivables	12,402,089	2,930,620
Total current assets	68,025,703	53,946,654
Equipment		84,289
Less: Accumulated Depreciation		(50,573)
Net Equipment		33,716
Investments	50,434,155	13,793,068
Long-term receivables:		
Assistance agreements receivable:		
Principal	244,346,042	56,065,404
Less:		
Current maturities	(12,402,089)	(2,930,620)
Deposit reserve		
Unamortized discounts/premiums		
Funds held for governmental agencies		
Total long-term receivables	231,943,953	53,134,784
Other assets:		
Unamortized costs of issuance	497,205	866,149
Total assets	$ 350,901,016	$ 121,774,371

LIABILITIES AND RETAINED EARNINGS

Current liabilities:		
Current maturities of revenue bonds payable, less unamortized discounts and deferred loss on early retirement of debt	$ 2,514,378	$ 6,182,091
Accrued interest payable	158,560	395,553
Due to Division of Water		
Other payables	40,000	84,237
Total current liabilities	2,712,938	6,661,881
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized discounts and deferred loss on early retirement of debt	37,327,511	89,237,369
Total liabilities	40,040,449	95,899,250
Retained earnings	310,860,567	25,875,121
Total liabilities and retained earnings	$ 350,901,016	$ 121,774,371

Fund C	Fund E	Fund F	Total
$ 16,471,936	$ 374,594	$ 1,894,503	$ 81,728,245
8,180,990	530,553	1,605,316	51,609,285
		391,028	532,081
285,942	18,190	54,883	1,801,116
324,504	7,250	87,828	1,196,438
4,076,059	608,572	883,601	20,900,941
29,339,431	1,539,159	4,917,159	157,768,106
			84,289
			(50,573)
			33,716
29,898,622	1,664,325	2,797,537	98,587,707
65,467,590	2,894,582	42,144,332	410,917,950
(4,076,059)	(608,572)	(883,601)	(20,900,941)
(19,531,690)			(19,531,690)
(4,852,976)			(4,852,976)
(1,188,135)			(1,188,135)
35,818,730	2,286,010	41,260,731	364,444,208
576,967	52,313	120,685	2,113,319
$ 95,633,750	$ 5,541,807	$ 49,096,112	$ 622,947,056
$ 6,093,604	$ 177,733	$ 388,332	$ 15,356,138
1,379,616	22,256	40,634	1,996,619
		391,028	391,028
614	25,000		149,851
7,473,834	224,989	819,994	17,893,636
57,831,482	5,087,322	9,426,566	198,910,250
65,305,316	5,312,311	10,246,560	216,803,886
30,328,434	229,496	38,849,552	406,143,170
$ 95,633,750	$ 5,541,807	$ 49,096,112	$ 622,947,056

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KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
Year ended June 30, 2003

	Fund A	Fund B
Operating revenues:		
Assistance agreements:		
Servicing fee	$ 452,229	$ 112,867
Interest	5,862,783	1,625,384
Amortization of loan premiums	24,952	
Amortization of bond premiums		65,524
Income from investments	2,927,406	1,477,657
Miscellaneous Income		46
Net increase (decrease) in fair market value of investments	893,784	(152,162)
Total operating revenues	10,161,154	3,129,316
Operating expenses:		
General and administrative	495,890	893,743
Intergovernmental administrative expense reimbursement		
Grants		12,268,478
Depreciation		16,857
Revenue bonds payable:		
Amortization of discount	25,895	16,123
Amortization of costs of issuance	49,159	64,141
Interest on reserves		
Interest	1,874,188	5,284,456
Total operating expenses	2,445,132	18,543,798
Operating income (loss)	7,716,022	(15,414,482)
Nonoperating revenues:		
Federal grants and reimbursements	14,826,893	
Net Income (loss) before operating transfers	22,542,915	(15,414,482)
Operating transfer to State General Fund		(1,000,000)
Operating transfers in for debt service	4,428,416	11,200,301
Net income (loss)	26,971,331	(5,214,181)
Retained earnings (deficit), beginning of year	283,889,236	31,089,302
Retained earnings (deficit) at end of year	$ 310,860,567	$ 25,875,121

Fund C	Fund E	Fund F	Total
$ 90,814	$ 7,128	$ 28,243	$ 691,281
3,140,229	101,133	657,359	11,386,888
371,810	1,896		398,658
			65,524
1,866,889	80,977	191,969	6,544,898
2,613			2,659
1,967,439	18,774	28,619	2,756,454
7,439,794	209,908	906,190	21,846,362
41,549	1,492	208,881	1,641,555
	210,000	1,256,697	1,466,697
	643,888		12,912,366
			16,857
48,795	3,839	1,668	96,320
44,037	6,209	6,050	169,596
285,638			285,638
2,961,195	28,301		10,148,140
3,381,214	893,729	1,473,296	26,737,169
4,058,580	(683,821)	(567,106)	(4,890,807)
		15,440,116	30,267,009
4,058,580	(683,821)	14,873,010	25,376,202
			(1,000,000)
	437,591	374,975	16,441,283
4,058,580	(246,230)	15,247,985	40,817,485
26,269,854	475,726	23,601,567	365,325,685
$ 30,328,434	$ 229,496	38,849,552	$ 406,143,170

BERGER & COMPANY
CPA, PSC

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Infrastructure Authority as of and for the year ended June 30, 2003, and have issued our report thereon dated October 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kentucky Infrastructure Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kentucky Infrastructure Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, the Auditor of Public Accounts of the Commonwealth of Kentucky, and federal awarding agencies and passthrough entities and is not intended to be and should not be used by anyone other than these specified parties.

Berger + Company CPA PSC

Berger & Company, CPA, PSC
October 1, 2003

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BERGER & COMPANY
CPA, PSC

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Compliance

We have audited the compliance of the Kentucky Infrastructure Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular 33 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The Kentucky Infrastructure Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Kentucky Infrastructure Authority's management. Our responsibility is to express an opinion on the Kentucky Infrastructure Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Kentucky Infrastructure Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Kentucky Infrastructure Authority's compliance with those requirements.

In our opinion, the Kentucky Infrastructure Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Kentucky infrastructure Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, the Auditor of Public Accounts of the Commonwealth of Kentucky, and federal awarding agencies and passthrough entities. However, this report is a matter of public record and its distribution is not limited.

Berger + Company CPA PSC

Berger & Company, CPA, PSC
October 1, 2003

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2003

Summary of Auditor's Results

We have issued an unqualified opinion, dated October 1, 2003, on the financial statements of Kentucky Infrastructure Authority as of and for the year ended June 30, 2003.

Our audit disclosed no instances of noncompliance which are material to the Kentucky Infrastructure Authority's financial statements.

We have issued an unqualified opinion, dated October 1, 2003, on the Kentucky Infrastructure Authority's compliance for major programs.

Our audit disclosed no findings required to be reported under the provisions of OMB Circular A-133.

The Kentucky Infrastructure Authority's major federal programs for the year ended June 30, 2003, was the U.S. Environmental Protection Agency, CFDA Numbers 66.458 and 66.468.

The Kentucky Infrastructure Authority qualified as a low-risk auditee under the provisions of OMB Circular A-133.

Findings Relating to the Financial Statements

Our audit disclosed no findings which are required to be reported in accordance with *Governmental Auditing Standards*.

Findings and Questioned Costs for Federal Awards

Our audit disclosed no findings or questioned costs for federal awards as defined by OMB Circular A-133.

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTIONS
Year ended June 30, 2003

The prior-year's audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.