

KENTUCKY INFRASTRUCTURE AUTHORITY

FINANCIAL STATEMENTS

June 30, 2011 and 2010

KENTUCKY INFRASTRUCTURE AUTHORITY

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Kentucky Infrastructure Authority, as of June 30, 2011 and 2010 and the changes in its financial position and its cash flows for the years 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplementary information included in the accompanying schedules on pages 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blue & Co., LLC

December 6, 2011

KENTUCKY INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011 and 2010. 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 2011, the Authority reported combined ending net assets of approximately \$817,416,000 an increase of approximately \$48,741,000 (6.3%) in comparison with the prior year.
- The Authority's total debt decreased approximately \$19,985,000 (5.9%) during fiscal year 2011.
- The Authority disbursed approximately \$191,775,000 to borrowers for assistance agreements and approximately \$91,395,000 to local governmental entities in state grants. Principal and interest in the amount of approximately \$52,652,000 was collected from borrowers for assistance agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The 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 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 - 36.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information Statement of Net Assets As of June 30

	<u>2011</u>	<u>% Increase (Decrease)</u>	<u>2010</u>	<u>% Increase (Decrease)</u>	<u>2009</u>
Assets:					
Current assets	\$ 436,893,369	8.09%	\$ 404,175,899	47.96%	\$ 273,173,276
Long-term investments	19,576,063	-88.28%	167,001,597	54.31%	108,225,211
Long-term receivables	693,772,072	25.51%	552,781,897	16.27%	475,441,539
Net capital assets	0	-100.00%	6,451	-57.25%	15,090
Other assets	<u>2,360,713</u>	-8.24%	<u>2,572,717</u>	132.80%	<u>1,105,131</u>
Total assets	<u>1,152,602,217</u>	2.31%	<u>1,126,538,561</u>	31.30%	<u>857,960,247</u>
Liabilities:					
Current liabilities	34,901,114	-5.66%	36,994,705	-1.75%	37,655,225
Long-term debt	<u>300,285,515</u>	-6.42%	<u>320,869,648</u>	185.30%	<u>112,467,950</u>
Total liabilities	<u>335,186,629</u>	-6.34%	<u>357,864,353</u>	138.38%	<u>150,123,175</u>
Net assets:					
Invested in capital net of related debt	0	-100.00%	6,451	-57.25%	15,090
Restricted net assets	<u>817,415,588</u>	6.34%	<u>768,667,757</u>	8.60%	<u>707,821,982</u>
Total net assets	<u>\$ 817,415,588</u>	6.34%	<u>\$ 768,674,208</u>	8.59%	<u>\$ 707,837,072</u>

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

During 2011, the Authority's total cash and cash equivalents and investments decreased approximately \$107,093,000. During 2010, the Authority's total cash and cash equivalents and investments increased approximately \$198,713,000.

At June 30, 2011, investments consist of a current portion of approximately \$197,268,000 and a non-current portion of approximately \$19,576,000. As of June 30, 2011, 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, 2012. The non-current portion is representative of the Authority's investments maintained within the State cash and investment pool and

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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 2011, new loan assistance agreements issued of approximately \$191,775,000 exceeded repayments of assistance agreements receivable of approximately \$40,566,000 and forgiveness of loan principal of \$13,510,000, primarily under American Reinvestment and Recovery Act Awards, contributing to the approximately \$137,699,000 increase in net assistance agreements receivable. During fiscal year 2010, new loan assistance agreements issued of approximately \$133,247,000 exceeded repayments of assistance agreements receivable of approximately \$37,131,000 and forgiveness of principal of \$18,623,000, contributing to the approximately \$77,772,000 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 2011, long-term debt decreased approximately \$20,584,000.

Condensed Financial Information

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

	2011	% Increase (Decrease)	2010	% Increase (Decrease)	2009
Operating revenues	\$ 14,273,738	9.12%	\$ 13,080,745	6.24%	\$ 12,313,013
Operating expenses	<u>108,072,034</u>	-24.26%	<u>142,697,552</u>	-1.52%	<u>144,898,305</u>
Operating loss	(93,798,296)	-27.63%	(129,616,807)	-2.24%	(132,585,292)
Nonoperating revenues (expenses):					
Income from investments	6,913,923	-24.84%	9,198,726	-7.43%	9,936,673
Net decrease in fair market value of investments	(3,566,501)	-51.52%	(7,357,190)	922.08%	(719,822)
Federal grants and reimbursements	48,460,084	-9.81%	53,734,018	35.69%	39,601,057
Principal forgiveness on loans	(13,510,348)	-27.45%	(18,622,819)	-	0
Intergovernmental revenue from the Commonwealth	86,738,786	-36.63%	136,884,655	7.37%	127,488,375
State appropriations	<u>17,503,732</u>	5.34%	<u>16,616,553</u>	6.66%	<u>15,579,554</u>
Change in net assets	\$ <u>48,741,380</u>	-19.88%	\$ <u>60,837,136</u>	2.59%	\$ <u>59,300,545</u>

Operating revenues primarily consist of interest and service fee revenue from assistance agreements receivable and grant administration fees. Interest on assistance agreements receivable and related service fees increased approximately \$707,000 from fiscal year 2010. Grant administration fees decreased approximately \$532,000 as a result of fewer grant starts during 2011.

Operating expenses primarily consist of grants, general and administrative costs, and amortization and interest related to revenue bonds payable. Grants are primarily representative of the disbursements made to local taxing districts of the Commonwealth as

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appropriated during the General Assembly. Current year grants decreased approximately \$41,754,000 from 2010. The decrease is primarily attributable to the budgetary constraints of the Commonwealth that resulted in fewer awards for fiscal year 2011. General and administrative costs decreased approximately \$46,000 due to the decrease in grant administration.

Nonoperating revenues and 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 \$48,460,000 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 2011, approximately \$13,510,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net assets. For details related to intergovernmental revenues refer to Note 11 of the financial statements. For details on state appropriations refer to Note 12 of the financial statements.

LONG-TERM DEBT

At June 30, 2011, the Authority had approximately \$298,340,000 in bond principal outstanding which is a decrease of 6.0% from last year. There were no new bonds issued in 2011. 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 Kentucky Revised Statute (KRS) 56.870(1) to obtain General Assembly approval for issuance of general fund appropriation-supported debt. For debt related to issues that require no appropriation of state funds, General Assembly approval must be obtained for bonds or notes having a final maturity extending beyond three (3) years, if the aggregate principal amount of the bonds or notes outstanding under any trust indenture or bond resolution exceeds the sum of five hundred million dollars (\$500,000,000). Our outstanding debt in the Fund C program, which meets this criterion, is significantly below this limit.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Kentucky Infrastructure Authority's Outstanding Debt at June 30:

	<u>2011</u>	<u>% Increase (Decrease)</u>	<u>2010</u>	<u>% Increase (Decrease)</u>	<u>2009</u>
General fund appropriation supported debt	\$ 68,895,000	-14.78%	\$ 80,840,000	-15.51%	\$ 95,675,000
Program revenue supported debt	<u>229,445,000</u>	-2.94%	<u>236,405,000</u>	681.25%	<u>30,260,000</u>
Total	<u>\$ 298,340,000</u>	-5.96%	<u>\$ 317,245,000</u>	151.91%	<u>\$ 125,935,000</u>

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 FY2011, approximately \$718,000 remained to be disbursed to grantees. The majority of the projects have been completed. The remaining projects should be nearing completion within the next few years.

The 2005 General Assembly, in House Bill 267, identified 507 projects totaling \$120,660,220 for tobacco impacted counties and \$79,395,960 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. At the end of FY2011, approximately \$7.6 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. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of FY2011, approximately \$29.3 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,

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also appropriated \$1,740,000 for funding of water and sewer projects for Community Development Projects. At the end of FY2011, approximately \$397,000 remained to be disbursed to grantees for Community Development.

The 2008 General Assembly, in House Bill 608, identified 598 projects totaling \$160,585,000 (corresponding appropriation of \$150 million) for non-coal producing counties and \$79,240,000 (corresponding appropriation of \$75 million) for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of FY2011, approximately \$75.2 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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STATEMENTS OF NET ASSETS JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 195,550,922	\$ 122,800,178
Investments, current portion	197,267,605	229,685,915
Federal funds receivable	1,236,859	39,104
Intergovernmental receivables	8,380,091	13,638,422
Accrued interest receivable, investments	258,503	474,859
Accrued interest receivable, assistance agreements	1,267,322	1,374,406
Current maturities of long-term receivables	32,932,067	36,163,015
Total current assets	436,893,369	404,175,899
Investments	13,479,955	160,905,489
Investments, restricted for debt service	6,096,108	6,096,108
Total noncurrent investments	19,576,063	167,001,597
Long-term receivables:		
Assistance agreements receivable:		
Principal	729,674,397	592,288,904
Less:		
Current maturities	(32,932,067)	(36,163,015)
Deposit reserve	(2,290,703)	(2,604,032)
Unamortized premiums	(679,555)	(739,960)
Total long-term receivables	693,772,072	552,781,897
Capital assets, net	0	6,451
Other assets:		
Unamortized costs of issuance	2,360,713	2,572,717
Total assets	1,152,602,217	1,126,538,561
LIABILITIES		
Current liabilities:		
Current maturities of revenue bonds payable, net of unamortized discounts and deferred gain/loss on early retirement of debt	20,534,979	19,935,833
Accrued interest payable	4,779,445	2,899,286
Due to Division of Water	0	37,144
Due to the State investment pool	205,855	0
Grants payable	9,225,646	14,120,100
Other payables	155,189	2,342
Total current liabilities	34,901,114	36,994,705
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized discounts and deferred gain/loss on early retirement of debt	300,285,515	320,869,648
Total liabilities	335,186,629	357,864,353
NET ASSETS		
Net assets:		
Invested in capital net of related debt	0	6,451
Restricted net assets	817,415,588	768,667,757
Total net assets	\$ 817,415,588	\$ 768,674,208

See accompanying notes.

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDING JUNE 30, 2011 AND 2010

	2011	2010
Operating revenues:		
Assistance agreements:		
Servicing fee	\$ 971,929	\$ 940,981
Interest	10,351,798	9,380,723
Interest received securing revenue bonds	1,314,060	1,608,946
Amortization of premium	60,405	60,405
Grant administration fee	240,727	772,483
Amortization of bond premiums	1,334,819	317,207
Total operating revenues	14,273,738	13,080,745
Operating expenses:		
General and administrative	2,918,496	2,964,871
Intergovernmental administrative expense reimbursement	3,323,754	3,119,229
Grants	86,500,421	128,254,299
Revenue bonds payable:		
Amortization of discount	22,392	30,614
Amortization of costs of issuance	212,004	147,168
Interest	15,088,516	8,172,732
Depreciation	6,451	8,639
Total operating expenses	108,072,034	142,697,552
Operating loss	(93,798,296)	(129,616,807)
Nonoperating revenues (expenses):		
Income from investments	6,913,923	9,198,726
Net decrease in fair value of investments	(3,566,501)	(7,357,190)
Federal grants and reimbursements	48,460,084	53,734,018
Principal forgiveness on loans	(13,510,348)	(18,622,819)
Intergovernmental revenue from the Commonwealth	86,738,786	136,884,655
State appropriations	17,503,732	16,616,553
Total nonoperating revenues	142,539,676	190,453,943
Change in net assets	48,741,380	60,837,136
Net assets, beginning of year	768,674,208	707,837,072
Net assets, end of year	\$ 817,415,588	\$ 768,674,208

See accompanying notes.

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STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Administrative fees received	\$ 1,212,656	\$ 1,713,464
Collections on assistance agreements, net of change in deposit reserve	40,565,777	37,131,296
Advances on assistance agreements	(191,774,947)	(133,247,099)
Interest received on assistance agreements	11,772,942	10,645,241
Cash payments for grants	(91,394,875)	(136,367,246)
Cash payments for personnel expenses	(1,139,605)	(1,186,769)
Cash payments to suppliers for goods and services	(4,781,087)	(5,448,918)
Net cash used in operating activities	(235,539,139)	(226,760,031)
Cash flows from noncapital financing activities:		
Proceeds from the issuance of revenue and revenue refunding bonds, net of issuance costs	0	230,016,577
Principal payments on long-term debt	(18,905,000)	(17,120,000)
Interest paid on long-term debt	(12,975,917)	(5,991,759)
Receipt of federal grants, net	47,262,329	53,958,274
State appropriation	17,503,732	17,045,323
Payments from the Commonwealth	91,997,117	145,385,696
Net cash provided by noncapital financing activities	124,882,261	423,294,111
Cash flows from investing activities:		
Purchase of investment securities	(125,972,491)	(295,819,490)
Proceeds from sale and maturities of investment securities	302,249,834	168,792,732
Interest and other investment income received	7,130,279	9,536,375
Net cash provided by (used in) investing activities	183,407,622	(117,490,383)
Increase in cash and cash equivalents	72,750,744	79,043,697
Cash and cash equivalents at beginning of year	122,800,178	43,756,481
Cash and cash equivalents at end of year	\$ 195,550,922	\$ 122,800,178

See accompanying notes.

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STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDING JUNE 30, 2011 AND 2010

	2011	2010
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (93,798,296)	\$ (129,616,807)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of bond discount and cost of issuance	234,396	177,782
Amortization of bond premium	(1,334,819)	(317,206)
Amortization of assistance agreements premium	(60,405)	(60,405)
Principal forgiveness on loans	(13,510,348)	(18,622,819)
Amortization of bond defeasance included in interest	232,440	273,364
Interest paid on long-term debt	12,975,917	5,991,759
Depreciation	6,451	8,639
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable on assistance agreements	107,084	(344,428)
Increase in assistance agreements receivable, net of desposit reserve	(137,698,822)	(77,492,984)
Decrease in funds held for government agencies	0	0
Increase in accrued interest payable	1,880,159	1,907,609
Decrease in due to Division of Water	(37,144)	(37,615)
Increase in due to State investment pool	205,855	0
Increase (decrease) in due to the Department of Local Government	0	(14,984)
Decrease in grants payable	(4,894,454)	(8,112,947)
Decrease in other payables	152,847	(498,989)
Net cash used in operating activities	\$ (235,539,139)	\$ (226,760,031)
Supplemental disclosure of noncash investing activities:		
Net decrease in fair value of investments	\$ (3,566,501)	\$ (7,357,190)
Forgiveness of loan prinicipal	\$ (13,510,348)	\$ (18,622,819)

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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.

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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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 Kentucky Revised Statute (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.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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, 2011 AND 2010

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, 2011 AND 2010

Investments:

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

Amortization of Discounts on Assistance Agreements:

Discounts on assistance agreement receivables are amortized using the straight-line method over the life of the related receivable.

Amortization of Bond Discount and Debt Issuance Costs:

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

Amortization of Deferred Loss on Early Retirement of Debt:

Deferred loss on early retirement of debt is amortized on the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less.

Capital Assets:

The Authority's policy is to capitalize purchases of assets over \$5,000 with a useful life of more than one year. All capital assets are valued at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from five to ten years, and is recorded in the statement of 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.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2011 and 2010, cash and cash equivalents consist of the following:

	2011	2010
First American Government Obligation Fund	\$ 168,635,984	\$ 94,666,473
State cash and investment pool	467,284	1,375,888
Commercial paper	25,000,000	25,000,000
JP Morgan U.S. Treasury Plus Agency Fund	1,447,654	1,757,817
Total cash and cash equivalents	\$ 195,550,922	\$ 122,800,178

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

Investment	Fair Value	Maturity	Rate
Federal Home Loan Bank	\$ 24,863,232	7/8/2011	0.750%
Fannie Mae Medium Term Notes (FNMA MTN)	23,965,850	8/15/2011	3.625%
Federal Farm Credit Banks	24,944,172	9/1/2011	0.680%
Federal Home Loan Bank	24,890,337	10/11/2011	0.975%
FNMA MTN	24,873,668	11/3/2011	1.215%
U.S. Treasury Notes State and Local Governments Series	285,890	11/15/2011	n/a
U.S. Treasury Notes State and Local Governments Series	14,134,114	11/15/2011	1.750%
Federal Home Loan Bank	9,191,579	12/1/2011	0.800%
Federal Home Loan Bank	2,877,606	12/9/2011	1.125%
U.S. Treasury Notes State and Local Governments Series	23,767,063	12/15/2011	1.125%
U.S. Treasury Notes State and Local Governments Series	19,088	12/15/2011	1.125%
U.S. Treasury Notes State and Local Governments Series	349,614	12/15/2011	1.125%
Federal Farm Credit Banks	9,127,427	1/12/2012	1.100%
Federal Home Loan Bank	3,894,663	1/26/2012	2.100%
FNMA MTN	3,038,234	1/30/2012	2.000%
Federal Farm Credit Banks	7,045,068	3/9/2012	1.125%
U.S. Treasury Bond Stripped Principal Payment	196,239	11/15/2012	n/a
U.S. Treasury Bond Stripped Principal Payment	1,486,067	11/15/2013	n/a
U.S. Treasury Notes State and Local Governments Series	1,314,791	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	2,300,209	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	2,481,108	8/1/2022	5.120%
	205,046,019		
Investments in State Pool	11,797,649		
Total	216,843,668		
Less: current portion	197,267,605		
Long-term investments	\$ 19,576,063		

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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, 2011 AND 2010

At June 30, 2011 and 2010, all of the Authority's investments other than those in U.S. Treasury securities possess a Moody's rating of Aaa or a Standard and Poor's rating of AAA.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2011 and 2010, the Authority's investments are neither insured nor registered, but are held by the Authority's custodial agent in the Authority's name.

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

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

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

At June 30, 2011, the Authority maintained \$12,264,933 of cash and investments with the State Investment Pool of the State Investment Commission of the Commonwealth of Kentucky. The State Investment Commission ("The Commission") is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commission delegates the day to day management of the Commonwealth's investments to the Office of Financial Management ("OFM"). The purpose of the investment pools is to provide: economies of scale that enhance yield, ease of administration for both the user agencies and OFM and increase accountability and control. All investments shall be permitted investments as defined in KRS 42.500 and as further limited by 200 KAR Chapter 14. Funds residing in the pools are available to be spent at any time. The Authority had no

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

collateral or insurance as security for the balances with the State Investment Commission at June 30, 2011, but they own a proportionate interest in the securities held in the respective pools.

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

4. REVENUE BOND FUND ACCOUNTS

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

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Total</u>
Operating fund	\$ 8,138,665	\$ 19,088	\$ 8,157,753
Revolving fund	139,992,939	196,962,618	336,955,557
Government agency fund	1,447,915	0	1,447,915
Debt service reserve fund	0	6,096,108	6,096,108
Revenue fund	4,321,734	0	4,321,734
Surplus fund	41,182,385	1,968,205	43,150,590
Funds in state pool	467,284	11,797,649	12,264,933
Total	<u>\$ 195,550,922</u>	<u>\$ 216,843,668</u>	<u>\$ 412,394,590</u>

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

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Total</u>
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
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	<u>\$ 122,800,178</u>	<u>\$ 396,687,512</u>	<u>\$ 519,487,690</u>

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

A. Operating Fund

Designated for paying operating costs incurred by the Authority.

B. Revolving Fund

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

C. Government Agency Fund

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

D. Debt Service Reserve Fund

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

E. Debt Service Fund

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

F. Revenue Fund

This fund is for receipt of principal and interest payments from governmental agencies and are subsequently transferred to the Debt Service Fund or other funds as needed.

G. Surplus Fund

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

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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

5. INTERGOVERNMENTAL RECEIVABLES

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

	<u>2011</u>	<u>2010</u>
Due from the Commonwealth's General Fund for debt service and general and administrative costs	\$ 116,907	\$ 0
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	156,588	380,855
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	436,050	570,611
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	498,053	959,636
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	994,202	1,829,728
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	1,492,816	2,497,112
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Severance per 2008 House Bill 410	0	932,363
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>4,685,475</u>	<u>6,468,117</u>
Total receivable from the Commonwealth	\$ <u>8,380,091</u>	\$ <u>13,638,422</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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 \$726,704,139 in assistance agreements receivable at June 30, 2011, the Authority has commitments remaining to disburse funds summarized as follows:

Fund A - Clean Water State Revolving Fund Loan Program	\$	324,897,325
Fund A - Clean Water State Revolving Fund Loan Program - ARRA		9,837,221
Fund B - Infrastructure Revolving Loan Program		14,047,638
Fund C - Governmental Agencies Program		6,230,650
Fund F - Drinking Water State Revolving Fund Loan Program		38,937,565
Fund F - Drinking Water State Revolving Fund Loan Program - ARRA		1,410,980
Total commitments outstanding	\$	<u>395,361,379</u>

7. CAPITAL ASSETS

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

		Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Office equipment	\$	78,896	\$ 0	\$ 0	\$ 78,896
Less accumulated depreciation		<u>(72,445)</u>	<u>(6,451)</u>	<u>0</u>	<u>(78,896)</u>
Capital assets - net	\$	<u>6,451</u>	<u>(6,451)</u>	<u>0</u>	<u>0</u>

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>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

8. LONG-TERM DEBT, REVENUE BONDS PAYABLE

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

	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 1.50% to 6.00%, due semi-annually, principal due annually to February 1, 2029	\$ 197,110,000	\$ 9,195,000	\$ 187,915,000
Fund B, Infrastructure Revolving Fund Revenue Bonds, interest 2.75% to 5.95%, due semi-annually, principal due annually to June 1, 2021	38,030,000	5,140,000	32,890,000
Fund B, Solid Waste Revolving Fund Revenue and Revenue Refunding Bonds, interest 3.25% to 5.70%, due semi-annually, principal due annually to June 1, 2015	1,330,000	660,000	670,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 3.00% to 5.29%, due semi-annually, principal due annually to August 1, 2022	25,385,000	3,085,000	22,300,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 1.50% to 6.00%, due semi-annually, principal due annually to February 1, 2029	36,485,000	1,375,000	35,110,000
Total	298,340,000	19,455,000	278,885,000
Plus: unamortized premium	22,655,566	1,334,811	21,320,755
Less: unamortized discount	(85,197)	(22,392)	(62,805)
Less: unamortized deferred gain/loss on early retirement of debt	(89,875)	(232,440)	142,565
	\$ 320,820,494	\$ 20,534,979	\$ 300,285,515

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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	23,990,385	1,334,812	22,655,573
Less: unamortized discount	(107,589)	(30,615)	(76,974)
Less: unamortized deferred gain/loss on early retirement of debt	(322,315)	(273,364)	(48,951)
	\$ 340,805,481	\$ 19,935,833	\$ 320,869,648

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

The required annual payments for all debt are as follows:

	<u>Interest</u>		<u>Principal</u>		<u>Total</u>
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	10,016,526		18,710,000		28,726,526
2017 - 2021	36,420,563		92,045,000		128,465,563
2022 - 2026	16,885,713		61,520,000		78,405,713
2027 - 2029	3,039,150		34,090,000		37,129,150
	<u>\$ 117,411,007</u>	<u>\$</u>	<u>298,340,000</u>	<u>\$</u>	<u>415,751,007</u>

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

	<u>Balance June 30, 2010</u>		<u>Increases</u>		<u>Decreases</u>		<u>Balance June 30, 2011</u>
Bond principal payable	\$ 317,245,000	\$	0	\$	18,905,000	\$	298,340,000
Unamortized premiums	23,990,385		0		1,334,819		22,655,566
Less unamortized discounts	(107,589)		0		(22,392)		(85,197)
Less unamortized gain/loss on defeasance	(322,315)		0		(232,440)		(89,875)
Total	<u>\$ 340,805,481</u>	<u>\$</u>	<u>0</u>	<u>\$</u>	<u>19,984,987</u>	<u>\$</u>	<u>320,820,494</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		317,206		23,990,385
Less unamortized discounts	(138,203)		0		(30,614)		(107,589)
Less unamortized gain/loss on defeasance	(595,679)		0		(273,364)		(322,315)
Total	<u>\$ 126,307,378</u>	<u>\$</u>	<u>231,631,331</u>	<u>\$</u>	<u>17,133,228</u>	<u>\$</u>	<u>340,805,481</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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	\$ 808,919
Fund B - 2020	841,546
Total funded by agency funds	<u>1,650,465</u>
Fund B - 2003 HB 269 Coal Development	660,198
Fund B - 2003 HB 269 Tobacco Development	57,312
Fund B - 2005 HB 267 Coal IEDF	3,255,675
Fund B - 2005 HB 267 Tobacco IEDF	4,341,952
Fund B - 2006 HB 380 Coal	8,928,949
Fund B - 2006 HB 380 Non Coal	20,333,290
Fund B - 2006 HB 380 Community Development	396,798
Fund B - 2008 HB 406 / 608 Coal	25,029,025
Fund B - 2008 HB 406 / 608 Non Coal	50,218,650
Total funded by bond funds	<u>113,221,849</u>
Fund B – 2008 HB 410 & 2010 HB 1 Coal Severance	<u>18,002,364</u>
Total grant commitments	<u>\$ 132,874,678</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, 2011 AND 2010

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, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</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	\$ 0	\$ 4,000,000
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	0	4,000,000
State Property and Building Commission bond issue – Fund A Series 1995D and 1998E Refunding	0	4,415,006
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	2,178,135	5,961,700
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	3,940,247	7,331,779
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	3,913,745	9,474,251
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	9,173,194	15,335,127

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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	29,054
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	15,271,690	27,615,685
Coal Severance Tax Receipts - funding of the water and sewer projects from the Coal Severance per 2008 House Bill 410	3,958,771	4,536,725
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	42,973,112	54,185,328
Coal Severance Tax Receipts – funding of the water and sewer projects from the Coal Severance per 2010 Special Session House Bill 1	<u>5,329,892</u>	<u>0</u>
Total intergovernmental revenue from the Commonwealth	\$ <u>86,738,786</u>	\$ <u>136,884,655</u>

12. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the fiscal years ended June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Appropriations for debt service	\$ 16,003,132	\$ 15,029,153
Appropriations for general and administrative costs	<u>1,500,600</u>	<u>1,587,400</u>
Total state appropriations	\$ <u>17,503,732</u>	\$ <u>16,616,553</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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>2011</u>	<u>2010</u>
Restricted by law	\$ 811,319,480	\$ 762,571,649
Restricted for debt service	6,096,108	6,096,108
Total restricted net assets	<u>\$ 817,415,588</u>	<u>\$ 768,667,757</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, 2011 is \$8,970,000.

15. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the years ended June 30, 2011 and 2010 totaled \$3,323,754 and \$3,119,229, 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 \$29,418 and \$28,825 for the years ending June 30, 2011 and 2010, respectively. The Authority also received the benefit of administrative services from DLG for 2011 and 2010 for which no fee was assessed.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

17. RETIREMENT PLANS

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

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

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

Covered employees hired before September 1, 2008 are required by state statute to contribute 5.00% of their salaries to the plan. Covered employees hired after September 1, 2008 are required to contribute 5.00% of their salaries to the plan and 1.00% to the KERS Insurance Fund. The Authority was required by the same statute to contribute 16.98% of the covered employees' salaries for the year ended June 30, 2011. Subsequent to June 30, 2011, the rate is 19.82%. The contribution requirement for the year ended June 30, 2011 totals approximately \$175,944, consisting of approximately \$135,922 from the Authority and \$40,022 from employees. The contribution requirement for the year ended June 30, 2010 totaled 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 Authority's total payroll was approximately \$837,000 and \$909,000 for the years ending June 30, 2011 and 2010, respectively.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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, 2010. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the KERS.

In addition to the above defined benefit pension plan, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky and administered by the Kentucky Public Employees' Deferred Compensation Authority. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. There were no contributions made by the Authority during 2011 or 2010. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

18. POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired Authority employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance-funded on an actuarially-determined basis through the KERS. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

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.

SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

<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>					
Major Program:					
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-06	7/2007 - 7/2012	77,337	0
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-07	6/2008 - 11/2009	30,547	275,900
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-10	7/2010 - 9/2013	9,987,321	0
ARRA - Capitalization Grants for Clean Water State Revolving Fund	66.458	2W-95421009-0	3/2009 - 9/2012	<u>24,575,145</u>	<u>187,466</u>
Total Capitalization Grants for Clean Water State Revolving Fund				<u>34,670,350</u>	<u>463,366</u>
Major Program:					
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-04	9/2004 - 9/2009	0	66,557
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-05	10/2006 - 9/2009	0	41,005
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-06	7/2007 - 7/2012	0	278,915
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-07	6/2008 - 11/2012	578,485	698,511
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-08	6/2008 - 6/2010	15,000	827,796
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-09	7/2009 - 9/2012	55,108	568,520
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-10	7/2010 - 9/2013	947,586	0
ARRA - Capitalization Grants for Drinking Water State Revolving Fund	66.468	2F-95421109-0	7/2010 - 9/2012	<u>8,869,802</u>	<u>379,083</u>
Total Capitalization Grants for Drinking Water State Revolving Fund				<u>10,465,981</u>	<u>2,860,387</u>
Total all programs				<u>\$ 45,136,331</u>	<u>\$ 3,323,753</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011

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 cash 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	\$ 463,366	Environmental and Public Protection Cabinet
66.468	Drinking Water State Revolving Funds	\$ 2,860,387	Environmental and Public Protection Cabinet

3. LOANS OUTSTANDING

CFDA No.	Program Title	Amount
66.458	Clean Water State Revolving Funds	\$ 470,222,310
66.468	Drinking Water State Revolving Funds	144,153,987
66.458	Clean Water State Revolving Funds – ARRA	15,989,641
66.468	Drinking Water State Revolving Funds – ARRA	<u>7,246,154</u>
	Total	<u>\$ 637,612,092</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011

4. LOAN PRINCIPAL FORGIVENESS UNDER ARRA AWARDS

CFDA No.	Program Title	Amount
66.458	Clean Water State Revolving Funds – ARRA	\$ 10,761,285
66.468	Drinking Water State Revolving Funds – ARRA	<u>2,640,475</u>
	Total	<u>\$ 13,401,760</u>

KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2011

	Fund A	Fund B	Fund C	Fund F	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 149,425,428	\$ 5,254,783	\$ 25,840,749	\$ 15,029,962	\$ 195,550,922
Investments, current portion	159,061,440	14,134,114	304,988	23,767,063	197,267,605
Federal funds receivable	289,273	0	0	947,586	1,236,859
Intergovernmental receivables	0	8,380,091	0	0	8,380,091
Accrued interest receivable, investments	90,519	37,203	119,667	11,114	258,503
Accrued interest receivable, assistance agreements	713,269	130,581	115,921	307,551	1,267,322
Current maturities of long-term receivables	22,759,061	3,760,463	842,132	5,570,411	32,932,067
Total current assets	<u>332,338,990</u>	<u>31,697,235</u>	<u>27,223,457</u>	<u>45,633,687</u>	<u>436,893,369</u>
Investments	666,237	11,128,873	1,684,845	0	13,479,955
Investments, restricted for debt service	0	0	6,096,108	0	6,096,108
Total noncurrent investments	<u>666,237</u>	<u>11,128,873</u>	<u>7,780,953</u>	<u>0</u>	<u>19,576,063</u>
Long-term receivables:					
Assistance agreements receivable:					
Principal	486,211,951	58,177,148	33,885,157	151,400,141	729,674,397
Less:					
Current maturities	(22,759,061)	(3,760,463)	(842,132)	(5,570,411)	(32,932,067)
Deposit reserve	0	0	(2,290,703)	0	(2,290,703)
Unamortized premiums	0	0	(679,555)	0	(679,555)
Total long-term receivables	<u>463,452,890</u>	<u>54,416,685</u>	<u>30,072,767</u>	<u>145,829,730</u>	<u>693,772,072</u>
Other assets:					
Unamortized costs of issuance	1,518,939	368,223	171,434	302,117	2,360,713
Total assets	<u>797,977,056</u>	<u>97,611,016</u>	<u>65,248,611</u>	<u>191,765,534</u>	<u>1,152,602,217</u>
LIABILITIES					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized discounts, premiums, and deferred gain/loss on early retirement of debt	10,174,368	5,628,556	3,186,044	1,546,011	20,534,979
Accrued interest payable	3,513,297	168,548	517,888	579,712	4,779,445
Due to the State investment pool	0	0	0	205,855	205,855
Grants payable	0	9,225,646	0	0	9,225,646
Other payables	0	133,439	21,750	0	155,189
Total current liabilities	<u>13,687,665</u>	<u>15,156,189</u>	<u>3,725,682</u>	<u>2,331,578</u>	<u>34,901,114</u>
Long-term debt:					
Revenue bonds payable, net of current maturities and unamortized discounts, premiums, and deferred gain/loss on early retirement of debt	205,437,144	34,084,794	22,764,911	37,998,666	300,285,515
Total liabilities	<u>219,124,809</u>	<u>49,240,983</u>	<u>26,490,593</u>	<u>40,330,244</u>	<u>335,186,629</u>
NET ASSETS					
Invested in capital net of related debt	0	0	0	0	0
Restricted net assets	578,852,247	48,370,033	38,758,018	151,435,290	817,415,588
Total net assets	<u>\$ 578,852,247</u>	<u>\$ 48,370,033</u>	<u>\$ 38,758,018</u>	<u>\$ 151,435,290</u>	<u>\$ 817,415,588</u>

KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	<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	\$ 556,861	\$ 106,785	\$ 66,991	\$ 241,292	\$ 971,929
Interest	6,734,340	1,122,976	0	2,494,482	10,351,798
Interest received securing revenue bonds	0	0	1,314,060	0	1,314,060
Amortization of premium	0	0	60,405	0	60,405
Grant administration fee	0	240,727	0	0	240,727
Amortization of bond premiums	1,087,336	74,788	0	172,695	1,334,819
Total operating revenues	<u>8,378,537</u>	<u>1,545,276</u>	<u>1,441,456</u>	<u>2,908,469</u>	<u>14,273,738</u>
Operating expenses:					
General and administrative	387,092	2,121,824	72,980	336,600	2,918,496
Intergovernmental administrative expense reimbursement	0	0	0	0	0
reimbursement	463,366	0	0	2,860,388	3,323,754
Grants	0	86,500,421	0	0	86,500,421
Revenue bonds payable:					
Amortization of discount	7,188	13,524	0	1,680	22,392
Amortization of costs of issuance	106,668	59,244	24,864	21,228	212,004
Interest	9,462,888	2,646,238	1,145,555	1,833,835	15,088,516
Depreciation	0	6,451	0	0	6,451
Total operating expenses	<u>10,427,202</u>	<u>91,347,702</u>	<u>1,243,399</u>	<u>5,053,731</u>	<u>108,072,034</u>
Operating income (loss)	<u>(2,048,665)</u>	<u>(89,802,426)</u>	<u>198,057</u>	<u>(2,145,262)</u>	<u>(93,798,296)</u>
Nonoperating revenues (expenses):					
Income from investments	4,987,785	459,180	943,540	523,418	6,913,923
Net increase (decrease) in fair market value of investments	(4,804,079)	312,318	(614,500)	1,539,760	(3,566,501)
Federal grants and reimbursements	35,133,715	0	0	13,326,369	48,460,084
Principal forgiveness on loans	(10,761,285)	(108,588)	0	(2,640,475)	(13,510,348)
Intergovernmental revenue from the Commonwealth	0	86,738,786	0	0	86,738,786
State appropriations	3,811,468	12,414,671	0	1,277,593	17,503,732
Total nonoperating revenues	<u>28,367,604</u>	<u>99,816,367</u>	<u>329,040</u>	<u>14,026,665</u>	<u>142,539,676</u>
Change in net assets	<u>26,318,939</u>	<u>10,013,941</u>	<u>527,097</u>	<u>11,881,403</u>	<u>48,741,380</u>
Net assets, beginning 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>
Net assets, end of year	<u>\$ 578,852,247</u>	<u>\$ 48,370,033</u>	<u>\$ 38,758,018</u>	<u>\$ 151,435,290</u>	<u>\$ 817,415,588</u>