

# **KENTUCKY INFRASTRUCTURE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2010 and 2009

# KENTUCKY INFRASTRUCTURE AUTHORITY

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Kentucky Infrastructure Authority  
Frankfort, Kentucky

We have audited the accompanying financial statements of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2010, 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 audit. The financial statements as of June 30, 2009, were audited by Potter & Company, LLP, who merged with Blue & Co., LLC as of January 1, 2010, and whose report dated October 20, 2009, expressed an unqualified opinion on those statements based upon their audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Kentucky Infrastructure Authority, as of June 30, 2010 and the changes in its financial position 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 as of the date of this report on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 39 and 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 36 and notes thereto on pages 37 and 38 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 basic 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.

*Blue & Co., LLC*

November 1, 2010

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2010 and 2009. 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 2010, the Authority reported combined ending net assets of approximately \$768,674,000 an increase of approximately \$60,837,000 (8.6%) in comparison with the prior year.
- The Authority's total debt increased approximately \$214,498,000 (169.8%) during fiscal year 2010. The primary factor in this increase is the issuance of the 2010 Series Revenue Bonds issued in April of 2010.
- The Authority disbursed approximately \$133,247,000 to borrowers for assistance agreements and approximately \$136,367,000 to local governmental entities in state grants. Principal and interest in the amount of approximately \$47,497,000 was collected from borrowers for assistance agreements.
- In April 2010, the Authority issued \$208,430,000 Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A under a new indenture created to provide optimum flexibility in increasing program capacity for both the federally assisted wastewater and drinking water programs. The Series 2010A bonds received "Aaa", "AAA" and "AAA" ratings from Moody's Investors Service, Inc., Standard & Poor's Rating Services and Fitch Ratings, respectively.

### **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 Kentucky Infrastructure 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

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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

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

### FINANCIAL ANALYSIS OF THE AUTHORITY

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

	<u>2010</u>	<u>% Increase (Decrease)</u>	<u>2009</u>	<u>% Increase (Decrease)</u>	<u>2008</u>
Assets:					
Current assets	\$ 404,175,899	48.0%	\$ 273,173,276	-15.2%	\$ 322,125,506
Long-term investments	167,001,597	54.3%	108,225,211	227.3%	33,062,432
Long-term receivables	552,781,897	16.3%	475,441,539	5.9%	449,032,201
Net capital assets	6,451	-57.2%	15,090	-22.0%	19,354
Other assets	<u>2,572,717</u>	132.8%	<u>1,105,131</u>	-11.2%	<u>1,243,882</u>
Total assets	<u>1,126,538,561</u>	31.3%	<u>857,960,247</u>	6.5%	<u>805,483,375</u>
Liabilities:					
Current liabilities	36,994,705	-1.8%	37,655,225	22.4%	30,773,656
Long-term debt	<u>320,869,648</u>	185.3%	<u>112,467,950</u>	-10.9%	<u>126,173,192</u>
Total liabilities	<u>357,864,353</u>	138.4%	<u>150,123,175</u>	-4.3%	<u>156,946,848</u>
Net assets:					
Invested in capital net of related debt	6,451	-57.2%	15,090	-22.0%	19,354
Restricted net assets	<u>768,667,757</u>	8.6%	<u>707,821,982</u>	9.1%	<u>648,517,173</u>
Total net assets	<u>\$ 768,674,208</u>	8.6%	<u>\$ 707,837,072</u>	9.1%	<u>\$ 648,536,527</u>

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

During 2010, the Authority's total cash and cash equivalents and investments increased approximately \$198,713,000. During 2009, the Authority's total cash and cash equivalents and investments increased approximately \$18,351,000.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2010, total investments consist of a current portion of approximately \$229,686,000 and a non-current portion of approximately \$167,002,000. As of June 30, 2010, the current portion is representative of U.S. Government Agency debt securities and obligations of government sponsored entities with maturities longer than three months when purchased, but also having maturities prior to June 30, 2011. 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 2010, new loan assistance agreements issued of approximately \$133,247,000 exceeded repayments of assistance agreements receivable of approximately \$36,852,000 and forgiveness of loan principal of \$18,623,000 under American Reinvestment and Recovery Act Awards, contributing to the approximately \$77,772,000 increase in net assistance agreements receivable. During fiscal year 2009, new loan assistance agreements issued of approximately \$62,555,000 exceeded repayments of assistance agreements receivable of approximately \$34,049,000 contributing to the approximately \$28,506,000 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 2010, long-term debt increased approximately \$208,402,000 due to the issuance of the Series 2010 Revenue Bonds issued in April of 2010.

### Condensed Financial Information

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

	2010	% Increase (Decrease)	2009	% Increase (Decrease)	2008
Operating revenues	\$ 13,080,745	6.2%	\$ 12,313,013	2.1%	\$ 12,064,607
Operating expenses	<u>142,697,552</u>	-1.5%	<u>144,898,305</u>	-7.9%	<u>157,407,382</u>
Operating loss	(129,616,807)	-2.2%	(132,585,292)	-8.8%	(145,342,775)
Nonoperating revenues (expenses):					
Income from investments	9,198,726	-7.4%	9,936,673	-27.5%	13,701,326
Net increase (decrease) in fair market value of investments	(7,357,190)	922.1%	(719,822)	-78.1%	(3,287,986)
Federal grants and reimbursements	53,734,018	35.7%	39,601,057	23.3%	32,107,111
ARRA - principal forgiveness on loans	(18,622,819)	-	0	-	0
Intergovernmental revenue from the Commonwealth	136,884,655	7.4%	127,488,375	-11.0%	143,249,426
State appropriations	<u>16,616,553</u>	6.7%	<u>15,579,554</u>	-24.9%	<u>20,757,820</u>
Change in net assets	<u>\$ 60,837,136</u>	2.6%	<u>\$ 59,300,545</u>	-3.1%	<u>\$ 61,184,922</u>

**Operating revenues** primarily consist of interest and service fee revenue from assistance agreements receivable and grant administration fees. Interest on assistance agreements

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

receivable and related service fees increased approximately \$263,000 from fiscal year 2009. Grant administration fees increased approximately \$294,000 as a result of additional grant starts during 2010.

**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 relative to local taxing districts of the Commonwealth as appropriated during the General Assembly. Current year grants decreased approximately \$4,678,000 from 2009. The decrease is primarily attributable to the budgetary constraints of the Commonwealth that resulted in fewer awards for fiscal year 2010. General and administrative costs increased approximately \$259,000 due to the increase in grant administration and the increase in general fund appropriation.

**Nonoperating revenues (expenses)** primarily 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 \$53,734,000 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 2010, approximately \$18,623,000 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.

### Condensed Financial Information Statement of Cash Flows For the Fiscal Years Ended June 30

	2010	% Increase (Decrease)	2009	% Increase (Decrease)	2008
Cash flows from operating activities	\$ (227,039,218)	56.9%	\$ (144,692,850)	-2.4%	\$ (148,255,920)
Cash flows from noncapital financing activities	423,573,298	175.3%	153,848,488	-17.6%	186,791,757
Cash flows from investing activities	<u>(117,490,383)</u>	-534.7%	<u>27,028,520</u>	-131.2%	<u>(86,705,439)</u>
Net change in cash and cash equivalents	79,043,697	118.4%	36,184,158	-175.1%	(48,169,602)
Cash, beginning of year	<u>43,756,481</u>	477.8%	<u>7,572,323</u>	-86.4%	<u>55,741,925</u>
Cash, end of year	<u>\$ 122,800,178</u>	180.6%	<u>\$ 43,756,481</u>	477.8%	<u>\$ 7,572,323</u>

The **net change in cash and cash equivalents** totaled approximately \$79,044,000 for the year ended June 30, 2010 due principally to the following: \$136,367,000 in payments for grants (net cash used in operating activities), advances on assistance agreement exceeded collections of assistance agreements and interest collected on assistance agreements of approximately \$85,750,000 (net cash used in operating activities); proceeds from the issuance of revenue bonds, net of issue costs of \$230,017,000; cash received on federal



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

grants of approximately \$53,958,000, state appropriations received of approximately \$17,045,000, and payments received from the Commonwealth related to grants of approximately \$145,386,000 (net cash provided by noncapital financing activities); principal and interest payments on long-term debt of approximately \$23,112,000 (net cash used in financing activities); and net cash flow used in investing activities (purchases of investments less proceeds from the sale and maturities of investments) of approximately \$127,027,000 plus interest and other income received from investments of approximately \$9,536,000.

### **LONG-TERM DEBT**

At June 30, 2010, the Authority had approximately \$317,245,000 in bonds outstanding (principal) - an increase of 151.9% from last year. The increase is due to \$208,430,000 in Series 2010 Revenue Bonds issued in April of 2010. More detailed information about the Authority's long-term liabilities is presented in Note 8 to the financial statements.

Bond Ratings. The 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. Wastewater and Drinking Water program supported debt rating is Aaa from Moody's and AAA from Standard & Poor's and Fitch. The Governmental Agencies program revenue bonds of the Authority are rated AA by Standard & Poor's.

Limitations on Debt. The Authority is required by 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 in the Fund C program, which meets this criterion, is significantly below this limit.

### Kentucky Infrastructure Authority's Outstanding Debt:

	<u>2010</u>	<u>% Increase (Decrease)</u>	<u>2009</u>	<u>% Increase (Decrease)</u>	<u>2008</u>
General fund appropriation supported debt	\$ 80,840,000	-15.5%	\$ 95,675,000	-11.7%	\$ 108,355,000
Program revenue supported debt	<u>236,405,000</u>	681.2%	<u>30,260,000</u>	-10.1%	<u>33,675,000</u>
Total	<u>\$ 317,245,000</u>	151.9%	<u>\$ 125,935,000</u>	-11.3%	<u>\$ 142,030,000</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The 2003 General Assembly, in House Bill 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 FY2010, approximately \$1.7 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 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 FY2010, approximately \$13.7 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, 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. At the end of FY2010, approximately \$42.3 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 FY2010, approximately \$477,000 remained to be disbursed to grantees for Community Development.

The 2008 General Assembly, in House Bill 406, 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. At the end of FY2010, approximately \$133.9 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.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **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, 2010 AND 2009

	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 122,800,178	\$ 43,756,308
Cash and cash equivalents, restricted for debt service	0	173
Investments, current portion	229,685,915	168,792,733
Federal funds receivable	39,104	263,360
Intergovernmental receivables	13,638,422	22,568,232
Accrued interest receivable, investments	474,859	812,508
Accrued interest receivable, loans	1,374,406	1,029,978
Current maturities of long-term receivables	36,163,015	35,949,984
Total current assets	404,175,899	273,173,276
Investments	160,905,489	102,129,103
Investments, restricted for debt service	6,096,108	6,096,108
Total noncurrent investments	167,001,597	108,225,211
Long-term receivables:		
Assistance agreements receivable:		
Principal	592,288,904	514,516,733
Less:		
Current maturities	(36,163,015)	(35,949,984)
Deposit reserve	(2,604,032)	(2,324,845)
Unamortized premiums	(739,960)	(800,365)
Total long-term receivables	552,781,897	475,441,539
Capital assets, net	6,451	15,090
Other assets:		
Unamortized costs of issuance	2,572,717	1,105,131
Total assets	1,126,538,561	857,960,247
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of revenue bonds payable, less unamortized discounts and deferred loss on early retirement of debt	19,935,833	13,839,428
Accrued interest payable	2,899,286	991,677
Due to Division of Water	37,144	74,759
Due to the Department of Local Governments	0	14,984
Grants payable	14,120,100	22,233,047
Other payables	2,342	501,330
Total current liabilities	36,994,705	37,655,225
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized discounts and deferred loss on early retirement of debt	320,869,648	112,467,950
Total liabilities	357,864,353	150,123,175
<b>NET ASSETS</b>		
Net assets:		
Invested in capital net of related debt	6,451	15,090
Restricted net assets	768,667,757	707,821,982
Total net assets	\$ 768,674,208	\$ 707,837,072

See accompanying notes.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	2010	2009
Operating revenues:		
Assistance agreements:		
Servicing fee	\$ 940,981	\$ 945,876
Interest	9,380,723	8,962,388
Interest received securing revenue bonds	1,608,946	1,759,091
Amortization of premium	60,405	60,405
Grant administration fee	772,483	478,473
Amortization of bond premiums	317,207	106,780
Total operating revenues	13,080,745	12,313,013
Operating expenses:		
General and administrative	2,964,871	2,705,357
Intergovernmental administrative expense reimbursement	3,119,229	2,049,284
Grants	128,254,299	132,932,257
Revenue bonds payable:		
Amortization of discount	30,614	26,817
Amortization of costs of issuance	147,168	138,750
Interest	8,172,732	7,041,576
Depreciation	8,639	4,264
Total operating expenses	142,697,552	144,898,305
Operating loss	(129,616,807)	(132,585,292)
Nonoperating revenues (expenses):		
Income from investments	9,198,726	9,936,673
Net decrease in fair value of investments	(7,357,190)	(719,822)
Federal grants and reimbursements	53,734,018	39,601,057
ARRA - principal forgiveness on loans	(18,622,819)	0
Intergovernmental revenue from the Commonwealth	136,884,655	127,488,375
State appropriations	16,616,553	15,579,554
Total nonoperating revenues	190,453,943	191,885,837
Change in net assets	60,837,136	59,300,545
Net assets, beginning of year	707,837,072	648,536,527
Net assets, end of year	\$ 768,674,208	\$ 707,837,072

See accompanying notes.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Administrative fees received	\$ 1,713,464	\$ 1,424,349
Collections on assistance agreements	36,852,109	34,049,486
Advances on assistance agreements	(133,247,099)	(62,555,379)
Interest received on assistance agreements	10,645,241	10,894,923
Cash payments for grants	(136,367,246)	(123,349,316)
Cash payments for personnel expenses	(1,186,769)	(1,094,055)
Cash payments to suppliers for goods and services	(5,448,918)	(4,062,858)
Net cash used in operating activities	(227,039,218)	(144,692,850)
Cash flows from noncapital financing activities:		
Proceeds from the issuance of revenue and revenue refunding bonds, net of issuance costs	230,016,577	0
Principal payments on long-term debt	(17,120,000)	(16,095,000)
Interest paid on long-term debt	(5,991,759)	(6,870,955)
Receipt of federal grants, net	53,958,274	42,781,855
State appropriation	17,045,323	15,471,550
Payments from the Commonwealth	145,385,696	117,999,019
Receipt of deposit reserve funds from borrowers	279,187	562,019
Net cash provided by noncapital financing activities	423,573,298	153,848,488
Cash flows from investing activities:		
Purchase of investment securities	(295,819,490)	(252,418,340)
Proceeds from sale and maturities of investment securities	168,792,732	269,531,237
Interest and other investment income received	9,536,375	9,915,623
Net cash provided by (used in) investing activities	(117,490,383)	27,028,520
Increase in cash and cash equivalents	79,043,697	36,184,158
Cash and cash equivalents at beginning of year	43,756,481	7,572,323
Cash and cash equivalents at end of year	\$ 122,800,178	\$ 43,756,481
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents	122,800,178	43,756,308
Cash and cash equivalents, restricted for debt service	0	173
Total cash and cash equivalents	\$ 122,800,178	\$ 43,756,481

See accompanying notes.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (129,616,807)	\$ (132,585,292)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of bond discount and cost of issuance	177,782	165,569
Amortization of bond premium	(317,206)	(106,781)
Amortization of assistance agreements premium	(60,405)	(60,405)
ARRA - principal forgiveness on loans	(18,622,819)	0
Amortization of bond defeasance included in interest	273,364	273,364
Interest paid on long-term debt	5,991,759	6,870,955
Depreciation	8,639	4,264
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(344,428)	201,560
Increase in assistance agreements receivable	(77,772,171)	(28,505,893)
Decrease in funds held for government agencies	0	(28,116)
Increase (decrease) in accrued interest payable	1,907,609	(102,743)
Decrease in due to Division of Water	(37,615)	(322,788)
Increase (decrease) in due to the Department of Local Government	(14,984)	104
Increase (decrease) in grants payable	(8,112,947)	9,582,941
Decrease in other payables	(498,989)	(79,589)
Net cash used in operating activities	<u>\$ (227,039,218)</u>	<u>\$ (144,692,850)</u>
Supplemental disclosure of noncash investing activities:		
Net decrease in fair value of investments	<u>\$ (7,357,190)</u>	<u>\$ (719,822)</u>
Forgiveness of principal under ARRA awards	<u>\$ (18,622,819)</u>	<u>\$ 0</u>

See accompanying notes.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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." 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.

Reorganization: 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 FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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 - 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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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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 Kentucky Infrastructure Authority is presented to assist in understanding the financial statements. The 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 State 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 FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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 FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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 statement 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 activities. The cost 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.

### 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.

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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### 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.

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

As of June 30, 2010 and 2009, cash and cash equivalents consist of the following:

	<u>2010</u>	<u>2009</u>
First American Government Obligation Fund	\$ 94,666,473	\$ 41,274,003
State cash and investment pool	1,375,888	0
Commercial paper	25,000,000	0
JP Morgan U.S. Treasury Plus Agency Fund	<u>1,757,817</u>	<u>2,482,478</u>
Total cash and cash equivalents	<u>\$ 122,800,178</u>	<u>\$ 43,756,481</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

The following schedule presents the carrying amounts of investments by maturity at June 30, 2010:

Investment	Fair Value	Maturity	Rate
FNMA MTN	\$ 30,164,328	07/12/10	3.000
FNMA MTN	12,277,088	08/12/10	3.250
FNMA MTN	12,311,036	09/13/10	4.375
Federal Home Loan Bank	27,301,502	10/14/10	1.250
Federal Home Loan Bank	12,813,067	11/09/10	0.375
U.S. Treasury Bond Stripped Principal Payment	114,917	11/15/10	n/a
Federal Home Loan Bank	16,100,115	11/15/10	1.050
Federal Home Loan Bank	7,147,825	12/03/10	0.850
FNMA MTN	8,835,855	12/15/10	4.750
FHLMC MTN	14,901,082	01/07/11	1.500
FHLMC MTN	3,068,084	01/18/11	4.750
Federal Home Loan Bank	1,856,364	02/03/11	0.950
Federal Home Loan Bank	2,051,880	02/04/11	4.850
FNMA MTN	14,770,816	02/15/11	4.500
Federal Home Loan Bank	14,861,982	03/11/11	3.250
FHLMC MTN	14,920,695	04/11/11	2.750
FNMA MTN	14,503,255	05/15/11	6.000
U.S. Treasury Bond Stripped Principal Payment	1,558,111	05/15/11	n/a
Federal Home Loan Bank	20,127,913	06/10/11	3.125
Federal Home Loan Bank	24,929,857	07/08/11	0.750
FNMA MTN	24,698,205	08/15/11	3.625
Federal Farm Credit Banks	24,974,575	09/01/11	0.680
Federal Home Loan Bank	24,969,793	10/11/11	0.975
FNMA MTN	24,996,825	11/03/11	1.215
U.S. Treasury Bond Stripped Principal Payment	285,388	11/15/11	n/a
Federal Home Loan Bank	9,193,686	12/01/11	0.800
Federal Home Loan Bank	2,887,376	12/09/11	1.125
Federal Farm Credit Banks	9,153,138	01/12/12	1.100
U.S. Treasury Bond Stripped Principal Payment	193,478	11/15/12	n/a
U.S. Treasury Bond Stripped Principal Payment	1,455,114	05/15/13	n/a
U.S. Treasury Notes State and Local Governments Series	1,314,791	08/01/14	4.450
U.S. Treasury Notes State and Local Governments Series	2,300,209	08/01/14	4.450
U.S. Treasury Notes State and Local Governments Series	2,481,106	08/01/22	5.120
	<u>383,519,456</u>		
Investments in State Pool	13,168,056		
Total	<u>396,687,512</u>		
Less: current portion	<u>229,685,915</u>		
Long-term investments	<u>\$ 167,001,597</u>		

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

The following schedule presents the carrying amounts of investments by maturity at June 30, 2009:

Investment	Fair Value	Maturity	Rate
FHLMC MTN	\$ 9,778,451	11/03/09	4.750
U.S. Treasury Security Stripped Interest Payment	20,986	11/15/09	n/a
Federal Home Loan Bank	10,022,671	12/15/09	3.000
Federal Home Loan Bank	7,698,775	01/06/10	3.500
FHLMC MTN	33,617,786	02/12/10	3.125
FNMA MTN	2,486,377	03/08/10	4.400
Federal Home Loan Bank	45,211,822	03/12/10	5.000
Federal Farm Credit Banks	19,019,625	04/07/10	2.375
Federal Farm Credit Banks	10,913,628	05/07/10	4.750
Federal Home Loan Bank	30,022,612	06/11/10	3.000
FNMA MTN	30,898,742	07/12/10	3.000
FNMA MTN	12,594,464	08/12/10	3.250
FNMA MTN	12,749,791	09/13/10	4.375
Federal Home Loan Bank	27,403,596	10/14/10	1.250
U.S. Treasury Bond Stripped Principal Payment	113,780	11/15/10	n/a
U.S. Treasury Security Stripped Interest Payment	1,533,947	05/15/11	n/a
U.S. Treasury Security Stripped Interest Payment	278,404	11/15/11	n/a
U.S. Treasury Security Stripped Interest Payment	184,429	11/15/12	n/a
U.S. Treasury Security Stripped Interest Payment	1,372,745	05/15/13	n/a
U.S. Treasury Notes State and Local Governments Series	2,300,209	08/01/14	4.450
U.S. Treasury Notes State and Local Governments Series	1,314,791	08/01/14	4.450
U.S. Treasury Notes State and Local Governments Series	2,481,109	08/01/22	5.120
	<u>262,018,740</u>		
Investments in state pool	14,999,204		
Total	<u>277,017,944</u>		
Less: current portion	<u>168,792,733</u>		
Long-term investments	<u>\$ 108,225,211</u>		

At June 30, 2010 and 2009, 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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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*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, 2010 and 2009, the Authority's investments are neither insured nor registered, but are held by the Authority's custodial agent in the Authority's name.

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

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

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

*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 FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### 4. REVENUE BOND FUND ACCOUNTS

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2010 are summarized below:

	Cash and cash equivalents	Investments	Total
Operating fund	\$ 434,886	\$ 6,897,606	\$ 7,332,492
Revolving fund	437,353	366,878,067	367,315,420
Government agency fund	97,014,293	0	97,014,293
Debt service reserve fund	0	6,096,108	6,096,108
Debt service fund	0	0	0
Revenue fund	5,937,023	9,368	5,946,391
Surplus fund	17,584,159	3,638,307	21,222,466
Cost of issuance fund	16,577	0	16,577
Funds in state pool	1,375,887	13,168,056	14,543,943
Total	\$ 122,800,178	\$ 396,687,512	\$ 519,487,690

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2009 are summarized below:

	Cash and cash equivalents	Investments	Total
Operating fund	\$ 901,249	\$ 5,506,176	\$ 6,407,425
Revolving fund	36,850,459	225,297,938	262,148,397
Government agency fund	2,482,478	0	2,482,478
Debt service reserve fund	20	6,096,108	6,096,128
Debt service fund	153	0	153
Revenue fund	569,966	3,497,712	4,067,678
Surplus fund	2,952,156	21,620,806	24,572,962
Funds in state pool	0	14,999,204	14,999,204
Total	\$ 43,756,481	\$ 277,017,944	\$ 320,774,425

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.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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### 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.

### 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 2010 Bonds.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### 5. INTERGOVERNMENTAL RECEIVABLES

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

	2010		2009
Due from the Commonwealth's General Fund for debt service and general and administrative costs	\$	0	\$ 428,770
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267		380,855	1,093,959
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267		570,611	2,037,105
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380		959,636	1,050,771
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Non-Coal Producing Counties per 2006 House Bill 380		1,829,728	2,975,636
State Property and Building Commission bond issue - funding of the water and sewer projects from the Community Development Projects per 2006 House Bill 380		0	33,759
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408		2,497,112	4,360,897
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Severance per 2008 House Bill 410		932,363	790,514
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		6,468,117	9,796,821
Total receivable from the Commonwealth	\$	13,638,422	\$ 22,568,232

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### 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 \$588,944,912 in assistance agreements receivable at June 30, 2010, the Authority has commitments remaining to disburse funds summarized as follows:

Fund A - Clean Water State Revolving Fund Loan Program	\$	329,497,669
Fund A - Clean Water State Revolving Fund Loan Program - ARRA		34,252,729
Fund B - Infrastructure Revolving Loan Program		8,010,306
Fund C - Governmental Agencies Program		7,557,249
Fund F - Drinking Water State Revolving Fund Loan Program		40,059,726
Fund F - Drinking Water State Revolving Fund Loan Program - ARRA		10,110,541
Total commitments outstanding	\$	<u>429,488,220</u>

### 7. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2010 is as follows:

		Balance June 30, 2009		Increases		Decreases		Balance June 30, 2010
Office equipment	\$	95,696	\$	0	\$	16,800	\$	78,896
Less accumulated depreciation		<u>(80,606)</u>		<u>(8,639)</u>		<u>(16,800)</u>		<u>(72,445)</u>
Capital assets - net	\$	<u>15,090</u>	\$	<u>(8,639)</u>	\$	<u>0</u>	\$	<u>6,451</u>

Capital asset activity during the year ended June 30, 2009 is as follows:

		Balance June 30, 2008		Increases		Decreases		Balance June 30, 2009
Office equipment	\$	103,642	\$	0	\$	7,946	\$	95,696
Less accumulated depreciation		<u>(84,288)</u>		<u>(4,264)</u>		<u>(7,946)</u>		<u>(80,606)</u>
Capital assets - net	\$	<u>19,354</u>	\$	<u>(4,264)</u>	\$	<u>0</u>	\$	<u>15,090</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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

Long-term debt consists of the following at June 30, 2010:

	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	\$ 203,840,000	\$ 6,730,000	\$ 197,110,000
Fund B, Infrastructure Revolving Fund Revenue Bonds, interest 2.75% to 5.95%, due semi-annually, principal due annually to June 1, 2021	45,870,000	7,840,000	38,030,000
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	1,955,000	625,000	1,330,000
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	27,975,000	2,590,000	25,385,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 1.50% to 6.00%, due semi-annually, principal due annually to February 1, 2029	37,605,000	1,120,000	36,485,000
Total	317,245,000	18,905,000	298,340,000
Plus: unamortized premium	23,990,384	1,334,811	22,655,573
Less: unamortized discount	(107,588)	(30,614)	(76,974)
Less: unamortized deferred loss on early retirement of debt	(322,315)	(273,364)	(48,951)
	\$ 340,805,481	\$ 19,935,833	\$ 320,869,648

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Long-term debt consists of the following at June 30, 2009:

	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 3.60% to 6.00%, due semi-annually, principal due annually to June 1, 2024	\$ 28,440,000	\$ 2,985,000	\$ 25,455,000
Fund B, Infrastructure Revolving Fund Revenue Bonds, interest 2.75% to 5.95%, due semi-annually, principal due annually to June 1, 2021	53,325,000	7,455,000	45,870,000
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	2,550,000	595,000	1,955,000
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	30,260,000	2,285,000	27,975,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 3.60% to 6.00%, due semi-annually, principal due annually to June 1, 2024	11,360,000	705,000	10,655,000
Total	125,935,000	14,025,000	111,910,000
Plus: unamortized premium	1,106,260	106,781	999,479
Less: unamortized discount	(138,203)	(18,989)	(119,214)
Less: unamortized deferred loss on early retirement of debt	(595,679)	(273,364)	(322,315)
	\$ 126,307,378	\$ 13,839,428	\$ 112,467,950

Except for cash deposited with the state, all assets 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 FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	\$ 12,975,917	\$ 18,905,000	\$ 31,880,917
2012	14,191,500	19,455,000	33,646,500
2013	13,405,177	22,030,000	35,435,177
2014	12,363,787	23,965,000	36,328,787
2015	11,088,591	26,525,000	37,613,591
2016 - 2020	40,940,725	92,640,000	133,580,725
2021 - 2025	20,204,871	68,035,000	88,239,871
2026 - 2029	5,216,355	45,690,000	50,906,355
	<u>\$ 130,386,923</u>	<u>\$ 317,245,000</u>	<u>\$ 447,631,923</u>

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2010:

	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Bond principal payable	\$ 125,935,000	\$ 208,430,000	\$ 17,120,000	\$ 317,245,000
Unamortized premiums	1,106,260	23,201,331	317,207	23,990,384
Less unamortized discounts	(138,203)		(30,614)	(107,589)
Less unamortized gain on defeasance	(595,679)		(273,365)	(322,314)
Total	<u>\$ 126,307,378</u>	<u>\$ 231,631,331</u>	<u>\$ 17,133,228</u>	<u>\$ 340,805,481</u>

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2009:

	<u>Balance June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Bond principal payable	\$ 142,030,000	\$	\$ 16,095,000	\$ 125,935,000
Unamortized premiums	1,213,041		106,781	1,106,260
Less unamortized discounts	(165,021)		(26,818)	(138,203)
Less unamortized gain on defeasance	(869,043)		(273,364)	(595,679)
Total	<u>\$ 142,208,977</u>	<u>\$ 0</u>	<u>\$ 15,901,599</u>	<u>\$ 126,307,378</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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	\$ 887,500
Fund B - 2020	1,084,568
Total funded by agency funds	<u>1,972,068</u>
Fund B - 2003 HB 269 Coal Development	945,523
Fund B - 2003 HB 269 Tobacco Development	769,999
Fund B - 2005 HB 267 Coal IEDF	5,433,811
Fund B - 2005 HB 267 Tobacco IEDF	8,282,199
Fund B - 2006 HB 380 Coal	12,842,693
Fund B - 2006 HB 380 Non Coal	29,506,484
Fund B - 2006 HB 380 Community Development	476,798
Fund B - 2008 HB 406 / 608 Coal	40,700,714
Fund B - 2008 HB 406 / 608 Non Coal	93,191,761
Total funded by bond funds	<u>192,149,982</u>
Fund B - 2008 HB 410 Coal Severance	<u>8,134,725</u>
Total grant commitments	<u>\$ 202,256,775</u>

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



# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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.

### 11. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue from the Commonwealth during the fiscal years ended June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</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	\$ 4,000,000	\$ 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	4,000,000	0
State Property and Building Commission bond issue – Fund A Series 1995D and 1998E Refunding	4,415,006	0
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	5,961,700	8,494,127
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	7,331,779	20,361,273
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	9,474,251	19,490,174
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	15,335,127	43,621,836

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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State Property and Building Commission bond issue - funding of the water and sewer projects from the Community Development Projects per 2006 House Bill 380	29,054	271,210
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	27,615,685	10,923,600
Coal Severance Tax Receipts - funding of the water and sewer projects from the Coal Severance per 2008 House Bill 410	4,536,725	11,118,593
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>54,185,328</u>	<u>13,207,562</u>
Total intergovernmental revenue from the Commonwealth	\$ <u>136,884,655</u>	\$ <u>127,488,375</u>

## 12. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the fiscal years ended June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Appropriations for debt service	\$ 15,029,153	\$ 14,703,254
Appropriations for general and administrative costs	<u>1,587,400</u>	<u>876,300</u>
Total state appropriations	\$ <u>16,616,553</u>	\$ <u>15,579,554</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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### 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>2010</u>	<u>2009</u>
Restricted by law	\$ 762,571,649	\$ 701,725,701
Restricted for debt service	6,096,108	6,096,281
Total restricted net assets	<u>\$ 768,667,757</u>	<u>\$ 707,821,982</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, 2010 is \$10,640,000.

### 15. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the years ended June 30, 2010 and 2009 totaled \$3,119,229 and \$2,049,284, 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 \$28,825 and \$30,239 for the years ending June 30, 2010 and 2009, respectively. The Authority also received the benefit of administrative services from DLG for 2010 and 2009 for which no fee was assessed. Amounts due to DLG at June 30, 2010 and 2009 totaled \$0 and \$14,984, respectively.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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### 17. RETIREMENT PLANS

The employees of the Kentucky Infrastructure Authority providing services to the 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.

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 is required by the same statute to contribute 11.61% of the covered employees' salaries for the year ended June 30, 2010. The contribution requirement for the year ended June 30, 2010 totals approximately \$121,200, consisting of approximately \$105,700 from the Authority and \$15,500 from employees. The contribution requirement for the year ended June 30, 2009 totaled approximately \$127,200, consisting of approximately \$84,800 from the Authority and \$42,400 from employees. The contribution requirement for the year ended June 30, 2008 totaled approximately \$117,200, consisting of approximately \$73,800 from the Authority and \$43,400 from employees. The payroll for employees covered by the KERS for the years ended June 30, 2010 and 2009 totals approximately \$909,000 and \$863,000, respectively. The Authority's total payroll was approximately \$909,000 and \$879,000 for the years ending June 30, 2010 and 2009, respectively.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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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, 2009. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Kentucky Employees Retirement System.

In addition to the above defined benefit pension plan, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

### **18. RECLASSIFICATIONS**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

### **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.

## **SUPPLEMENTAL INFORMATION**

# KENTUCKY INFRASTRUCTURE AUTHORITY

## SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

<u>Grant Name</u>	<u>Federal CFDA No.</u>	<u>Grant Number</u>	<u>Grant Period</u>	<u>Expenditures</u>	<u>Passed through to other agencies (including revenue redistributions)</u>
<u>U.S. Environmental Protection Agency</u>					
<b>Major Program:</b>					
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-05	10/2006 - 9/2009	\$ 70,944	\$ 0
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-06	7/2007 - 7/2012	34,114	172,396
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-07	6/2008 - 11/2009	0	34,990
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-08	6/2008 - 6/2010	4,261,974	0
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-09	7/2009 - 9/2012	8,302,176	0
ARRA - Capitalization Grants for Clean Water State Revolving Fund	66.458	2W-95421009-0	3/2009 - 9/2012	<u>13,761,526</u>	<u>231,416</u>
Total Capitalization Grants for Clean Water State Revolving Fund				<u>26,430,734</u>	<u>438,802</u>
<b>Major Program:</b>					
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-03	9/2004 - 9/2009	0	29,456
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-04	9/2004 - 9/2009	0	174,190
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-05	10/2006 - 9/2009	0	541,128
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-06	7/2007 - 7/2012	0	802,798
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-07	6/2008 - 11/2012	2,832,848	754,121
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-08	6/2008 - 6/2010	6,533,867	20,860
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-09	7/2009 - 9/2012	5,942,397	39,324
ARRA - Capitalization Grants for Drinking Water State Revolving Fund	66.468	2F-95421109-0	3/2009 - 9/2012	<u>8,874,943</u>	<u>318,550</u>
Total Capitalization Grants for Drinking Water State Revolving Fund				<u>24,184,055</u>	<u>2,680,427</u>
Total all programs				<u>\$ 50,614,789</u>	<u>\$ 3,119,229</u>

# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2010

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### 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The award revenues received and expended are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

### 2. PASSED THROUGH TO OTHER ENTITY

CFDA No.	Name of Grant	Amount	Pass Through Entity
66.458	Clean Water State Revolving Funds	\$ 438,802	Environmental and Public Protection Cabinet
66.468	Drinking Water State Revolving Funds	\$ 2,680,427	Environmental and Public Protection Cabinet

### 3. LOANS OUTSTANDING

CFDA No.	Program Title	Amount
66.458	Clean Water State Revolving Funds	\$ 372,950,511
66.468	Drinking Water State Revolving Funds	121,226,811
66.458	Clean Water State Revolving Funds – ARRA	2,493,365
66.468	Drinking Water State Revolving Funds – ARRA	<u>1,319,726</u>
	Total	<u>\$ 497,990,413</u>

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# KENTUCKY INFRASTRUCTURE AUTHORITY

## NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2010

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### 4. LOAN PRINCIPAL FORGIVENESS UNDER ARRA AWARDS

<u>CFDA No.</u>	<u>Program Title</u>	<u>Amount</u>
66.458	Clean Water State Revolving Funds – ARRA	\$ 11,136,882
66.468	Drinking Water State Revolving Funds – ARRA	<u>7,485,937</u>
	Total	<u>\$ 18,622,819</u>

**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	Fund A	Fund B	Fund C	Fund F	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 95,837,184	\$ 2,872,177	\$ 23,946,612	\$ 144,205	\$ 122,800,178
Investments, current portion	183,619,254	9,998,127	1,698,157	34,370,377	229,685,915
Federal funds receivable	8,043			31,061	39,104
Intergovernmental receivables		13,638,422			13,638,422
Accrued interest receivable, investments	277,823	25,816	119,996	51,224	474,859
Accrued interest receivable, loans	663,743	143,214	310,430	257,019	1,374,406
Current maturities of long-term receivables	23,395,861	4,057,082	3,957,422	4,752,650	36,163,015
Total current assets	<u>303,801,908</u>	<u>30,734,838</u>	<u>30,032,617</u>	<u>39,606,536</u>	<u>404,175,899</u>
Investments	120,287,858	15,641,352	1,952,628	23,023,651	160,905,489
Investments, restricted for debt service			6,096,108		6,096,108
Total noncurrent investments	<u>120,287,858</u>	<u>15,641,352</u>	<u>8,048,736</u>	<u>23,023,651</u>	<u>167,001,597</u>
Long-term receivables:					
Assistance agreements receivable:					
Principal	375,443,876	57,827,114	36,471,377	122,546,537	592,288,904
Less:					
Current maturities	(23,395,861)	(4,057,082)	(3,957,422)	(4,752,650)	(36,163,015)
Deposit reserve			(2,604,032)		(2,604,032)
Unamortized premiums			(739,960)		(739,960)
Total long-term receivables	<u>352,048,015</u>	<u>53,770,032</u>	<u>29,169,963</u>	<u>117,793,887</u>	<u>552,781,897</u>
Capital assets, net	<u>0</u>	<u>6,451</u>	<u>0</u>	<u>0</u>	<u>6,451</u>
Other assets:					
Unamortized costs of issuance	1,625,607	427,467	196,298	323,345	2,572,717
Total assets	<u>777,763,388</u>	<u>100,580,140</u>	<u>67,447,614</u>	<u>180,747,419</u>	<u>1,126,538,561</u>
<b>LIABILITIES</b>					
Current liabilities:					
Current maturities of revenue bonds payable, less unamortized discounts and deferred loss on early retirement of debt	7,700,930	8,252,860	2,691,044	1,290,999	19,935,833
Accrued interest payable	1,822,983	204,089	558,788	313,426	2,899,286
Due to Division of Water	6,653			30,491	37,144
Due to (from) other funds	79,560	(109,389)	15,906	13,923	0
Grants payable		14,120,100			14,120,100
Other payables		2,342			2,342
Total current liabilities	<u>9,610,126</u>	<u>22,470,002</u>	<u>3,265,738</u>	<u>1,648,839</u>	<u>36,994,705</u>
Long-term debt:					
Revenue bonds payable, less current maturities and unamortized discounts and deferred loss on early retirement of debt	215,619,954	39,754,046	25,950,955	39,544,693	320,869,648
Total liabilities	<u>225,230,080</u>	<u>62,224,048</u>	<u>29,216,693</u>	<u>41,193,532</u>	<u>357,864,353</u>
<b>NET ASSETS</b>					
Invested in capital net of related debt		6,451			6,451
Restricted net assets	552,533,308	38,349,641	38,230,921	139,553,887	768,667,757
Total net assets	<u>\$ 552,533,308</u>	<u>\$ 38,356,092</u>	<u>\$ 38,230,921</u>	<u>\$ 139,553,887</u>	<u>\$ 768,674,208</u>

**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<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	\$ 560,552	\$ 106,268	\$ 62,778	\$ 211,383	\$ 940,981
Interest	5,979,490	1,177,002		2,224,231	9,380,723
Interest received securing revenue bonds			1,608,946		1,608,946
Amortization of premium			60,405		60,405
Grant administration fee		772,483			772,483
Amortization of bond premiums	213,050	74,788		29,369	317,207
Total operating revenues	<u>6,753,092</u>	<u>2,130,541</u>	<u>1,732,129</u>	<u>2,464,983</u>	<u>13,080,745</u>
Operating expenses:					
General and administrative	221,866	2,322,405	90,404	330,196	2,964,871
Intergovernmental administrative expense reimbursement	438,803			2,680,426	3,119,229
Grants		128,254,299			128,254,299
Revenue bonds payable:					
Amortization of discount	15,626	13,296		1,692	30,614
Amortization of costs of issuance	51,474	59,136	24,876	11,682	147,168
Interest	3,002,780	3,088,122	1,246,965	834,865	8,172,732
Depreciation		8,639			8,639
Total operating expenses	<u>3,730,549</u>	<u>133,745,897</u>	<u>1,362,245</u>	<u>3,858,861</u>	<u>142,697,552</u>
Operating income (loss)	<u>3,022,543</u>	<u>(131,615,356)</u>	<u>369,884</u>	<u>(1,393,878)</u>	<u>(129,616,807)</u>
Nonoperating revenues:					
Income from investments	6,887,865	555,119	789,853	965,889	9,198,726
Net increase (decrease) in fair market value of investments	(6,159,420)	(292,278)	436,209	(1,341,701)	(7,357,190)
Federal grants and reimbursements	26,869,537			26,864,481	53,734,018
ARRA - principal forgiveness on loans	(11,136,882)			(7,485,937)	(18,622,819)
Intergovernmental revenue from the Commonwealth	8,415,006	124,469,649		4,000,000	136,884,655
State appropriations	2,857,600	12,485,110		1,273,843	16,616,553
Total nonoperating revenues	<u>27,733,706</u>	<u>137,217,600</u>	<u>1,226,062</u>	<u>24,276,575</u>	<u>190,453,943</u>
Change in net assets	<u>30,756,249</u>	<u>5,602,244</u>	<u>1,595,946</u>	<u>22,882,697</u>	<u>60,837,136</u>
Net assets, beginning of year	<u>521,777,059</u>	<u>32,753,848</u>	<u>36,634,975</u>	<u>116,671,190</u>	<u>707,837,072</u>
Net assets, end of year	<u>\$ 552,533,308</u>	<u>\$ 38,356,092</u>	<u>\$ 38,230,921</u>	<u>\$ 139,553,887</u>	<u>\$ 768,674,208</u>



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

To the Board of Directors  
Kentucky Infrastructure Authority  
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Infrastructure Authority (the Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated as of the date of this report. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors  
Kentucky Infrastructure Authority  
Frankfort, Kentucky

However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency in internal control over financial reporting as finding 2010-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated as of the date of this report.

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, the Auditor of Public Accounts of the Commonwealth of Kentucky, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Blue & Co., LLC*

November 1, 2010



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
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 (Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Authority's major federal programs for the year ended June 30, 2010. The Authority's major federal programs are 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 Authority's management. Our responsibility is to express an opinion on the 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 the 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 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 Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

To the Board of Directors  
Kentucky Infrastructure Authority  
Frankfort, Kentucky

### Internal Control Over Compliance

The management of the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the Auditor of Public Accounts of the Commonwealth of Kentucky, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Blue & Co., LLC*

November 1, 2010





# KENTUCKY INFRASTRUCTURE AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2010

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### Section II – Findings and Questioned Costs – Major Federal Awards Program Audit

None

### Section III – Findings – Financial Statement Audit

Our audit disclosed one finding which is required to be communicated under *Government Auditing Standards* for the year ended June 30, 2010.

#### **Finding 2010-1**

Condition: The Authority's Fiscal Officer is responsible for the preparation of all year-end schedules, journal entries, and working trial balance to support the preparation of financial statements for external reporting purposes. Currently there is no review of the Fiscal Officer's work supporting the preparation of the year-end financial statements.

Criteria: Effective internal control over the preparation of year-end financial statements should include review of all supporting schedules, journal entries and working trial balance by someone other than the preparer with the training, experience and knowledge of the Authority necessary to determine whether year-end balances appear to be reasonable and fairly stated.

Potential effect: An inadequate review process could lead to undetected errors in year-end supporting schedules, journal entries, and working trial balance.

Cause: Due to limited staff availability the review of year-end supporting schedules, journal entries, and working trial balance has not been implemented.

Recommendation: We recommend that year-end supporting schedules, journal entries, and working trial balance be reviewed by an appropriate member of management with the training, experience and knowledge of the Authority necessary to determine whether year-end balances appear to be reasonable and fairly stated.

Management's Response: Management concurs with the above recommendation and will assign an appropriate member of management the responsibility to review year-end supporting schedules, journal entries and the working trial balance to determine whether year-end balances per the working trial balance appear reasonable, properly calculated, and agree to supporting schedules.

# KENTUCKY INFRASTRUCTURE AUTHORITY

## SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTIONS YEAR ENDED JUNE 30, 2009

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