

KENTUCKY INFRASTRUCTURE AUTHORITY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2014 AND 2013

KENTUCKY INFRASTRUCTURE AUTHORITY

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 17 to the financial statements, in 2014, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining information on pages 36 and 37 is presented for purposes of additional analysis rather than to present the financial position, respective changes in financial position, and cash flows of

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the individual funds of the Authority and is not a required part of the basic financial statements.

The accompanying combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Blue & Co., LLC

Lexington, Kentucky
November 13, 2014

KENTUCKY INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

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, 2014 and 2013. 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 2014 the Authority reported ending net position of approximately \$1,010,559,000, an increase of approximately \$21,102,000 (2.13%) in comparison with the prior year.
- The Authority's total debt decreased approximately \$25,479,000 (7.10%) during fiscal year 2014.
- The Authority disbursed approximately \$98,475,000 to borrowers for assistance agreements and approximately \$24,031,000 to local governmental entities in state grants. Principal and interest in the amount of approximately \$68,130,000 was collected from borrowers for assistance agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to those of a private business.

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

KENTUCKY INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

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 through 35.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information Statement of Net Position As of June 30

	2014	% Increase (Decrease)	2013 (Restated)	% Increase (Decrease)	2012 (Restated)
Assets:					
Current assets	\$ 457,719,000	-5.48%	\$ 484,268,000	0.37%	\$ 482,463,000
Long-term investments	24,018,000	-29.34%	33,992,000	68.35%	20,191,000
Long-term receivables	870,980,000	3.55%	841,137,000	4.81%	802,498,000
Total assets	<u>1,352,717,000</u>		<u>1,359,397,000</u>		<u>1,305,152,000</u>
Deferred outflow of resources	<u>67,000</u>	-52.14%	<u>140,000</u>	-42.62%	<u>244,000</u>
Total assets and deferrals	<u>1,352,784,000</u>	-0.50%	<u>1,359,537,000</u>	4.15%	<u>1,305,396,000</u>
Liabilities:					
Current liabilities	38,613,000	6.21%	36,355,000	20.98%	30,051,000
Long-term debt	303,349,000	-9.00%	333,361,000	-7.11%	358,870,000
Total liabilities	<u>341,962,000</u>		<u>369,716,000</u>		<u>388,921,000</u>
Deferred inflow of resources	<u>263,000</u>	-27.75%	<u>364,000</u>	-21.72%	<u>465,000</u>
Total liabilities and deferrals	<u>342,225,000</u>	-7.53%	<u>370,080,000</u>	-4.96%	<u>389,386,000</u>
Net position:					
Restricted net position	<u>\$ 1,010,559,000</u>	2.13%	<u>\$ 989,457,000</u>	8.02%	<u>\$ 916,010,000</u>

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

During 2014, the Authority's total cash and cash equivalents and investments decreased approximately \$32,100,000. During 2013, the Authority's total cash and cash equivalents and investments increased approximately \$1,127,000.

At June 30, 2014, investments consist of a current portion of approximately \$367,932,000 and a non-current portion of approximately \$24,018,000. As of June 30, 2014, the current portion is representative of U.S. Government Agency debt securities with maturities longer

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

than three months when purchased, but also having maturities prior to June 30, 2015. 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 2014, new loan assistance agreements issued of approximately \$98,475,000 exceeded repayments of assistance agreements receivable of approximately \$52,755,000 and forgiveness of loan principal of \$14,535,000 contributing to the approximately \$31,246,000 increase in net assistance agreements receivable. During fiscal year 2013, new loan assistance agreements issued of approximately \$103,815,000 exceeded repayments of assistance agreements receivable of approximately \$43,305,000 and forgiveness of loan principal of \$11,346,000, primarily under federally assisted loan programs, contributing to the approximately \$49,228,000 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 2014, long-term debt decreased approximately \$30,012,000.

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

	2014	% Increase (Decrease)	2013 (Restated)	% Increase (Decrease)	2012 (Restated)
Operating revenues	\$ 19,132,000	6.09%	\$ 18,034,000	9.56%	\$ 16,461,000
Operating expenses	44,033,000	-26.94%	60,270,000	-4.99%	63,433,000
Operating loss	(24,901,000)	-41.04%	(42,236,000)	-10.08%	(46,972,000)
Nonoperating revenues (expenses):					
Income from investments	7,899,000	-17.43%	9,567,000	945.57%	915,000
Net increase (decrease) in fair market value of investments	(7,177,000)	-17.63%	(8,713,000)	-3656.33%	245,000
Federal grants and reimbursements	33,845,000	-43.04%	59,415,000	49.54%	39,732,000
Principal forgiveness on loans	(14,535,000)	28.11%	(11,346,000)	266.35%	(3,097,000)
Intergovernmental revenue from the Commonwealth	22,260,000	-63.90%	61,666,000	20.94%	50,988,000
State appropriations	3,711,000	-27.14%	5,093,000	-91.42%	59,327,000
Miscellaneous revenue	-0-	N/A	1,000	N/A	-0-
Change in net position	<u>\$ 21,102,000</u>	-71.27%	<u>\$ 73,447,000</u>	-27.38%	<u>\$ 101,138,000</u>

Operating revenues primarily consist of interest and service fee revenue from assistance agreements receivable and grant administration fees. Interest on assistance agreements receivable and related service fees increased approximately \$1,136,000 from fiscal year 2013. Grant administration fees decreased approximately \$50,000 as a result of fewer grant starts and no new line item appropriations in the current budget cycle.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

Operating expenses primarily consist of grants, general and administrative costs, and amortization and interest related to revenue bonds payable. Grants are primarily representative of the disbursements made to local taxing districts of the Commonwealth as appropriated during the General Assembly. Current year grants decreased approximately \$15,763,000 from 2013. The decrease is primarily attributable to the budgetary constraints of the Commonwealth that resulted in fewer awards for fiscal year 2014. General and administrative costs decreased approximately \$43,000.

Nonoperating revenues and expenses consist of income from investments, net changes in the fair market value of investments, federal grant revenues and related expenses, intergovernmental revenues and state appropriations. Federal grant revenues and expenditures totaled approximately \$33,845,000 for new loans made to municipalities under federal programs and the administration of the programs. A portion of these funds were awarded under federal regulations that required additional subsidization which the Authority chose to provide as principal forgiveness. For 2014, approximately \$14,535,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net position. For details related to intergovernmental revenues refer to Note 10 of the financial statements. For details on state appropriations refer to Note 11 of the financial statements.

LONG-TERM DEBT

At June 30, 2014, the Authority had approximately \$302,275,000 in bond principal outstanding which is a decrease of 7.21% from last year. The decrease is due to scheduled maturities during the year. More detailed information about the Authority's long-term liabilities is presented in Note 7 of the financial statements.

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

Limitations on Debt. The Authority is required by Kentucky Revised Statute (KRS) 56.870(1) to obtain General Assembly approval for issuance of general fund appropriation-supported debt. For debt related to issues that require no appropriation of state funds, General Assembly approval must be obtained for bonds or notes having a final maturity extending beyond three (3) years, if the aggregate principal amount of the bonds or notes outstanding under any trust indenture or bond resolution exceeds the sum of five hundred million dollars (\$500,000,000). Our outstanding debt, which meets this criterion, is significantly below this limit.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

Kentucky Infrastructure Authority's outstanding debt at June 30:

	2014	% Increase (Decrease)	2013	% Increase (Decrease)	2012
General fund appropriation supported debt	\$ 8,160,000	-18.32%	\$ 9,990,000	-23.57%	\$ 13,070,000
Program revenue supported debt	294,115,000	-6.86%	315,775,000	-4.53%	330,760,000
Total	<u>\$ 302,275,000</u>	-7.21%	<u>\$ 325,765,000</u>	-5.25%	<u>\$ 343,830,000</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The 2003 General Assembly, in House Bill (HB) 269, identified 271 projects totaling \$59,071,343 for tobacco impacted counties and \$54,861,998 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds in the amount of \$54,765,000 (first year debt service to be paid from tobacco settlement funds) and \$54,765,000 (first year debt service to be paid from multi-county coal severance tax receipts). There was no increase in state appropriation to cover the cost of administering these projects. At the end of fiscal year 2014, all of the projects have been completed.

The 2005 General Assembly, in House Bill 267, identified 507 projects totaling \$120,660,220 for tobacco impacted counties and \$79,395,960 for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. At the end of fiscal year 2014, approximately \$1,500,000 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 fiscal year 2014, approximately \$9.3 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services. The 2006 General Assembly, in House Bill 380, also appropriated \$1,740,000 for funding of water and sewer projects for Community Development Projects. At the end of fiscal year 2014, all funds have been disbursed to grantees for Community Development.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

The 2008 General Assembly, in House Bill 608, identified 598 projects totaling \$160,585,000 (corresponding appropriation of \$150 million) for non-coal producing counties and \$79,240,000 (corresponding appropriation of \$75 million) for coal producing counties to be disbursed and administered by the Authority as grants from proceeds of bonds to be issued by the Commonwealth's State Property and Buildings Commission. There was allowance for an administrative fee of 0.5% of each grant to cover the cost of administering these projects. The 2010 Special Session of the General Assembly, in HB1, appropriated the remaining funds to complete the project funding. At the end of fiscal year 2014, approximately \$21.4 million remained to be disbursed to grantees. Disbursement will occur over the next several years and the projects will require on-going project administration services.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENTS OF NET POSITION JUNE 30, 2014 AND 2013

	2014	2013 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,617,000	\$ 43,678,000
Investments, current portion	364,317,000	379,997,000
Investments, restricted for debt service, current portion	3,615,000	-0-
Intergovernmental receivables	2,076,000	3,803,000
Accrued interest receivable, investments	190,000	4,332,000
Accrued interest receivable, assistance agreements	1,560,000	1,517,000
Current maturities of long-term receivables	52,344,000	50,941,000
Total current assets	457,719,000	484,268,000
Investments	21,537,000	27,896,000
Investments, restricted for debt service	2,481,000	6,096,000
Total noncurrent investments	24,018,000	33,992,000
Long-term receivables:		
Assistance agreements receivable:		
Principal	923,822,000	892,780,000
Less:		
Current maturities	(52,344,000)	(50,941,000)
Deposit reserve	-0-	(143,000)
Unamortized discounts	(498,000)	(559,000)
Total long-term receivables	870,980,000	841,137,000
Total assets	1,352,717,000	1,359,397,000
Deferred outflow of resources:		
Unamortized deferred amount on refunding	67,000	140,000
Total assets and deferrals	1,352,784,000	1,359,537,000
LIABILITIES		
Current liabilities:		
Current maturities of revenue bonds payable, net of unamortized premiums and discounts	30,025,000	25,492,000
Accrued interest payable	5,703,000	6,100,000
Grants payable	2,079,000	4,240,000
Other payables	806,000	523,000
Total current liabilities	38,613,000	36,355,000
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized premiums and discounts	303,349,000	333,361,000
Total liabilities	341,962,000	369,716,000
Deferred inflow of resources:		
Unamortized deferred amount on refunding	263,000	364,000
Total liabilities and deferrals	342,225,000	370,080,000
NET POSITION		
Restricted net position	\$ 1,010,559,000	\$ 989,457,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDING JUNE 30, 2014 AND 2013

	2014	2013 (Restated)
Operating revenues:		
Assistance agreements:		
Servicing fee	\$ 1,651,000	\$ 1,069,000
Interest	14,135,000	13,581,000
Interest received securing revenue bonds	1,283,000	1,259,000
Amortization of premium	61,000	60,000
Grant administration fee	13,000	63,000
Amortization of bond premiums	1,989,000	2,002,000
Total operating revenues	19,132,000	18,034,000
Operating expenses:		
General and administrative	2,870,000	2,913,000
Intergovernmental administrative expense reimbursement	4,806,000	4,227,000
Grants	21,870,000	37,633,000
Revenue bonds payable:		
Interest	14,487,000	15,457,000
Arbitrage expense	-0-	40,000
Total operating expenses	44,033,000	60,270,000
Operating loss	(24,901,000)	(42,236,000)
Nonoperating revenues (expenses):		
Income from investments	7,899,000	9,567,000
Net increase (decrease) in fair value of investments	(7,177,000)	(8,713,000)
Federal grants and reimbursements	33,845,000	59,415,000
Principal forgiveness on loans	(14,535,000)	(11,346,000)
Intergovernmental revenue from the Commonwealth	22,260,000	61,666,000
State appropriations	3,711,000	5,093,000
Miscellaneous revenue	-0-	1,000
Total nonoperating revenues	46,003,000	115,683,000
Change in net position	21,102,000	73,447,000
Net position, beginning of year	989,457,000	916,010,000
Net position, end of year	\$ 1,010,559,000	\$ 989,457,000

See the accompanying notes to
the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013 (Restated)</u>
Cash flows from operating activities:		
Administrative fees received	\$ 1,664,000	\$ 1,132,000
Collections on assistance agreements, net of change in deposit reserve	52,755,000	43,305,000
Advances on assistance agreements	(98,475,000)	(103,815,000)
Interest received on assistance agreements	15,375,000	14,878,000
Cash payments for grants	(24,031,000)	(37,795,000)
Cash payments for personnel expenses	(1,137,000)	(1,133,000)
Cash payments to suppliers for goods and services	<u>(6,256,000)</u>	<u>(5,802,000)</u>
Net cash used in operating activities	<u>(60,105,000)</u>	<u>(89,230,000)</u>
Cash flows from noncapital financing activities:		
Principal payments on long-term debt	(23,490,000)	(18,065,000)
Interest paid on long-term debt	(14,912,000)	(14,675,000)
Receipt of federal grants	33,845,000	59,415,000
State appropriation	2,989,000	4,704,000
Payments from the Commonwealth	<u>24,709,000</u>	<u>62,329,000</u>
Net cash provided by noncapital financing activities	<u>23,141,000</u>	<u>93,708,000</u>
Cash flows from investing activities:		
Purchase of investment securities	(751,599,000)	(646,336,000)
Proceeds from sale and maturities of investment securities	766,461,000	245,516,000
Interest and other investment income received	<u>12,041,000</u>	<u>5,362,000</u>
Net cash provided by (used in) investing activities	<u>26,903,000</u>	<u>(395,458,000)</u>
Net change in cash and cash equivalents	(10,061,000)	(390,980,000)
Cash and cash equivalents, beginning of year	<u>43,678,000</u>	<u>434,658,000</u>
Cash and cash equivalents, end of year	<u>\$ 33,617,000</u>	<u>\$ 43,678,000</u>

See the accompanying notes to
the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013 (Restated)</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (24,901,000)	\$ (42,236,000)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of bond premium	(1,989,000)	(2,002,000)
Amortization of assistance agreements premium	(61,000)	(60,000)
Amortization of bond defeasance included in interest	(28,000)	4,000
Interest paid on long-term debt	14,912,000	14,675,000
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable on assistance agreements	(43,000)	39,000
Increase in assistance agreements receivable, net of desposit reserve	(45,720,000)	(60,511,000)
Increase in accrued interest payable	(397,000)	778,000
Decrease in grants payable	(2,161,000)	(162,000)
Increase in other payables	283,000	245,000
Net cash used in operating activities	<u>\$ (60,105,000)</u>	<u>\$ (89,230,000)</u>
Supplemental disclosure of noncash investing activities:		
Net increase (decrease) in fair value of investments	<u>\$ (7,177,000)</u>	<u>\$ (8,713,000)</u>

See the accompanying notes to
the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

1. DESCRIPTION OF ORGANIZATION

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

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

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

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

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The Authority is authorized by Kentucky Revised Statute (KRS) Chapter 224A to issue notes and bonds to provide loans to governmental agencies and private, investor-owned utilities in Kentucky. The provisions of KRS 224A.165 dictate certain limits on the amount of notes and bonds the Authority can have outstanding. The purpose of the loans is to assist such entities in financing the construction of infrastructure projects. The following provides a description of the Authority's various programs:

Fund A - Clean Water State Revolving Fund Loan Program

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

Fund B - Infrastructure Revolving Loan Program

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

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

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

The General Assembly, from time to time, appropriates funds to be administered and disbursed by the Authority in the form of water and wastewater grants. During 2014 and 2013, 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 THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Fund C - Governmental Agencies Program

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

Fund F - Drinking Water State Revolving Fund Loan Program

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The activities of the Authority are accounted for as an enterprise fund on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenditures are recognized when they are incurred.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results may differ from those estimates.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

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

Description of Net Position Classes

Accounting principles generally accepted in the United States of America require the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as unspent proceeds.

Restricted – This component of net position consists of constraints placed on the use of net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Amortization of Discounts on Assistance Agreements

Discounts on assistance agreement receivables are amortized using the straight-line method over the life of the related receivable. The results of this method do not materially differ from those that would be obtained by applying the effective interest method.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Amortization of Bond Premium

Bond premiums are amortized on the straight-line method over the life of the bond issue. The results of this method do not materially differ from those that would be obtained by applying the effective interest method.

Amortization of Deferred Gain or Loss on Early Retirement of Debt

Deferred gain or loss on early retirement of debt is amortized on the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less. The results of this method do not materially differ from those that would be obtained by applying the effective interest method.

Operating Revenues and Expenses

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

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2014 and 2013, cash and cash equivalents consist of the following:

	<u>2014</u>	<u>2013</u>
Commercial paper	\$ 25,252,000	\$ 25,020,000
First American Government Obligation Fund	6,504,000	16,857,000
State cash and investment pool	<u>1,861,000</u>	<u>1,801,000</u>
Total cash and cash equivalents	<u>\$ 33,617,000</u>	<u>\$ 43,678,000</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The following schedule presents the carrying amounts of investments by maturity at June 30, 2014:

Investment	Fair Value	Maturity	Rate
Federal Home Loan Mortgage Corporation Discount Notes	\$ 62,000	7/11/2014	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	863,000	7/15/2014	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	9,352,000	9/15/2014	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	38,102,000	11/14/2014	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	23,188,000	12/12/2014	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	12,366,000	12/15/2014	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	28,507,000	1/14/2015	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	217,000	2/13/2015	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	738,000	5/15/2015	0.000%
Federal Home Loan Mortgage Corporation Discount Notes	1,001,000	6/12/2015	0.000%
Fannie Mae Discount Notes	615,000	9/15/2014	0.000%
Federal Agriculture Management Corporation	14,999,000	9/15/2014	0.000%
Federal Agriculture Management Corporation	25,000,000	7/15/2014	0.000%
Federal Home Loan Bank Discount Notes	75,079,000	7/15/2014	0.000%
Federal Home Loan Bank Discount Notes	18,260,000	7/23/2014	0.000%
Federal Home Loan Bank Discount Notes	8,256,000	8/15/2014	0.125%
Federal Home Loan Bank Discount Notes	10,301,000	8/22/2014	0.130%
Federal Home Loan Bank Discount Notes	20,202,000	9/30/2014	0.000%
Federal Home Loan Bank Discount Notes	615,000	10/5/2014	0.000%
Federal Home Loan Bank Discount Notes	14,388,000	10/15/2014	0.000%
Federal Home Loan Bank Discount Notes	3,388,000	11/14/2014	0.000%
Federal Home Loan Bank Discount Notes	39,274,000	1/15/2015	0.000%
U.S. Treasury Bill	1,040,000	4/2/2015	0.625%
U.S. Treasury Notes	16,003,000	7/15/2014	0.625%
U.S. Treasury Notes	390,000	10/31/2014	0.250%
U.S. Treasury Notes	716,000	12/15/2014	0.250%
U.S. Treasury Notes	100,000	1/15/2015	0.250%
U.S. Treasury Notes	319,000	1/31/2015	2.220%
U.S. Treasury Notes	976,000	2/28/2015	0.250%
U.S. Treasury Notes	3,615,000	8/1/2014	4.450%
U.S. Treasury Notes	2,481,000	8/1/2022	5.120%
	<u>370,413,000</u>		
Investment in State Pools	<u>21,537,000</u>		
Total	391,950,000		
Less: current portion	<u>367,932,000</u>		
Long-term Investments	<u>\$ 24,018,000</u>		

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The following schedule presents the carrying amounts of investments by maturity at June 30, 2013:

Investment	Fair Value	Maturity	Rate
Fannie Mae Medium Term Notes	\$ 75,588,000	7/12/2013	3.875%
Fannie Mae Discount Notes	24,999,000	8/15/2013	0.110%
Fannie Mae Discount Notes	24,998,000	9/16/2013	0.120%
Federal Home Loan Mortgage Corporation Debt	134,676,000	7/15/2013	4.500%
Federal Home Loan Mortgage Corporation Discount Notes	34,981,000	1/15/2014	0.120%
Federal Home Loan Mortgage Corporation Discount Notes	675,000	7/15/2013	0.100%
Federal Home Loan Mortgage Corporation Discount Notes	5,549,000	11/15/2013	0.090%
Federal Home Loan Mortgage Corporation Discount Notes	4,649,000	12/13/2013	0.110%
Federal Home Loan Mortgage Corporation Discount Notes	11,395,000	12/16/2013	0.110%
Fannie Mae Medium Term Notes	10,823,000	10/15/2013	4.625%
Federal Home Loan Bank	2,050,000	7/9/2013	0.400%
Federal Home Loan Bank Discount Notes	19,438,000	8/15/2013	0.090%
Federal Home Loan Bank Discount Notes	8,550,000	9/16/2013	0.050%
Federal Home Loan Bank Discount Notes	8,450,000	10/15/2013	0.050%
Federal Home Loan Bank Discount Notes	10,800,000	7/15/2013	0.080%
Federal Home Loan Bank Discount Notes	2,299,000	12/16/2013	0.120%
U.S. Treasury Bill	77,000	12/12/2013	0.070%
U.S. Treasury Notes State and Local Governments Series	2,300,000	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	1,315,000	8/1/2014	4.450%
U.S. Treasury Notes State and Local Governments Series	2,481,000	8/1/2022	5.120%
	386,093,000		
Investments in state pool	27,896,000		
Total	413,989,000		
Less: current portion	379,997,000		
Long-term investments	\$ 33,992,000		

At June 30, 2014 and 2013, all of the Authority's investments other than those in U.S. Treasury securities, Federal Agriculture Management Corporation, and discount notes possess a Moody's rating of Aaa or a Standard and Poor's rating of AA+. All investments in Federal Agriculture Management Corporation and discount notes are unrated.

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, 2014 and 2013, 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

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

- 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, 2014 and 2013, the Authority maintained \$23,398,000 and \$29,697,000, respectively, of cash and investments with the State Investment Pool of the State Investment Commission of the Commonwealth of Kentucky. The State Investment Commission (the Commission) is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commission delegates the day to day management of the Commonwealth's investments to the Office of Financial Management (OFM). The purpose of the investment pools is to provide: economies of scale that enhance yield, ease of administration for both the user agencies and OFM, and increase accountability and control. All investments shall be permitted investments as defined in KRS 42.500 and as further limited by 200 Kentucky Administrative Regulation (KAR) Chapter 14. Funds residing in the pools are available to be spent at any time. The Authority had no collateral or insurance as security for the balances with the Commission at June 30, 2014 and 2013, but they own a proportionate interest in the securities held in the respective pools.

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

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

4. REVENUE BOND FUND ACCOUNTS

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2014 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating fund	\$ 146,000	9,436,000	\$ 9,582,000
Revolving fund	25,124,000	262,353,000	287,477,000
Debt service reserve fund	19,000	6,096,000	6,115,000
Revenue fund	6,444,000	-0-	6,444,000
Surplus fund	23,000	92,528,000	92,551,000
Funds in state pool	1,861,000	21,537,000	23,398,000
Total	<u>\$ 33,617,000</u>	<u>\$ 391,950,000</u>	<u>\$ 425,567,000</u>

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2013 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating fund	\$ 4,086,000	\$ 4,713,000	\$ 8,799,000
Revolving fund	25,711,000	307,768,000	333,479,000
Debt service reserve fund	19,000	6,096,000	6,115,000
Revenue fund	1,519,000	2,500,000	4,019,000
Surplus fund	10,542,000	65,016,000	75,558,000
Funds in state pool	1,801,000	27,896,000	29,697,000
Total	<u>\$ 43,678,000</u>	<u>\$ 413,989,000</u>	<u>\$ 457,667,000</u>

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

- A. Operating Fund - Designated for paying operating costs incurred by the Authority.
- B. Revolving Fund - Designated to receive debt service payments from the revolving loan program in order to recycle money for new loans.
- C. 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.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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

E. Surplus Fund - This fund is a reserve for advances to municipalities in anticipation of new bond issues, transfers to other funds to cover deficiencies, and other lawful purposes of the Authority.

5. INTERGOVERNMENTAL RECEIVABLES

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

	<u>2014</u>	<u>2013</u>
Due from the Commonwealth's General Fund for debt service and general and administrative costs	\$ 722,000	\$ 388,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	354,000	340,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	28,000	162,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	52,000	320,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Non-Coal Producing Counties per 2006 House Bill 380	33,000	611,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	108,000	375,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	<u>779,000</u>	<u>1,607,000</u>
Total receivable from the Commonwealth	<u>\$ 2,076,000</u>	<u>\$ 3,803,000</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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. At June 30, 2014 and 2013, management considered all assistance agreement receivables to be fully collectible. Accordingly, there was no allowance for uncollectible receivables.

A total loan amount is approved for each governmental entity. In addition to the \$923,324,000 in net assistance agreements receivable at June 30, 2014, the Authority has commitments remaining to disburse funds summarized as follows:

Fund A - Clean Water State Revolving Fund Loan Program	\$ 258,426,000
Fund B - Infrastructure Revolving Loan Program	10,198,000
Fund C - Governmental Agencies Program	6,427,000
Fund F - Drinking Water State Revolving Fund Loan Program	<u>66,344,000</u>
 Total commitments outstanding	 <u><u>\$ 341,395,000</u></u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

7. LONG-TERM DEBT, REVENUE BONDS PAYABLE

Long-term debt consists of the following at June 30, 2014:

	<u>Balance</u>	<u>Current</u>	<u>Long-term</u>
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually through February 1, 2032	\$ 239,305,000	\$ 16,765,000	\$ 222,540,000
Fund B, Solid Waste Revolving Fund Revenue and Revenue Refunding Bonds, interest at 5.00%, due semi-annually, principal due annually to June 1, 2015	225,000	225,000	-0-
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 4.00% to 5.29%, due semi-annually, principal due annually through August 1, 2022	15,230,000	8,455,000	6,775,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually through February 1, 2032	<u>47,515,000</u>	<u>2,595,000</u>	<u>44,920,000</u>
Total	302,275,000	28,040,000	274,235,000
Unamortized premium	<u>31,099,000</u>	<u>1,985,000</u>	<u>29,114,000</u>
	<u>\$ 333,374,000</u>	<u>\$ 30,025,000</u>	<u>\$ 303,349,000</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Long-term debt consists of the following at June 30, 2013:

	Balance	Current	Long-term
Fund A, Waste Water Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually through February 1, 2032	\$ 255,465,000	\$ 16,160,000	\$ 239,305,000
Fund B, Solid Waste Revolving Fund Revenue and Revenue Refunding Bonds, interest 3.75% to 5.25%, due semi-annually, principal due annually to June 1, 2015	440,000	215,000	225,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 4.00% to 5.29%, due semi-annually, principal due annually through August 1, 2022	19,885,000	4,655,000	15,230,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually through February 1, 2032	49,975,000	2,460,000	47,515,000
Total	325,765,000	23,490,000	302,275,000
Unamortized premium	33,088,000	2,002,000	31,086,000
	\$ 358,853,000	\$ 25,492,000	\$ 333,361,000

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

The required annual payments for all debt are as follows:

	Principal	Interest	Total
2015	\$ 28,040,000	\$ 13,789,000	\$ 41,829,000
2016	20,145,000	12,743,000	32,888,000
2017	19,905,000	11,867,000	31,772,000
2018	19,880,000	11,028,000	30,908,000
2019	19,955,000	10,127,000	30,082,000
2020 - 2024	94,780,000	37,494,000	132,274,000
2025 - 2029	82,890,000	15,542,000	98,432,000
2030 - 2032	16,680,000	1,324,000	18,004,000
	\$ 302,275,000	\$ 113,914,000	\$ 416,189,000

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2014:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Bond principal payable	\$ 325,765,000	\$ -0-	\$ 23,490,000	\$ 302,275,000
Unamortized premiums	33,088,000	-0-	1,989,000	31,099,000
Total	\$ 358,853,000	\$ -0-	\$ 25,479,000	\$ 333,374,000

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2013:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Bond principal payable	\$ 343,830,000	\$ -0-	\$ 18,065,000	\$ 325,765,000
Unamortized premiums	35,090,000	-0-	2,002,000	33,088,000
Total	\$ 378,920,000	\$ -0-	\$ 20,067,000	\$ 358,853,000

8. 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.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

9. GRANT COMMITMENTS

The Authority has committed to disburse grant funds as follows:

Fund B	\$ 190,000
Fund B - 2020	<u>608,000</u>
Total funded by agency funds	<u>798,000</u>
Fund B - 2005 HB 267 Coal IEDF	904,000
Fund B - 2005 HB 267 Tobacco IEDF	609,000
Fund B - 2006 HB 380 Coal	1,523,000
Fund B - 2006 HB 380 Non Coal	7,729,000
Fund B - 2008 HB 406 / 408 Coal	7,325,000
Fund B - 2008 HB 406 / 408 Non Coal	<u>14,031,000</u>
Total funded by bond funds	<u>32,121,000</u>
Fund B – 2008 HB 410; 2010 HB 1; and 2012 HB 265 Coal Severance	<u>16,972,000</u>
Total grant commitments	<u><u>\$ 49,891,000</u></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.

The funding source of the coal severance projects are from Local Government Economic Development Fund (KRS 42.4592) monies from the single county fund. Administration of the projects has been designated to the Authority by the enumerated General Assembly. The total shown above represents the amount left to disburse for projects with grant assistance agreements at year end.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

10. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue from the Commonwealth during the fiscal years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
State Property and Building Commission bond issue - funding of the state match for the KIA Fund A Federally Assisted Wastewater Program per 2010 House Bill 1 and 2012 House Bill 265	\$ -0-	\$ 14,296,000
State Property and Building Commission bond issue - funding of the state match for the KIA Fund F Federally Assisted Drinking Water Program per 2010 House Bill 1 and 2012 House Bill 265	-0-	10,290,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	1,087,000	774,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	537,000	1,733,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	850,000	2,770,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Non-Coal Producing Counties per 2006 House Bill 380	1,668,000	4,272,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	4,267,000	7,270,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	6,539,000	12,137,000
Coal Severance Tax Receipts - funding of the water and sewer projects from the Coal Severance per 2012 House Bill 265	<u>7,312,000</u>	<u>8,124,000</u>
Total intergovernmental revenue from the Commonwealth	<u>\$ 22,260,000</u>	<u>\$ 61,666,000</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

11. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the fiscal years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Appropriations for debt service	\$ 2,323,000	\$ 3,707,000
Appropriations for general and administrative costs	<u>1,388,000</u>	<u>1,386,000</u>
Total state appropriations	<u>\$ 3,711,000</u>	<u>\$ 5,093,000</u>

12. RESTRICTED NET POSITION

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

	<u>2014</u>	<u>2013</u>
Restricted by law	\$ 1,004,463,000	\$ 983,361,000
Restricted for debt service	<u>6,096,000</u>	<u>6,096,000</u>
Total restricted net position	<u>\$ 1,010,559,000</u>	<u>\$ 989,457,000</u>

13. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the years ended June 30, 2014 and 2013 totaled \$4,806,000 and \$4,227,000, respectively, for services provided by the Commonwealth's Energy and Environment Cabinet, Division of Water related to federal grant compliance for the federal funds administered under Fund A and Fund F.

14. RELATED PARTY TRANSACTIONS

The Authority incurred expenses for utilities and office space received from the Commonwealth of Kentucky's Department for Local Government (DLG) in the amount of \$35,000 and \$30,000 for the years ending June 30, 2014 and June 30, 2013, respectively. The Authority also received the benefit of administrative services from DLG for 2014 and 2013 for which no fee was assessed. The Authority incurred expenses for information technology support received from the Commonwealth Office of Technology (COT) in the

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

amounts of \$50,000 and \$48,000 for the years ending June 30, 2014 and 2013, respectively.

15. 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 between September 1, 2008 and December 31, 2013 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 between September 1, 2008 and December 31, 2013 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 26.79% and 23.61% of the covered employees' salaries for the years ended June 30, 2014 and 2013, respectively. Subsequent to June 30, 2014, the rate is 38.77%.

Covered employees hired after December 31, 2013, are eligible to participate in a cash balance plan which requires employee's to pay a pre-tax 5% rate based on creditable compensation. The employee's account is also credited with a 4% employer pay credit. In addition to the 5% contribution, all active employees participating on or after January 1, 2014 pay a 1% pretax contribution to KERS Insurance Fund. At the end of each fiscal year, interest is paid into the employee's account. The account is guaranteed 4% interest

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

credit on the employee's account balance as of June 30 of the previous year. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4%. At the time of termination, the employee is eligible to either take a refund of the accumulated account balance if vested (five or more years of service), or annuitize their account balance, if eligible for retirement. If the employee terminates employment and requests a refund prior to vesting, the employee is eligible only for the employee's contributions and associated interest, and forfeits the employer pay credit and associated interest.

The contribution requirement for the year ended June 30, 2014 totals approximately \$248,000, consisting of approximately \$209,000 from the Authority and \$39,000 from employees. The contribution requirement for the year ended June 30, 2013 totals approximately \$233,000, consisting of approximately \$192,000 from the Authority and \$41,000 from employees. The contribution requirement for the year ended June 30, 2012 totaled approximately \$195,000, consisting of approximately \$153,000 from the Authority and \$42,000 from employees. The Authority's total payroll was approximately \$777,000 and \$816,000 for the years ending June 30, 2014 and 2013, respectively.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the KERS Annual Financial Reports, which are a matter of public record. The most recent actuarial valuation was as of June 30, 2013. 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 2014 or 2013. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

Retired Authority employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance-funded on an actuarially-determined basis through the KERS. As indicated above, covered employees hired after September 1, 2008, contribute 1.00% of their salaries to the KERS Insurance Fund. The employer contribution to the Insurance Fund is included in the contribution rates indicated above. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

16. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Authority utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

17. NEW STANDARDS IMPLEMENTATION

For the year ending June 30, 2014, the Authority implemented the following statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. For certain transactions resulting in defeasance of debt reported by the Authority, the difference between the reacquisition price and the net carrying amount of the old debt should now be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Previously, such amounts were included as a component of the long-term debt liability. In addition, debt issuance costs should now be recognized as an expense in the period incurred. Previously, debt issuance costs were capitalized at issuance and amortized over the term of the related debt.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The 2013 financial statements have been retroactively restated to address the implementation of GASB Statement No. 65 and the effects on the financial statements are detailed below:

	As previously reported	Effects of implementation	As restated
Statement of net position			
Unamortized cost of issuance	\$ 2,353,000	\$ (2,353,000)	\$ -0-
Current maturities of revenue bonds payable	25,520,000	(28,000)	25,492,000
Revenue bonds payable less current maturities	333,557,000	(196,000)	333,361,000
Deferred outflow of resources	-0-	140,000	140,000
Deferred inflow of resources	-0-	364,000	364,000
Net position - restricted	\$ 991,810,000	\$ (2,353,000)	\$ 989,457,000
Statement of revenue, expenses, and changes in net position			
Amortization of cost of issuance	\$ 191,000	\$ (191,000)	\$ -0-
Change in net position	73,256,000	191,000	73,447,000
Net position at 7/1/2012	918,554,000	(2,544,000)	916,010,000
Net position at 6/30/2013	991,810,000	(2,353,000)	989,457,000
Statement of cash flows			
Amortization of cost of issuance	\$ 191,000	\$ (191,000)	\$ -0-

18. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the financial statements:

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

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

GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*," issued November 2013,

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

	Fund A	Fund B	Fund C	Fund F	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 25,366,000	\$ 1,416,000	\$ 6,448,000	\$ 387,000	\$ 33,617,000
Investments, current portion	262,130,000	13,266,000	17,559,000	71,362,000	364,317,000
Investments, restricted for debt service, current portion	-0-	-0-	3,615,000	-0-	3,615,000
Intergovernmental receivables	-0-	2,076,000	-0-	-0-	2,076,000
Accrued interest receivable, investments	52,000	-0-	118,000	20,000	190,000
Accrued interest receivable, assistance agreements	957,000	100,000	68,000	435,000	1,560,000
Current maturities of long-term receivables	36,034,000	4,042,000	2,937,000	9,331,000	52,344,000
Total current assets	<u>324,539,000</u>	<u>20,900,000</u>	<u>30,745,000</u>	<u>81,535,000</u>	<u>457,719,000</u>
Investments	3,338,000	14,962,000	-0-	3,237,000	21,537,000
Investments, restricted for debt service	-0-	-0-	2,481,000	-0-	2,481,000
Total noncurrent investments	<u>3,338,000</u>	<u>14,962,000</u>	<u>2,481,000</u>	<u>3,237,000</u>	<u>24,018,000</u>
Long-term receivables:					
Assistance agreements receivable:					
Principal	653,634,000	61,130,000	23,912,000	185,146,000	923,822,000
Less:					
Current maturities	(36,034,000)	(4,042,000)	(2,937,000)	(9,331,000)	(52,344,000)
Unamortized discounts	-0-	-0-	(498,000)	-0-	(498,000)
Total long-term receivables	<u>617,600,000</u>	<u>57,088,000</u>	<u>20,477,000</u>	<u>175,815,000</u>	<u>870,980,000</u>
Total assets	<u>945,477,000</u>	<u>92,950,000</u>	<u>53,703,000</u>	<u>260,587,000</u>	<u>1,352,717,000</u>
Deferred outflow of resources:					
Unamortized deferred amount on refunding	62,000	5,000	-0-	-0-	67,000
Total assets and deferrals	<u>945,539,000</u>	<u>92,955,000</u>	<u>53,703,000</u>	<u>260,587,000</u>	<u>1,352,784,000</u>
LIABILITIES					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized discounts and premiums	18,427,000	228,000	8,455,000	2,915,000	30,025,000
Accrued interest payable	4,517,000	1,000	310,000	875,000	5,703,000
Grants payable	-0-	2,079,000	-0-	-0-	2,079,000
Other payables	-0-	726,000	80,000	-0-	806,000
Total current liabilities	<u>22,944,000</u>	<u>3,034,000</u>	<u>8,845,000</u>	<u>3,790,000</u>	<u>38,613,000</u>
Long-term debt:					
Revenue bonds payable, net of current maturities and unamortized discounts and premiums	246,779,000	-0-	6,775,000	49,795,000	303,349,000
Total liabilities	<u>246,779,000</u>	<u>3,034,000</u>	<u>15,620,000</u>	<u>53,585,000</u>	<u>341,962,000</u>
Deferred inflow of resources:					
Unamortized deferred amount on refunding	-0-	-0-	263,000	-0-	263,000
Total liabilities and deferrals	<u>269,723,000</u>	<u>3,034,000</u>	<u>15,883,000</u>	<u>53,585,000</u>	<u>342,225,000</u>
NET POSITION					
Restricted net position	<u>\$ 675,816,000</u>	<u>\$ 89,921,000</u>	<u>\$ 37,820,000</u>	<u>\$ 207,002,000</u>	<u>\$ 1,010,559,000</u>

See report of independent auditors.

KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	\$ 1,066,000	\$ 107,000	\$ 68,000	\$ 410,000	\$ 1,651,000
Interest	9,966,000	1,066,000	-0-	3,103,000	14,135,000
Interest received securing revenue bonds	-0-	-0-	1,283,000	-0-	1,283,000
Amortization of premium	-0-	-0-	61,000	-0-	61,000
Grant administration fee	-0-	13,000	-0-	-0-	13,000
Amortization of bond premiums	1,665,000	3,000	-0-	321,000	1,989,000
Total operating revenues	<u>12,697,000</u>	<u>1,189,000</u>	<u>1,412,000</u>	<u>3,834,000</u>	<u>19,132,000</u>
Operating expenses:					
General and administrative	650,000	1,383,000	99,000	738,000	2,870,000
Intergovernmental administrative expense reimbursement	615,000	-0-	-0-	4,191,000	4,806,000
Grants	-0-	21,870,000	-0-	-0-	21,870,000
Interest - revenue bonds payable	11,515,000	27,000	666,000	2,279,000	14,487,000
Total operating expenses	<u>12,780,000</u>	<u>23,280,000</u>	<u>765,000</u>	<u>7,208,000</u>	<u>44,033,000</u>
Operating income (loss)	<u>(83,000)</u>	<u>(22,091,000)</u>	<u>647,000</u>	<u>(3,374,000)</u>	<u>(24,901,000)</u>
Nonoperating revenues (expenses):					
Income from investments	6,418,000	319,000	301,000	861,000	7,899,000
Net decrease in fair value of investments	(6,092,000)	(300,000)	(1,000)	(784,000)	(7,177,000)
Federal grants and reimbursements	17,222,000	-0-	-0-	16,623,000	33,845,000
Principal forgiveness on loans	(6,273,000)	(515,000)	(2,783,000)	(4,964,000)	(14,535,000)
Intergovernmental revenue from the Commonwealth	-0-	22,260,000	-0-	-0-	22,260,000
State appropriations	1,691,000	1,625,000	-0-	395,000	3,711,000
Total nonoperating revenues (expenses)	<u>12,966,000</u>	<u>23,389,000</u>	<u>(2,483,000)</u>	<u>12,131,000</u>	<u>46,003,000</u>
Change in net position	12,883,000	1,298,000	(1,836,000)	8,757,000	21,102,000
Net position, beginning of year	<u>662,933,000</u>	<u>88,623,000</u>	<u>39,656,000</u>	<u>198,245,000</u>	<u>989,457,000</u>
Net position, end of year	<u>\$ 675,816,000</u>	<u>\$ 89,921,000</u>	<u>\$ 37,820,000</u>	<u>\$ 207,002,000</u>	<u>\$ 1,010,559,000</u>

See report of independent auditors.