

KENTUCKY INFRASTRUCTURE AUTHORITY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2017 AND 2016

KENTUCKY INFRASTRUCTURE AUTHORITY

TABLE OF CONTENTS JUNE 30, 2017 AND 2016

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statements of Net Position.....	9
Statements of Revenues, Expenses and Changes in Net Position.....	10
Statements of Cash Flows	11
Notes to the Financial Statements.....	13
Required Supplementary Information:	
Schedule of Proportionate Share of Net Pension Liability	40
Schedule of Contributions	41
Supplementary Information:	
Combining Statements of Net Position.....	42
Combining Statements of Revenues, Expenses and Changes in Net Position	44



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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited the accompanying financial statements of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2017 and 2016, 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.

To the Board of Directors
Kentucky Infrastructure Authority

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 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 financial position of the Authority, as of June 30, 2017 and 2016, and the 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.

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 8, the schedule of the proportionate share of the net pension liability and schedule of contributions on pages 40 through 41 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.

To the Board of Directors
Kentucky Infrastructure Authority

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 42 through 45 is presented for purposes of additional analysis rather than to present the financial position and respective changes in financial position of the individual funds of the Authority and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relate 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 schedule of expenditures of federal awards and supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Blue & Co., LLC

Lexington, Kentucky
November 27, 2017

KENTUCKY INFRASTRUCTURE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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 year ended June 30, 2017. We encourage readers to read it in conjunction with the Authority's audited financial statements and the accompanying notes.

FINANCIAL HIGHLIGHTS

- As of the close of fiscal year 2017, the Authority reported an ending net position of \$1,101,008,000, an increase of \$33,393,000 (3.1%) in comparison with the prior year.
- The Authority's total liabilities decreased \$22,451,000 (7.5%) during fiscal year 2017.
- The Authority disbursed \$146,477,000 to borrowers for eligible expenditures under loan assistance agreements and \$6,414,000 to local governmental entities for state grants.
- Principal and interest in the amount of \$63,369,000 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 deferred outflows less its liabilities and deferred inflows, 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 shows how the Authority's net position changed during the most recent two fiscal years. 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, 2017 AND 2016

The statement of cash flows provides relevant information about the cash receipts and cash payments of the Authority during the fiscal year. The statement shows the differences between actual cash receipts and payments and the effects on financial position of cash and non-cash investing, capital, non-capital and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13 through 39.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information
Statements of Net Position
As of June 30

	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
Assets:					
Current assets	\$ 372,559,000	-13.2%	\$ 429,149,000	-4.8%	\$ 450,942,000
Long-term investments	6,945,000	-27.9%	9,629,000	-28.7%	13,510,000
Long-term receivables	991,448,000	7.7%	920,392,000	3.8%	886,602,000
Capital assets, net	15,000	-34.8%	23,000	130.0%	10,000
Total assets	<u>1,370,967,000</u>	0.9%	<u>1,359,193,000</u>	0.6%	<u>1,351,064,000</u>
Deferred outflow of resources	<u>7,573,000</u>	-7.8%	<u>8,218,000</u>	54.2%	<u>5,331,000</u>
Total assets and deferrals	<u>1,378,540,000</u>	0.8%	<u>1,367,411,000</u>	0.8%	<u>1,356,395,000</u>
Liabilities:					
Current liabilities	31,135,000	1.3%	30,742,000	-0.7%	30,948,000
Long-term debt	246,013,000	-8.5%	268,857,000	-7.7%	291,342,000
Total liabilities	<u>277,148,000</u>	-7.5%	<u>299,599,000</u>	-7.0%	<u>322,290,000</u>
Deferred inflow of resources	<u>384,000</u>	94.9%	<u>197,000</u>	-30.6%	<u>284,000</u>
Total liabilities and deferrals	<u>277,532,000</u>	-7.4%	<u>299,796,000</u>	-7.1%	<u>322,574,000</u>
Net position:					
Restricted net position	<u>\$ 1,101,008,000</u>	3.1%	<u>\$ 1,067,615,000</u>	3.3%	<u>\$ 1,033,821,000</u>

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

During 2017, the Authority's total cash and cash equivalents and investments decreased \$62,030,000. The decrease is due to increased disbursements to borrowers for eligible expenditures and is reflected as an increase in assistance agreement receivable.

KENTUCKY INFRASTRUCTURE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

At June 30, 2017, investments consist of a current portion of \$306,829,000 and a non-current portion of \$6,945,000. The current portion is representative of U.S. Government Agency debt securities with maturities longer than three months when purchased, but also having maturities prior to June 30, 2018. 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 primarily consist of a concentration of investments with a maturity of three months or less when purchased (cash equivalents) in order to maintain sufficient liquidity.

During fiscal year 2017, payments to borrowers for eligible expenditures under assistance agreements were \$146,477,000, which exceeded repayments of assistance agreements receivable of \$63,369,000 and forgiveness of loan principal of \$7,868,000 contributing to the \$73,300,000 increase in net assistance agreements receivable.

Total liabilities consist of bonds payable and related accrued interest; miscellaneous accounts and state grants payable, and accrued pension liabilities.

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

	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
Operating revenues	\$ 21,873,000	8.0%	\$ 20,256,000	5.0%	\$ 19,288,000
Operating expenses	<u>26,598,000</u>	-16.4%	<u>31,816,000</u>	-6.9%	<u>34,168,000</u>
Operating loss	(4,725,000)	-59.1%	(11,560,000)	-22.3%	(14,880,000)
Non-operating revenues (expenses):					
Investment Income	1,951,000	84.4%	1,058,000	130.5%	459,000
Bond issuance costs	-0-	-100.0%	(386,000)	-40.4%	(648,000)
Federal grants and reimbursements	34,058,000	17.6%	28,958,000	-12.9%	33,257,000
Provision for losses on assistance agreements	(2,000,000)	100.0%	-0-	0.0%	-0-
Principal forgiveness on assistance agreements	(7,868,000)	46.7%	(5,362,000)	-12.7%	(6,145,000)
Intergovernmental revenue from the Commonwealth	10,777,000	-19.6%	13,410,000	16.4%	11,518,000
State appropriations	1,200,000	-84.4%	7,676,000	110.2%	3,651,000
Miscellaneous expense	<u>-0-</u>	0.0%	<u>-0-</u>	-100.0%	<u>(1,000)</u>
Change in net position	<u>\$ 33,393,000</u>	-1.2%	<u>\$ 33,794,000</u>	24.2%	<u>\$ 27,211,000</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 \$612,000 (3.9%) from fiscal year 2016 due to the increase in assistance agreement receivable.

KENTUCKY INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017 AND 2016

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 by the General Assembly. Current year state grants decreased \$4,006,000 (38.4%) from 2016 due to the continued budgetary constraints of the Commonwealth. Interest expense on revenue bonds decreased \$1,452,000 (11.1%). General and administrative costs decreased \$4,000 inclusive of a \$474,000 increase in net changes, due to pension expenses under Governmental Accounting Standards Board (GASB) Statement No. 68.

Non-operating revenues and expenses consist of income from investments, net changes in the fair market value of investments, federal grant revenues and required principal forgiveness, intergovernmental revenues and state appropriations. Federal grant revenues and expenditures totaled \$34,058,000 for loans made to municipalities under federal programs and the cost of administration of the programs. A portion of these funds was awarded under federal regulations that required additional subsidization which the Authority chose to provide as principal forgiveness. For 2017, \$7,868,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net position. The Authority also recorded a provision for loan losses of \$2,000,000. The Authority believes the situation is isolated and is neither due to geographic area of the borrower or to macro economic conditions within the borrower's service area. The provision is not associated with pledged loans related to the Authority's leverage bonds. This is discussed further in Note 6 of the financial statements. For details related to intergovernmental revenues, refer to Note 9 of the financial statements. For details on state appropriations, refer to Note 10 of the financial statements.

LONG-TERM DEBT

At June 30, 2017, the Authority had \$228,985,000 in bond principal outstanding which is a decrease of 8.1% 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. As of June 30, 2017, the 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. There was no appropriation supported debt outstanding.

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) (KRS 224A. 165 (2) (b)). The Authority's outstanding debt, which meets this criterion, is significantly below this limit.

KENTUCKY INFRASTRUCTURE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

Outstanding debt at June 30 consists of the following:

	<u>2017</u>	% Increase (Decrease)	<u>2016</u>	% Increase (Decrease)	<u>2015</u>
General fund appropriation supported debt \$	-0-	0.0%	\$ -0-	-100.0%	\$ 6,240,000
Program revenue supported debt	<u>228,985,000</u>	-8.1%	<u>249,175,000</u>	-8.2%	<u>271,535,000</u>
Total	<u>\$ 228,985,000</u>	-8.1%	<u>\$ 249,175,000</u>	-10.3%	<u>\$ 277,775,000</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority administers grants under numerous House Bills. At June 30, 2017 approximately \$17,088,000 remained to be disbursed as outlined in Note 8 of the financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide our stakeholders with information needed to understand the Authority's financial condition and results of operations for the fiscal year ended June 30, 2017. For questions about this report or for 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, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,767,000	\$ 2,135,000
Investments, current portion	306,829,000	365,807,000
Intergovernmental receivables	3,089,000	2,529,000
Accrued interest receivable, investments	21,000	53,000
Accrued interest receivable, assistance agreements	1,368,000	1,384,000
Current maturities of long-term receivables	59,485,000	57,241,000
Total current assets	372,559,000	429,149,000
Investments	6,276,000	7,148,000
Investments, restricted for debt service	669,000	2,481,000
Total noncurrent investments	6,945,000	9,629,000
Long-term receivables:		
Assistance agreements receivable:		
Principal	993,765,000	920,769,000
Less:		
Allowance for losses on assistance agreements	(2,000,000)	-0-
Unamortized discounts	(317,000)	(377,000)
Total long-term receivables	991,448,000	920,392,000
Capital assets, net	15,000	23,000
Total assets	1,370,967,000	1,359,193,000
Deferred outflow of resources:		
Pension related	886,000	808,000
Unamortized deferred amount on refunding	6,687,000	7,410,000
Total assets and deferrals	1,378,540,000	1,367,411,000
LIABILITIES		
Current liabilities:		
Current maturities of revenue bonds payable, net of unamortized premiums and discounts	23,610,000	23,740,000
Accrued interest payable	4,398,000	4,281,000
State treasury advances for capitalization grant matching funds	2,297,000	1,701,000
Grants payable	217,000	289,000
Other payables	613,000	731,000
Total current liabilities	31,135,000	30,742,000
Long-term debt:		
Revenue bonds payable, less current maturities and unamortized premiums and discounts	240,066,000	263,677,000
Net pension liability	5,512,000	5,180,000
Other payables	435,000	-0-
Total liabilities	277,148,000	299,599,000
Deferred inflow of resources:		
Pension related	220,000	-0-
Unamortized deferred amount on refunding	164,000	197,000
Total liabilities and deferrals	277,532,000	299,796,000
NET POSITION		
Restricted net position	\$ 1,101,008,000	\$ 1,067,615,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating revenues:		
Assistance agreements:		
Servicing fee	\$ 2,081,000	\$ 1,854,000
Interest income	16,182,000	15,573,000
Amortization of discounts	59,000	61,000
Grant administration fee	-0-	14,000
Amortization of bond premiums	3,551,000	2,754,000
Total operating revenues	21,873,000	20,256,000
Operating expenses:		
General and administrative	3,267,000	3,271,000
Intergovernmental administrative expense reimbursement	4,897,000	5,028,000
State grant expenditures	6,414,000	10,420,000
Revenue bonds payable:		
Interest	11,638,000	13,090,000
Arbitrage expense	382,000	7,000
Total operating expenses	26,598,000	31,816,000
Operating loss	(4,725,000)	(11,560,000)
Non-operating revenues (expenses):		
Investment income	1,951,000	1,058,000
Bond issuance cost	-0-	(386,000)
Federal grants	34,058,000	28,958,000
Provision for losses on assistance agreements	(2,000,000)	-0-
Principal forgiveness on assistance agreements	(7,868,000)	(5,362,000)
Intergovernmental revenue from the Commonwealth	10,777,000	13,410,000
State appropriations	1,200,000	7,676,000
Total non-operating revenues	38,118,000	45,354,000
Change in net position	33,393,000	33,794,000
Net position, beginning of year	1,067,615,000	1,033,821,000
Net position, end of year	\$ 1,101,008,000	\$ 1,067,615,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Administrative fees received	\$ 2,081,000	\$ 1,868,000
Collections on assistance agreements	63,369,000	57,758,000
Advances on assistance agreements	(146,477,000)	(98,586,000)
Interest received on assistance agreements	16,198,000	15,871,000
Cash payments for grants	(6,486,000)	(10,735,000)
Cash payments for personnel expenses	(1,150,000)	(1,357,000)
Cash payments to suppliers for goods and services	(6,001,000)	(4,642,000)
Net cash used in operating activities	<u>(78,466,000)</u>	<u>(39,823,000)</u>
Cash flows from noncapital financing activities:		
Principal payments on long-term debt	\$ (20,190,000)	\$ (26,770,000)
Payments to refund and defease debt	-0-	(59,719,000)
Bond issuance cost	-0-	(386,000)
Proceeds from new debt issuance	-0-	60,161,000
Interest paid on long-term debt	(10,831,000)	(11,656,000)
Receipt of federal grants	34,058,000	28,962,000
State appropriations	1,200,000	7,676,000
Payments from the Commonwealth	10,216,000	11,451,000
Net cash provided by noncapital financing activities	<u>14,453,000</u>	<u>9,719,000</u>
Cash flows from noncapital financing activities:		
Purchase of capital assets	-0-	(21,000)
Cash flows from investing activities:		
Purchase of investment securities	(968,539,000)	(1,261,261,000)
Proceeds from sale and maturities of investment securities	1,030,267,000	1,263,644,000
Interest and other investment income received	1,917,000	688,000
Net cash provided by investing activities	<u>63,645,000</u>	<u>3,071,000</u>
Net change in cash and cash equivalents	(368,000)	(27,054,000)
Cash and cash equivalents, beginning of year	2,135,000	29,189,000
Cash and cash equivalents, end of year	<u>\$ 1,767,000</u>	<u>\$ 2,135,000</u>

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,725,000)	\$ (11,560,000)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of bond premium	(3,551,000)	(2,754,000)
Amortization of assistance agreements discounts	(59,000)	(61,000)
Amortization of bond defeasance included in interest	690,000	478,000
Depreciation of capital assets	8,000	8,000
Interest paid on long-term debt	10,831,000	11,656,000
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable on assistance agreements	16,000	298,000
Increase in assistance agreements receivable	(83,108,000)	(40,828,000)
Increase (decrease) in accrued interest payable	117,000	935,000
Increase in state treasury advances for capitalized grant matching fund	596,000	1,701,000
Decrease in grants payable	(72,000)	(315,000)
Increase (decrease) in other payables	317,000	260,000
Change in deferred outflow	(78,000)	(553,000)
Change in deferred inflow	220,000	(54,000)
Change in net pension liability	332,000	966,000
	\$ (78,466,000)	\$ (39,823,000)
Net cash used in operating activities		
Supplemental disclosure of noncash investing activities:		
Net increase in fair value of investments	\$ 66,000	\$ 370,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. DESCRIPTION OF ORGANIZATION

In 1972, the General Assembly of Kentucky established the Kentucky Pollution Abatement Authority (KPAA) 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 to 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 KPAA aid and (b) to grant to KPAA 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 KPAA 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 KPAA 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 agency'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 agency to the "Kentucky Infrastructure Authority" (the 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.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 restrict the amount of notes and bonds the Authority can have outstanding. The purpose of the loans is to assist eligible 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

Wastewater treatment, collection, and stormwater projects that qualify under the U.S. Environmental Protection Agency (EPA) requirements can be financed through this program. Projects must be ranked on the Priority List by the Kentucky Division of Water and must be financially feasible as determined by the Authority's staff. Loans are provided at below-market interest rates with repayments not to exceed thirty years. Loan funds are available on short terms for planning and design activities. The state's share of construction (state match funds) is funded with state appropriation – supported bonds for which the Commonwealth appropriates an amount equal to the related debt.

Fund B - Infrastructure Revolving Loan Program

The Infrastructure Revolving Fund (Fund B) was created by KRS 224A.112 for the construction and acquisition of infrastructure projects. Infrastructure projects are defined in KRS 224A.011 as "any construction or acquisition of treatment works, facilities related to the collection, transportation, and treatment of wastewater as defined in KRS 65.8903, distribution facilities, or water resources projects instituted by a governmental agency or an investor-owned water utility which is approved by the authority and, if required, by the Energy and Environment Cabinet, Public Service Commission, or other agency; solid waste projects; dams; storm water control and treatment systems; gas or electric utility; broadband deployment project; or any other public utility or public service project which the authority finds would assist in carrying out the purposes set out in KRS 224A.300".

Loans are provided at or below market rates with repayments not to 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 was established to assist in making potable water available to all Kentuckians by the year 2020.

The General Assembly has periodically appropriated funds to be administered and disbursed by the Authority in the form of water and wastewater grants. Activities for these grants are accounted for in Fund B.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 in the form of loans with repayment terms not to exceed 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 ranked on the Priority List by the Kentucky Division of Water and must be financially feasible as determined by the Authority's staff. Loans are provided at below-market interest rates with repayments not to exceed thirty years. Loans funds are available on short terms for planning and design activities. The state's share of construction (state match funds) is funded with state appropriation-supported bonds for which the Commonwealth appropriates an amount equal to the related debt service.

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, 2017 AND 2016

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.”

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Assistance Agreements Receivable and Allowance for Loan Losses

Assistance Agreements receivable are stated at their outstanding principal balances net of allowances for loan losses. The Allowance for Loan Losses is evaluated not less than annually and is established through a Provision for Loan Losses and is charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible and is based on individual assessments of their collectability. The Authority has never incurred a loss of principal on a loan. Therefore, prior loan loss experience is not considered in the evaluation. Management believes the allowance for loan losses is adequate. While management uses available information and considers potential remedies to recognize the amount of losses on loans, these evaluations are subjective and future adjustments to the allowance may be necessary if the results of mitigation efforts differ substantially from the original loss estimates.

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.

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 as operating revenue. The Authority includes the interest paid on bonds issued to fund such loans as operating expense as well. For the statement of cash flows, the Authority includes interest income received on loans as an operating receipt.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pension expense, information about the fiduciary net position of Kentucky Employees' Retirement Systems (KERS) and addition to/deduction from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Reclassification

Certain reclassification have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. Specifically certain purchases and sales of investments were previously netted on the statement of cash flows and now have been reported at gross to properly reflect total investment activity for the year. This reclassification of activity has no impact on the amount of investments reported at year end or any other asset and liability accounts and has no impact on the change in net position previously reported for 2016.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2017 and 2016, cash and cash equivalents consist of the following:

	2017	2016
First American Government Obligation Fund	\$ 1,164,000	\$ 1,202,000
State cash and investment pool	603,000	933,000
 Total cash and cash equivalents	 \$ 1,767,000	 \$ 2,135,000

The following schedule presents the carrying amounts of investments by maturity at June 30, 2017:

Investment	Fair Value	Maturity	Rate	Credit Rating
Federal Home Loan Bank Discount Notes	\$ 59,387,000	07/17/17	0.00%	AAA
Federal Home Loan Bank Discount Notes	68,543,000	07/14/17	0.00%	AAA
Federal Home Loan Bank Discount Notes	39,957,000	08/14/17	0.00%	AAA
Federal Home Loan Bank Discount Notes	32,710,000	09/13/17	0.00%	AAA
Federal Home Loan Bank Discount Notes	13,593,000	08/15/17	0.00%	AAA
Federal Home Loan Bank Discount Notes	1,863,000	07/27/17	0.00%	AAA
Federal Home Loan Mortgage Corporation Discount Notes	25,062,000	10/16/17	0.00%	AAA
Federal Home Loan Mortgage Corporation Discount Notes	24,900,000	11/15/17	0.00%	AAA
U S Treasury Bill	41,483,000	12/14/17	1.62%	N/A
U S Treasury Notes	611,000	08/01/22	5.12%	N/A
	308,109,000			
Investment in state pool	5,665,000			
Total	313,774,000			
Less: current portion	306,829,000			
Long-term investments	\$ 6,945,000			

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following schedule presents the carrying amounts of investments by maturity at June 30, 2016:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rate</u>	<u>Credit Rating</u>
Federal Home Loan Bank Discount Notes	\$ 10,985,000	07/13/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	57,749,000	07/15/16	0.38%	AAA
Federal Home Loan Bank Discount Notes	6,286,000	08/12/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	34,300,000	08/15/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	127,241,000	09/14/16	0.00%	AAA
Federal Home Loan Bank Discount Notes	2,992,000	09/15/16	0.00%	AAA
U S Treasury Bill	126,254,000	08/11/16	0.19%	N/A
U S Treasury Notes	2,481,000	08/01/22	5.12%	N/A
	<u>368,288,000</u>			
Investment in state pool	<u>7,148,000</u>			
Total	<u>375,436,000</u>			
Less: current portion	<u>365,807,000</u>			
Long-term investments	<u>\$ 9,629,000</u>			

At June 30, 2017 and 2016, 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 AA+.

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, 2017 and 2016, 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

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Concentration of Credit Risk: The Authority places no limit on the amount it 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 (Finance and Administration Cabinet) to determine suitable investments.

At June 30, 2017 and 2016, the Authority maintained \$6,268,000 and \$8,081,000, of cash and investments with the State Investment Pool of the State Investment Commission of the Commonwealth of Kentucky. The State Investment Commission (the Commission) is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commission delegates the day to day management of the Commonwealth's investments to the Office of Financial Management (OFM). The purpose of the investment pools is to provide: economies of scale that enhance yield, ease of administration for both the user agencies and OFM, and increase accountability and control. All investments shall be permitted investments as defined in KRS 42.500 and as further limited by 200 Kentucky Administrative Regulation (KAR) Chapter 14. Funds 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, 2017, 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, 2017 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	\$ 96,000	\$ 11,501,000	\$ 11,597,000
Revolving Fund	606,000	114,686,000	115,292,000
Debt Service Reserve Fund	3,000	1,863,000	1,866,000
Revenue Fund	4,000	3,016,000	3,020,000
Surplus Fund	455,000	177,043,000	177,498,000
Funds in state pool	603,000	5,665,000	6,268,000
	<u>\$ 1,767,000</u>	<u>\$ 313,774,000</u>	<u>\$ 315,541,000</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2016 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	\$ 42,000	\$ 10,479,000	\$ 10,521,000
Revolving Fund	1,072,000	204,972,000	206,044,000
Debt Service Reserve Fund	-0-	2,481,000	2,481,000
Revenue Fund	1,000	3,038,000	3,039,000
Surplus Fund	87,000	147,318,000	147,405,000
Funds in state pool	933,000	7,148,000	8,081,000
	<u>\$ 2,135,000</u>	<u>\$ 375,436,000</u>	<u>\$ 377,571,000</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 for which there would otherwise be a default in payment.
- 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.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following reimbursements for expenditures incurred prior to June 30, 2017 and 2016:

	2017	2016
State Property and Building Commission bond issue - funding of the state match for the KIA Fund F Federally Assisted Drinking Water Program (*)	\$ 2,297,000	\$ 1,701,000
Due from the Commonwealth's General Fund for debt service and general and administrative costs	600,000	679,000
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	92,000	58,000
State Property and Building Commission bond issue - funding of water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	-0-	36,000
State Property and Building Commission bond issue - funding of water and sewer projects from the Non-Coal Projects per 2008 House Bill 406 / 408	76,000	55,000
HB 303 Reallocated Projects	24,000	-0-
Total receivable from the Commonwealth	\$ 3,089,000	\$ 2,529,000

* The State Treasury periodically authorizes disbursement of funds by the Authority representing the state match for awarded EPA capitalization grants. The disbursements are recorded as a current liability, "State Treasury Advances for Capitalization Grant Matching Funds", until the State Property and Building Commission issues bonds as the final funding source for the state match. Income as well as a receivable from the State Property and Building Commission are recorded by the Authority at the same time of the original disbursement.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 meet the principal and interest requirements of the Authority's revenue bonds or fund additional projects. For the years ended June 30, 2017 and 2016, assistance agreement receivables, net of allowance for loan losses, was as follows:

	2017	2016
Fund A - Clean Water State Revolving Fund Loan Program	\$ 740,086,000	\$ 688,334,000
Fund B - Infrastructure Revolving Loan Program	59,867,000	60,339,000
Fund C - Governmental Agencies Program	24,818,000	24,654,000
Fund F - Drinking Water State Revolving Fund Loan Program	228,479,000	204,683,000
Sub total	1,053,250,000	978,010,000
Allowance for loan loss	(2,000,000)	-
Net assistance agreement receivable	1,051,250,000	978,010,000
Current maturities	(59,485,000)	(57,241,000)
Unamortized discounts	(317,000)	(377,000)
Long-term receivables	\$ 991,448,000	\$ 920,392,000

During the year ended June 30, 2017, the Authority recorded a Provision for Loan Losses of \$2,000,000. The Authority believes the situation is isolated and is neither due to the geographic area of the borrower or to macro economic conditions within the borrower's service area. The provision is not associated with pledged loans related to the Authority's leverage bonds. The Authority is continuing to work with the borrower and other affected parties to develop a repayment solution and to ensure continued utility operations in the areas affected. If a resolution is not reached, the Authority will pursue remedies of default which include the declaration of all balances being due and payable, appointment of a receiver, and all remedies as permitted by KRS 224A.070.

In addition to the net assistance agreements receivable, the Authority has commitments remaining to disburse funds as summarized below:

	2017	2016
Fund A - Clean Water State Revolving Fund Loan Program	\$ 258,897,000	\$ 294,639,000
Fund B - Infrastructure Revolving Loan Program	15,359,000	9,673,000
Fund C - Governmental Agencies Program	9,976,000	5,095,000
Fund F - Drinking Water State Revolving Fund Loan Program	69,260,000	93,139,000
Total commitments outstanding	\$ 353,492,000	\$ 402,546,000

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

7. LONG-TERM DEBT, REVENUE BONDS PAYABLE

Long-term debt consists of the following at June 30, 2017:

	Balance	Current	Long-term
Fund A, Wastewater Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	\$ 184,285,000	\$ 15,325,000	\$ 168,960,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 2.00% to 5.29%, due semi-annually, principal due annually to August 1, 2022	8,140,000	2,035,000	6,105,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	36,560,000	2,700,000	33,860,000
	228,985,000	20,060,000	208,925,000
Bond principal payable	34,691,000	3,550,000	31,141,000
Unamortized premium	\$ 263,676,000	\$ 23,610,000	\$ 240,066,000
Total	\$ 263,676,000	\$ 23,610,000	\$ 240,066,000

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Long-term debt consists of the following at June 30, 2016:

	Balance	Current	Long-term
Fund A, Wastewater Revolving Fund Revenue and Revenue Refunding Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	\$ 200,045,000	\$ 15,760,000	\$ 184,285,000
Fund C, Governmental Agencies Program Revenue and Revenue Refunding Bonds, interest 4.00% to 5.29%, due semi-annually, principal due annually to August 1, 2022	10,000,000	1,860,000	8,140,000
Fund F, Drinking Water Revolving Fund Revenue Bonds, interest 2.00% to 5.25%, due semi-annually, principal due annually to February 1, 2032	39,130,000	2,570,000	36,560,000
	249,175,000	20,190,000	228,985,000
Bond principal payable	38,242,000	3,550,000	34,692,000
Unamortized premium	\$ 287,417,000	\$ 23,740,000	\$ 263,677,000
Total			

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
2018	\$ 20,060,000	\$ 10,586,000	\$ 30,646,000
2019	19,715,000	9,705,000	29,420,000
2020	19,095,000	8,792,000	27,887,000
2021	18,980,000	8,012,000	26,992,000
2022	18,275,000	7,145,000	25,420,000
2023-2027	84,645,000	23,313,000	107,958,000
2028-2032	48,215,000	4,996,000	53,211,000
	\$ 228,985,000	\$ 72,549,000	\$ 301,534,000

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2017:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Bond principal payable	\$ 249,175,000	\$ -0-	\$ 20,190,000	\$ 228,985,000
Unamortized premiums	38,242,000	-0-	3,551,000	34,691,000
Total	\$ 287,417,000	\$ -0-	\$ 23,741,000	\$ 263,676,000

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2016:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Bond principal payable	\$ 277,775,000	\$ 49,070,000	\$ 77,670,000	\$ 249,175,000
Unamortized premiums	35,880,000	11,091,000	8,729,000	38,242,000
Total	\$ 313,655,000	\$ 60,161,000	\$ 86,399,000	\$ 287,417,000

In March 2016, the Authority issued Wastewater and Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2016A, in the aggregate principal of \$49,070,000. The Authority issued the bonds to advance refund \$27,750,000 and \$23,150,000 of the outstanding Series 2010A and 2012A bonds, respectively, all of which have a 5% interest rate.

To accomplish this refunding, the Authority purchased, at par, certain direct obligations of the United States of America which bear interest and mature in such a manner as to pay the debt service of the defeased bonds. These direct obligations of the United States of America were deposited with the Trustee in a refunding escrow account and pledged to pay debt service and interest when due, through the February 1, 2020 and February 1, 2022 redemption dates on the 2010A and 2012A bonds to be refunded, respectively. Upon deposit of the direct obligations with the Trustee, the bonds to be refunded were considered defeased and the Authority removed the liabilities from its accounts.

After payment of the new debt issuance costs, the proceeds from the new debt allocated for the refunding totaled \$59,779,000. The debt service requirement to service the new debt issued for the refunding is calculated as follows for June 30, 2016:

Proceeds from new debt deposited with Trustee	\$ 59,779,000
Debt issuance costs	382,000
Premium on new bonds	(11,091,000)
New debt	\$ 49,070,000

The cash flow required to service the refunded 2010A and 2012A bonds and the 2016A refunding bonds to maturity is \$75,103,000 and \$71,064,000, respectively, which results in a difference of \$4,039,000.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The economic gain from this refunding transaction is calculated as the difference between the present value of the aggregate debt service requirements of the refunded 2010 Series A and the 2012 Series A, and the present value of the 2016 Series A debt service requirements, discounted at the effective rate of the 2016 Series A Bonds. The economic gain on the advance refunding is \$3,619,000.

As of June 30, 2017 and 2016, \$116,595,000 of defeased bonds were outstanding.

8. GRANT COMMITMENTS – FUND B

The Authority has committed to disburse grant funds from Fund B as follows:

	2017	2016
Funded by Fund B agency funds:		
2020 Account	\$ 2,000	\$ 2,000
Funded by bond funds:		
2005 HB 267 Coal IEDF	-0-	64,000
2005 HB 267 Tobacco IEDF	100,000	285,000
2006 HB 380 Coal	177,000	204,000
2006 HB 380 Non Coal	599,000	3,831,000
2008 HB 406 / 608 Coal	1,753,000	3,833,000
2008 HB 406 / 608 Non Coal	3,102,000	6,843,000
2016 HB 303 Reallocated Coal	960,000	-0-
2016 HB 303 Reallocated Non-Coal	4,518,000	-0-
Total funded by bond funds	11,209,000	15,060,000
2008 HB410; 2010 HB1; 2012 HB365; 2014 HB235; HB 303 (reallocated) Coal Severance	5,877,000	7,823,000
Total grant commitments	\$ 17,088,000	\$ 22,885,000

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 is 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, 2017 AND 2016

9. INTERGOVERNMENTAL REVENUE

Intergovernmental revenue from the Commonwealth during the fiscal years ended June 30, 2017 and 2016:

	2017	2016
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	\$ 3,401,000	\$ 3,515,000
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	2,588,000	2,919,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Counties per 2005 House Bill 267	26,000	101,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Tobacco Counties per 2005 House Bill 267	-0-	77,000
State Property and Building Commission bond issue - funding of the Infrastructure for Economic Development Fund for Coal Producing Counties per 2006 House Bill 380	-0-	123,000
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	1,518,000	2,645,000
State Property and Building Commission bond issue - funding of the water and sewer projects from the Coal Projects per 2008 House Bill 406 / 408	1,624,000	1,542,000
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	1,472,000	2,042,000
Coal Severance Tax Receipts – funding of the water and sewer projects from the Coal Severance per 2012 House Bill 265	148,000	446,000
Total intergovernmental revenue from the Commonwealth	\$ 10,777,000	\$ 13,410,000

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

10. STATE APPROPRIATIONS

Appropriations from the Commonwealth during the years ended June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Appropriations for debt service	\$ -0-	\$ 6,399,000
Appropriations for general and administrative costs	1,200,000	1,277,000
Total state appropriations	<u>\$ 1,200,000</u>	<u>\$ 7,676,000</u>

11. 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>2017</u>	<u>2016</u>
Restricted by law	\$ 1,100,339,000	\$ 1,065,134,000
Restricted for debt service	669,000	2,481,000
Total restricted net position	<u>\$ 1,101,008,000</u>	<u>\$ 1,067,615,000</u>

12. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the years ended June 30, 2017 and 2016, totaled \$4,897,000 and \$5,028,000, for services provided by the Commonwealth Energy and Environment Cabinet's Division of Water related to federal grant compliance for the federal funds administered under Fund A and Fund F.

13. RELATED PARTY TRANSACTIONS

The Authority incurred expenses for office space, utilities, and certain administrative services received from the Commonwealth of Kentucky's Department for Local Government (DLG) in the amount of \$144,000 during 2017. During 2016, the Authority incurred expenses totaling \$31,000 for office space and utilities while no fee was assessed for administrative services provided by DLG. The Authority incurred expenses for information technology support received from the Commonwealth Office of Technology (COT) in the amount of \$40,000 and \$38,000 for the years ending June 30, 2017 and 2016, respectively.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

14. RETIREMENT PLANS

Substantially all employees who work more than one hundred hours per month participate in a defined benefit plan administered by Kentucky Employee Retirement System (KERS), a cost-sharing multi-employer public employee retirement system.

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or After 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal year immediately preceding retirement each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97% - If you do not have 13 months' credit for 1/1/1998 - 1/1/1999. 2.00% - If you have 13 months' credit for 1/1/1998 - 1/1/1999	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or After 1/1/2014
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Benefit and contribution rates are established by the state statute. Per KRS 61.565, contribution requirements of the active employees and the participating organization are established and may be amended by the KERS board. For the fiscal year ended June 30, 2017 and 2016, the Authority's employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The Authority was contractually required to contribute 40.24 percent of payroll for 2017 and 30.4 percent for 2016. This amount was actuarially determined to, when combined with employee contributions, be expected to finance the cost of benefits earned during the year, with an additional amount to finance any unfunded accrued liability. The Authority's total contributions to KERS nonhazardous pension plans for the year ended June 30, 2017 and 2016 were \$215,839 and \$241,061, respectively.

At June 30, 2017 and 2016, the Authority reported a liability of \$5,512,000 and \$5,180,000 respectively for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016 for fiscal year 2017 and June 30, 2015 for fiscal year 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 for both years. The Authority's proportion of the net pension liability was based on contributions to the pension plan relative to the total contributions of all participating entities for the year ended June 30, 2016. At June 30, 2017 and 2016, the Authority's proportion was 0.048350 percent and 0.051624 percent, respectively.

Actuarial Assumptions	2017	2016
Actuarial Valuation Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level percent closed	Level percent closed
Remaining amortization period	27 years	28 years
Asset valuation method	Five-year smoothed market	Five-year smoothed market
Actuarial assumptions:		
Investment rate of return	6.75%	7.50%
Inflation Rate	3.25%	3.25%
Projected salary increases	4.00%	4.00%
Mortality Tables:		
Active member	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)
Health retired members	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)
Disabled members	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males)	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males)

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

For the year ended June 30, 2017, the Authority recognized pension expenses of \$689,990 and deferred outflows related to pension from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Difference between expected and actual experience	\$ 5,757	\$ -0-
Net difference between projected and actual earnings	84,623	-0-
Change of assumption	417,481	-0-
Changes in proportion and difference between employer	162,698	219,960
Contributions subsequent to the measurement date	<u>215,839</u>	<u>-0-</u>
Total	<u>\$ 886,398</u>	<u>\$ 219,960</u>

The \$215,839 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be Recognized in Fiscal Years Following the Reporting Date

<u>Fiscal Years</u>		
2018	\$	267,212
2019		143,106
2020		26,164
2021		<u>14,117</u>
Total	<u>\$</u>	<u>450,599</u>

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

For the year ended June 30, 2016, the Authority recognized pension expenses of \$598,000 and deferred outflows related to pension from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 11,064	\$ -0-
Net difference between projected and actual earnings on investments	14,750	-0-
Change of assumption	248,245	-0-
Changes in proportion and difference between employer contributions and proportionate share of contributions	292,856	-0-
Contributions subsequent to the measurement date	241,061	-0-
Total	\$ 807,976	\$ -0-

The \$241,061 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be Recognized in Fiscal Years Following the Reporting Date

Fiscal Years			
2017	\$		246,718
2018			246,718
2019			62,665
2020			10,814
Total	\$		566,915

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed was for the period covering fiscal years 2008 through 2013 and is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The 2017 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11%	1.00%
Custom KRS Fixed Income	11%	3.33%
Core Real Estate	5%	4.25%
Diversified Hedge Funds	10%	4.00%
Private Equity	2%	8.00%
Diversified Inflation Strategies	8%	3.15%
Cash Equivalent	3%	-0.25%
	<u>100%</u>	

The 2016 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.3%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
	<u>100%</u>	

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2016 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used. Projected future benefit payments for all current plan members were projected through 2117.

The following presents the net pension liability of the Authority at June 30, 2017, calculated using the discount rate of 6.75%, as well as what the Authority's net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%):

	1% Decrease (5.75%)	Discount (6.75%)	1% Increase (7.75%)
The Authority's proportionate share	\$ 6,208,266	\$ 5,511,653	\$ 4,925,362

The following presents the net pension liability of the Authority at June 30, 2016, calculated using the discount rate of 7.50%, as well as what the Authority's net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%):

	1% Decrease (6.50%)	Discount (7.50%)	1% Increase (8.50%)
The Authority's proportionate share	\$ 5,833,550	\$ 5,178,863	\$ 4,625,023

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to 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. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority (KPEDCA) issues a publicly available financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

15. 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. 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.

June 30,	Statutorily Required Contribution Rate (As a Percentage of Covered Payroll)	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed
2017	8.35%	\$ 44,788	\$ 44,788	100%
2016	7.93%	\$ 61,985	\$ 61,985	100%
2015	7.93%	\$ 65,697	\$ 65,697	100%

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. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If an asset or liability has a specified (contractual) term, the level 2 inputs must be observable for substantially the full term of the asset or liability.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

- *U.S. Treasury and U.S. Agency Securities:* Valued using quoted prices in active markets for similar securities and interest rates.

The following table sets forth by level within hierarchy, the Authority's investment at fair value for June 30, 2017:

Assets at Fair Value as of June 30, 2017				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment in State Pool	\$ 27,000	\$ 5,638,000	\$ -0-	\$ 5,665,000
Federal Home Loan Bank Discount Notes	-0-	216,053,000	-0-	216,053,000
Federal Home Loan Mortgage Corporation Discount Notes	-0-	49,962,000	-0-	49,962,000
U.S Treasury Bill	-0-	41,483,000	-0-	41,483,000
U.S Treasury Notes	-0-	611,000	-0-	611,000
	\$ 27,000	\$ 313,747,000	\$ -0-	\$ 313,774,000

The following table sets forth by level within hierarchy, the Authority's investment at fair value for June 30, 2016:

Assets at Fair Value as of June 30, 2016				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment in State Pool	\$ 71,000	\$ 7,077,000	\$ -0-	\$ 7,148,000
Federal Home Loan Bank Discount Notes	-0-	239,553,000	-0-	239,553,000
U.S Treasury Bill	-0-	126,254,000	-0-	126,254,000
U.S Treasury Notes	-0-	2,481,000	-0-	2,481,000
	\$ 71,000	\$ 375,365,000	\$ -0-	\$ 375,436,000

The Authority's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2017 and 2016.

KENTUCKY INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. The Statement addresses accounting and financial reporting for Postemployment Benefits Other than pensions (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.

GASB Statement No. 85, *Omnibus 2017*, will be effective for periods beginning after June 15, 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB Statement No. 87, *Leases*, will be effective for periods beginning after December 15, 2019. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.0484%	0.0516%	0.0497%
Proportionate share of the net pension liability	\$ 5,511,653	\$ 5,178,848	\$ 4,214,000
Covered payroll	\$ 781,651	\$ 828,620	\$ 772,709
Proportionate share of the net pension liability as a percentage of its covered payroll	705.13%	625.00%	545.35%
Pension plan fiduciary net position as a percentage of the total pension liability	14.80%	18.83%	22.32%

*Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented.

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF CONTRIBUTIONS JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 215,839	\$ 241,061	\$ 255,559
Contribution in relation to the statutorily required	<u>\$ 215,839</u>	<u>\$ 241,061</u>	<u>\$ 255,559</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered payroll	\$ 536,379	\$ 781,651	\$ 828,620
Contribution as a percentage of covered payroll	40.24%	30.84%	30.84%

*Note: This schedule is intended to present 10 years of the contributions and related ratios. Currently, only those years with information available are presented.

SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF NET POSITION JUNE 30, 2017

	Fund A	Fund B	Fund C	Fund F	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 655,000	\$ 808,000	\$ 126,000	\$ 178,000	\$ 1,767,000
Investments, current portion	207,037,000	23,434,000	22,326,000	54,032,000	306,829,000
Intergovernmental receivables	-	792,000	-	2,297,000	3,089,000
Accrued interest receivable, investments	6,000	-	13,000	2,000	21,000
Accrued interest receivable, assistance agreements	962,000	85,000	61,000	260,000	1,368,000
Current maturities of long-term receivables	40,640,000	4,272,000	3,017,000	11,556,000	59,485,000
Total current assets	249,300,000	29,391,000	25,543,000	68,325,000	372,559,000
Investments	5,665,000	-	611,000	-	6,276,000
Investments, restricted for debt service	-	-	669,000	-	669,000
Total noncurrent investments	5,665,000	-	1,280,000	-	6,945,000
Long-term receivables:					
Assistance agreements receivable:					
Principal	699,446,000	55,595,000	21,801,000	216,923,000	993,765,000
Less:					
Allowance for losses on assistance agreements	-	(2,000,000)	-	-	(2,000,000)
Unamortized Discount	-	-	(317,000)	-	(317,000)
Total long-term receivables	699,446,000	53,595,000	21,484,000	216,923,000	991,448,000
Capital assets, net	-	15,000	-	-	15,000
Total assets	954,411,000	83,001,000	48,307,000	285,248,000	1,370,967,000
Deferred outflow of resources:					
Penison related	417,000	35,000	53,000	381,000	886,000
Unamortized deferred amount on refunding	5,538,000	-	-	1,149,000	6,687,000
Total assets and deferrals	960,366,000	83,036,000	48,360,000	286,778,000	1,378,540,000
LIABILITIES					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized discounts and premiums	18,151,000	-	2,710,000	2,749,000	23,610,000
Accrued interest payable	3,564,000	-	130,000	704,000	4,398,000
State treasury for capitalization grant matching funds	-	-	-	2,297,000	2,297,000
Grants payable	-	217,000	-	-	217,000
Other payables	8,000	604,000	1,000	-	613,000
Total current liabilities	21,723,000	821,000	2,841,000	5,750,000	31,135,000
Long-term debt:					
Revenue bonds payable, net of current maturities and unamortized discounts and premiums	195,100,000	-	5,629,000	39,337,000	240,066,000
Net pension liability	2,612,000	231,000	313,000	2,356,000	5,512,000
Other payables	-	-	435,000	-	435,000
Total liabilities	219,435,000	1,052,000	9,218,000	47,443,000	277,148,000
Deferred inflow of resources:					
Pension contributions subsequent to the measurement date	103,000	9,000	13,000	95,000	220,000
Unamortized deferred amount on refunding	-	-	164,000	-	164,000
Total liabilities and deferrals	219,538,000	1,061,000	9,395,000	47,538,000	277,532,000
NET POSITION					
Restricted net position	\$ 740,828,000	\$ 81,975,000	\$ 38,965,000	\$ 239,240,000	\$ 1,101,008,000

See report of independent auditors.

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF NET POSITION JUNE 30, 2016

	Fund A	Fund B	Fund C	Fund F	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 782,000	\$ 1,031,000	\$ 14,000	\$ 308,000	\$ 2,135,000
Investments, current portion	260,184,000	16,449,000	22,405,000	66,769,000	365,807,000
Intergovernmental receivables	0-	828,000	0-	1,701,000	2,529,000
Accrued interest receivable, investments	0-	0-	53,000	0-	53,000
Accrued interest receivable, assistance agreements	872,000	135,000	106,000	271,000	1,384,000
Current maturities of long-term receivables	<u>39,458,000</u>	<u>3,995,000</u>	<u>2,744,000</u>	<u>11,044,000</u>	<u>57,241,000</u>
Total current assets	<u>301,296,000</u>	<u>22,438,000</u>	<u>25,322,000</u>	<u>80,093,000</u>	<u>429,149,000</u>
Investments	7,000	7,138,000	3,000	0-	7,148,000
Investments, restricted for debt service	0-	0-	2,481,000	0-	2,481,000
Total noncurrent investments	<u>7,000</u>	<u>7,138,000</u>	<u>2,484,000</u>	<u>0-</u>	<u>9,629,000</u>
Long-term receivables:					
Assistance agreements receivable:					
Principal	648,876,000	56,344,000	21,910,000	193,639,000	920,769,000
Less:					
Allowance for losses on assistance agreements	0-	0-	0-	0-	0-
Unamortized discounts	0-	0-	(377,000)	0-	(377,000)
Total long-term receivables	<u>648,876,000</u>	<u>56,344,000</u>	<u>21,533,000</u>	<u>193,639,000</u>	<u>920,392,000</u>
Capital assets, net	<u>0-</u>	<u>23,000</u>	<u>0-</u>	<u>0-</u>	<u>23,000</u>
Total assets	<u>950,179,000</u>	<u>85,943,000</u>	<u>49,339,000</u>	<u>273,732,000</u>	<u>1,359,193,000</u>
Deferred outflow of resources:					
Pension related	381,000	33,000	47,000	347,000	808,000
Unamortized deferred amount on refunding	<u>6,139,000</u>	<u>0-</u>	<u>0-</u>	<u>1,271,000</u>	<u>7,410,000</u>
Total assets and deferrals	<u>956,699,000</u>	<u>85,976,000</u>	<u>49,386,000</u>	<u>275,350,000</u>	<u>1,367,411,000</u>
LIABILITIES					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized discounts and premiums	18,701,000	0-	1,886,000	3,153,000	23,740,000
Accrued interest payable	3,453,000	0-	158,000	670,000	4,281,000
State treasury for capitalization grant matching fund	0-	0-	0-	1,701,000	1,701,000
Grants payable	0-	289,000	0-	0-	289,000
Other payables	<u>0-</u>	<u>679,000</u>	<u>52,000</u>	<u>0-</u>	<u>731,000</u>
Total current liabilities	<u>22,154,000</u>	<u>968,000</u>	<u>2,096,000</u>	<u>5,524,000</u>	<u>30,742,000</u>
Long-term debt:					
Revenue bonds payable, net of current maturities and unamortized discounts and premiums	213,136,000	0-	8,363,000	42,178,000	263,677,000
Net pension liability	<u>2,456,000</u>	<u>218,000</u>	<u>293,000</u>	<u>2,213,000</u>	<u>5,180,000</u>
Total liabilities	<u>237,746,000</u>	<u>1,186,000</u>	<u>10,752,000</u>	<u>49,915,000</u>	<u>299,599,000</u>
Deferred inflow of resources:					
Unamortized deferred amount on refunding	<u>0-</u>	<u>0-</u>	<u>197,000</u>	<u>0-</u>	<u>197,000</u>
Total liabilities and deferrals	<u>237,746,000</u>	<u>1,186,000</u>	<u>10,949,000</u>	<u>49,915,000</u>	<u>299,796,000</u>
NET POSITION					
Restricted net position	<u>\$ 718,953,000</u>	<u>\$ 84,790,000</u>	<u>\$ 38,437,000</u>	<u>\$ 225,435,000</u>	<u>\$ 1,067,615,000</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, 2017

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	\$ 1,384,000	\$ 115,000	\$ 52,000	\$ 530,000	\$ 2,081,000
Interest income	10,953,000	850,000	832,000	3,547,000	16,182,000
Amortization of premium	-0-	-0-	59,000	-0-	59,000
Amortization of bond premiums	2,825,000	-0-	51,000	675,000	3,551,000
Total operating revenues	15,162,000	965,000	994,000	4,752,000	21,873,000
Operating expenses:					
General and administrative	828,000	1,416,000	314,000	709,000	3,267,000
Intergovernmental administrative expense reimbursement	515,000	-0-	-0-	4,382,000	4,897,000
State grant expenditures	-0-	6,414,000	-0-	-0-	6,414,000
Interest - revenue bonds payable	9,489,000	-0-	285,000	1,864,000	11,638,000
Arbitrage expense	-0-	-0-	382,000	-0-	382,000
Total operating expenses	10,832,000	7,830,000	981,000	6,955,000	26,598,000
Operating income (loss)	4,330,000	(6,865,000)	13,000	(2,203,000)	(4,725,000)
Non-operating revenues (expenses):					
Investment Income	1,105,000	82,000	515,000	249,000	1,951,000
Federal grants	14,873,000	-0-	-0-	19,185,000	34,058,000
Provision for losses on assistance agreements	-0-	(2,000,000)	-0-	-0-	(2,000,000)
Principal forgiveness on assistance agreements	(1,834,000)	(20,000)	-0-	(6,014,000)	(7,868,000)
Intergovernmental revenue from the Commonwealth	3,401,000	4,788,000	-0-	2,588,000	10,777,000
State appropriations	-0-	1,200,000	-0-	-0-	1,200,000
Total non-operating revenues (expenses)	17,545,000	4,050,000	515,000	16,008,000	38,118,000
Change in net position	21,875,000	(2,815,000)	528,000	13,805,000	33,393,000
Net position, beginning of year	718,953,000	84,790,000	38,437,000	225,435,000	1,067,615,000
Net position, end of year	\$ 740,828,000	\$ 81,975,000	\$ 38,965,000	\$ 239,240,000	\$ 1,101,008,000

See report of independent auditors.

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	\$ 1,228,000	\$ 116,000	\$ 44,000	\$ 466,000	\$ 1,854,000
Interest Income	10,602,000	907,000	870,000	3,194,000	15,573,000
Amortization of premium	-0-	-0-	61,000	-0-	61,000
Grant administration fee	-0-	14,000	-0-	-0-	14,000
Amortization of bond premiums	2,189,000	-0-	49,000	516,000	2,754,000
Total operating revenues	14,019,000	1,037,000	1,024,000	4,176,000	20,256,000
Operating expenses:					
General and administrative	989,000	1,294,000	72,000	916,000	3,271,000
Intergovernmental administrative expense reimbursement	1,005,000	-0-	-0-	4,023,000	5,028,000
State grant expenditures	-0-	10,420,000	-0-	-0-	10,420,000
Revenue bonds payable:					
Interest - revenue bonds payable	10,648,000	-0-	346,000	2,096,000	13,090,000
Arbitrage expense	-0-	-0-	7,000	-0-	7,000
Total operating expenses	12,642,000	11,714,000	425,000	7,035,000	31,816,000
Operating income (loss)	1,377,000	(10,677,000)	599,000	(2,859,000)	(11,560,000)
Non-operating revenues (expenses):					
Investment Income	669,000	37,000	172,000	180,000	1,058,000
Bond Issuance Cost	(322,000)	-0-	-0-	(64,000)	(386,000)
Federal grants	19,314,000	-0-	-0-	9,644,000	28,958,000
Principal forgiveness on assistance agreements	(1,738,000)	(23,000)	-0-	(3,601,000)	(5,362,000)
Intergovernmental revenue from the Commonwealth	3,515,000	6,915,000	-0-	2,980,000	13,410,000
State appropriations	3,543,000	1,277,000	-0-	2,856,000	7,676,000
Total non-operating revenues (expenses)	24,981,000	8,206,000	172,000	11,995,000	45,354,000
Change in net position	26,358,000	(2,471,000)	771,000	9,136,000	33,794,000
Net position, beginning of year	692,595,000	87,261,000	37,666,000	216,299,000	1,033,821,000
Net position, end of year	\$ 718,953,000	\$ 84,790,000	\$ 38,437,000	\$ 225,435,000	\$ 1,067,615,000

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