Financial Statements and Supplementary Information

for

KENTUCKY INFRASTRUCTURE AUTHORITY

June 30, 2019

KENTUCKY INFRASTRUCTURE AUTHORITY

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JUNE 30, 2019

DEANDORTON

Report of Independent Auditors

Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2019, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Kentucky Infrastructure Authority as of June 30, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 8, the Schedule of Proportionate Share of Net Pension Liability on page 35, the Schedule of Pension Contributions on page 36, the Schedule of Proportionate Share of Net OPEB Liability on page 37 and the Schedule of OPEB Contributions on page 38 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.

Other 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 accompanying Supplementary Schedule of Expenditures of Federal Awards on pages 39 - 41, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Combining Statement of Net Position on page 42 and Combining Statement of Revenues, Expenses and Changes in Net Position on page 43 (the Supplementary Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
October 3, 2019

As management of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky (the Commonwealth), 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, 2019. 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 2019, the Authority reported an ending net position of $1,188,035,108, an increase of $50,485,953 (4.4%) compared to the prior year.
- The Authority's total liabilities at June 30, 2019 decreased $17,878,891 (6.4%) compared to the prior year.
- During the year ended June 30, 2019 the Authority disbursed $100,496,922 to borrowers for eligible expenditures under loan assistance agreements and $2,369,034 to local governmental entities for state grants.
- During the year ended June 30, 2019, principal and interest in the amount of $86,975,373 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 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 fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information
Statements of Net Position
As of June 30

	2019	Increase (Decrease)	2018
Assets:			
Current assets	$ 381,559,425	3.9%	$ 367,386,946
Long-term investments	430,500	-58.7%	1,043,055
Long-term receivables	1,060,682,397	1.9%	1,041,396,479
Capital assets, net	16,250	90.5%	8,530
Total assets	$ 1,442,688,572	2.3%	$ 1,409,835,010
Deferred outflows of resources	$ 6,226,865	-11.7%	$ 7,054,968
Liabilities:			
Current liabilities	$ 36,729,827	30.7%	$ 28,113,006
Long-term liabilities	223,463,246	-10.6%	249,958,958
Total liabilities	$ 260,193,073	-6.4%	$ 278,071,964
Deferred inflows of resources	$ 687,256	-45.8%	$ 1,268,859
Net position:			
Net investment in capital assets	$ 16,250	90.5%	$ 8,530
Restricted net position	1,188,018,858	4.4%	1,137,540,625
Total net position	$ 1,188,035,108	4.44%	$ 1,137,549,155

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

During 2019, the Authority's total cash, cash equivalents and investments increased $597,751 (0.2%).

At June 30, 2019, investments consist of a current portion of $299,379,591 and a non-current portion of $430,500. The current portion is composed of U.S. Government Agency debt securities with maturities longer than three months when purchased, but also having maturities prior to June 30, 2020. The non-current portion is composed 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 six months or less when purchased (cash equivalents) in order to maintain sufficient liquidity.

During fiscal year 2019, payments to borrowers for eligible expenditures under assistance agreements were $100,496,922, which exceeded principal repayments of assistance agreements receivable of $69,764,622 and forgiveness of loan principal of $6,020,610 contributing to the $24,773,305 (2.2%) 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 and OPEB liabilities.

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

	2019	Increase (Decrease)	2018
Operating revenues	$ 19,502,084	1.4%	$ 19,241,581
Operating expenses	16,343,478	-23.2%	21,285,325
Operating income / (loss)	3,158,606	-254.5%	(2,043,744)
Non-operating revenues (expenses):			
Investment Income	6,484,812	84.2%	3,521,472
Federal grants and reimbursements	35,857,642	20.9%	29,669,934
Loan subsidy required by federal capitalization grants	(6,020,610)	29.1%	(4,662,136)
Intergovernmental revenue from the Commonwealth	9,866,151	2.7%	9,609,701
State appropriations	1,139,352	-0.2%	1,141,979
Change in net position	$ 50,485,953	35.6%	$ 37,237,206

Operating revenues consist of interest and service fee revenue from assistance agreements receivable. Interest on assistance agreements receivable and related service fees increased $260,503 (1.4%) from fiscal year 2018 due to the increase in assistance agreements receivable.

Operating expenses primarily consist of general and administrative costs, state grant disbursements and interest expense and amortization related to revenue bonds payable. Grants are primarily disbursed to local taxing districts of the Commonwealth as appropriated by the General Assembly. Grant expenditures decreased $3,594,591 (62.8%) from 2018 due to continued budgetary constraints of the Commonwealth. Interest expense on revenue bonds increased $236,622 (2.2%). General and administrative costs decreased $153,761 (6.4%). The net reduction in pension and OPEB expense was partially offset by a decline in staff turnover compared to the prior year.

Non-operating revenues and expenses consist of income from investments, net changes in the fair market value of investments, debt issue costs, federal grant revenues and required principal forgiveness, provisions for losses on assistance agreements, intergovernmental revenues and state appropriations. Federal grant revenues totaled $35,857,642 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 2019, $6,020,610 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net position. The Authority did not record any additional provision for loan losses during the year. 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, 2019, the Authority had $210,720,000 in bond principal outstanding which is a decrease of 8.6% from last 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, 2019, 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. The Authority has 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.

Outstanding debt at June 30 consists of the following:

	2019	Increase (Decrease)	2018
Program revenue supported debt	$ 210,720,000	-8.6%	$ 230,435,000

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority administers grants under numerous House Bills. At June 30, 2019 approximately $9,012,000 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, 2019. For questions about this report or for additional financial information, contact Kentucky Infrastructure Authority, Fiscal Officer, 100 Airport Road, 3rd Floor, Frankfort, Kentucky 40601.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2019

ASSETS	
Current assets:	
Cash and cash equivalents	$ 3,836,353
Investments, current portion	299,379,591
Intergovernmental receivables	8,184,727
Accrued interest receivable, investments	41,810
Accrued interest receivable, assistance agreements	1,411,557
Current maturities of long-term receivables	68,705,387
Total current assets	381,559,425
Investments, restricted for debt service	430,500
Long-term receivables:	
Assistance agreements receivable	1,062,815,891
Allowance for losses on assistance agreements	(2,000,000)
Unamortized discounts	(133,494)
Total long-term receivables	1,060,682,397
Capital assets, net	16,250
Total assets	$1,442,688,572
Deferred outflows of resources:	
Pension related	$ 801,372
Post-employment benefits other than pension	184,556
Unamortized deferred amount on refunding	5,240,937
Total deferred outflows of resources	$ 6,226,865
LIABILITIES	
Current liabilities:	
Current maturities of revenue bonds payable, net of unamortized premiums and discounts	$ 24,033,593
Accrued interest payable	4,063,603
State treasury advances for capitalization grant matching funds	8,034,584
Grants payable	156,143
Other payables	441,904
Total current liabilities	36,729,827
Long-term liabilities:	
Revenue bonds payable, less current maturities and unamortized premiums and discounts	217,915,365
Net pension liability	4,683,236
Net post-employment benefits other than pension liability	815,546
Other payables	49,099
Total liabilities	$ 260,193,073
Deferred inflows of resources:	
Pension related	$ 507,272
Post-employment benefits other than pension	80,516
Unamortized deferred amount on refunding	99,468
Total deferred inflows of resources	$ 687,256
NET POSITION	
Net investment in capital assets	$ 16,250
Restricted net position	1,188,018,858
Total net position	$1,188,035,108

See accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Operating revenues:	
Assistance agreements:	
Servicing fee	$ 2,313,725
Interest income	17,188,359
Total operating revenues	19,502,084
Operating expenses:	
General and administrative	2,245,931
Intergovernmental administrative expense reimbursement	6,651,808
State grant expenditures	2,133,250
Revenue bonds:	
Amortization of bond premiums	(5,809,858)
Interest	11,099,670
Arbitrage expense	22,677
Total operating expenses	16,343,478
Operating income	3,158,606
Non-operating gain / (loss):	
Investment income	6,484,812
Federal grants	35,857,642
Loan subsidy required by federal capitalization grants	(6,020,610)
Intergovernmental revenue from the Commonwealth	9,866,151
State appropriations	1,139,352
Total non-operating revenues	47,327,347
Change in net position	50,485,953
Net position, beginning of year	1,137,549,155
Net position, end of year	$ 1,188,035,108

See accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Administrative fees received	$ 2,313,725
Collections on assistance agreements	69,764,622
Advances on assistance agreements	(100,496,922)
Interest received on assistance agreements	17,210,751
Cash payments for grants	(2,369,034)
Cash payments for personnel expenses	(1,526,123)
Cash payments to suppliers for goods and services	(7,772,187)
Net cash used in operating activities	(22,875,168)
Cash flows from noncapital financing activities:	
Principal payments on long-term debt	(19,715,000)
Interest paid on long-term debt	(10,330,190)
Receipt of federal grants	35,857,642
State appropriations	1,139,352
Payments from the Commonwealth	9,866,151
Net cash provided by noncapital financing activities	16,817,955
Cash flows from noncapital financing activities:	
Purchase of capital assets	(17,258)
Cash flows from investing activities:	
Purchase of investment securities	(950,593,432)
Proceeds from sale and maturities of investment securities	949,418,112
Interest and other investment income received	6,708,747
Net cash provided by investing activities	5,533,427
Net change in cash and cash equivalents	(541,044)
Cash and cash equivalents, beginning of year	4,377,397
Cash and cash equivalents, end of year	$ 3,836,353

See accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

Operating Income	$	3,158,606
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization of bond premium		(5,748,245)
Amortization of assistance agreements discounts		(61,614)
Amortization of bond defeasance		690,576
Interest paid on long-term debt		10,330,190
Depreciation		9,538
Increase / (decrease) in cash due to changes in:		
Accrued interest receivable		22,392
Assistance agreements receivable		(30,670,689)
Accrued interest payable		78,904
Grants payable		(235,784)
Other payables		20,602
Deferred outflows of resources		105,127
Deferred inflows of resources		(549,203)
Net pension liability		38,638
Net OPEB liability		(64,206)
Net cash used in operating activities	$	(22,875,168)

See accompanying notes to the financial statements.

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 of Kentucky's (the Commonwealth) 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. KPAA was created 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 that established the KPAA was amended in 1974 to remove the prior requirement that federal grant participation be obtained by local units of government as a condition precedent to KPAA aid. The Act was further amended in 1978 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.

The Authority is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report. The Authority is attached to the Department for Local Government for administrative purposes (KRS 147A.003, KRS 224A.030).

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 the Commonwealth. 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 storm water 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 using the Kentucky Division of Water Priority System Guidance 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.

As part of this program, a 2020 water service fund 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 by the Authority in the form of water and wastewater grants. Activities for these grants are accounted for in Fund B.

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.

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 using the Kentucky Division of Water Priority System Guidance 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.

Cash and Cash Equivalents

The Authority reports all highly liquid investments with a maturity of three months or less when purchased as 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 statement 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.” The Authority does not have any unrestricted net assets as of June 30, 2019.

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 at least 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.

Deferred Gain or Loss on Early Retirement of Debt

Gain or loss on early retirement of debt utilizing external funds is reported as deferred outflows of resources or deferred inflows of resources and amortized on the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is shorter. The results of this method do not materially differ from those that would be obtained by applying the effective interest method. Gain or loss on early retirement of debt utilizing existing Authority funds is recognized in the period of the defeasance transaction.

Operating Revenues and Expenses

The Authority reports service fees and interest income received on loans as operating revenue. General and administrative expenses, the cost of services provided by the Commonwealth Energy and Environment Cabinet's Division of Water related to federal grant compliance and project administration, and net expenses on leverage bonds that are issued to fund the Authority's loans are reported as operating expense.

Pensions and Other Post-Employment Benefits (OPEB)

The Authority participates in the Kentucky Employees Retirement System (KERS) administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple employer defined benefit pension and OPEB plan, which covers all eligible full-time employees and provides for retirement, disability, health insurance and death benefits to plan members.

Cost-sharing governmental employers, such as the Authority, are required to report a net pension and OPEB liability, pension and OPEB expense and pension and OPEB related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. For purposes of measuring the net pension and OPEB, deferred outflows of resources, and deferred inflows of resources related to pension and OPEB expenses, information about the fiduciary net position of KERS and addition to/deduction from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. The KERS financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

All cash and investments of the Authority, except for cash deposited with the Commonwealth, 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.

As of June 30, 2019 cash and cash equivalents consist of the following:

First American Government Obligation Fund	$ 2,892,028
State cash and investment pool	944,325
Total cash and cash equivalents	$ 3,836,353

The following schedule presents the carrying amounts of investments by maturity at June 30, 2019:

Investment	Fair Value	Maturity	Rate	Credit Rating
Federal Home Loan Bank Discount Notes	$ 48,205,681	07/12/19	0.00%	N/A
Federal Home Loan Bank Discount Notes	2,660,710	07/15/19	0.00%	N/A
Federal Home Loan Bank Discount Notes	28,384,670	07/30/19	0.00%	N/A
Federal Home Loan Bank Discount Notes	59,555,576	09/16/19	0.00%	N/A
Federal Home Loan Bank Discount Notes	37,171,464	10/15/19	0.00%	N/A
U S Treasury Bill	8,423,641	09/12/19	0.00%	N/A
U S Treasury Bill	46,953,789	11/14/19	2.31%	N/A
U S Treasury Bill	56,384,847	12/12/19	2.30%	N/A
U S Treasury Notes	573,673	07/15/19	0.75%	AAA
U S Treasury Notes	475,105	08/15/19	0.75%	AAA
Federal Farm Credit Bank Discount Notes	7,002,886	08/12/19	0.00%	N/A
U S Treasury Notes State & Local Government Securities	430,500	08/01/22	5.12%	N/A
	296,222,542			
Investment in state pool	3,587,549			
Total	299,810,091			
Less current portion	(299,379,591)			
Long-term investments	$ 430,500			

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, 2019, the Authority’s investments are neither insured nor registered, but are held by the Authority's custodial agent in the Authority's name.

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

- obligations backed by the full faith and credit of the United States
- obligations of any corporation of the United States Government
- obligations of government sponsored entities

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

Concentration of Credit Risk: The Authority places no limit on the amount 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) (OFM) to determine suitable investments.

At June 30, 2019 the Authority maintained $4,531,874 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 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, 2019, 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 and cash equivalents, and investments at June 30, 2019 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	$ 1,039,604	$ 12,828,183	$ 13,867,787
Revolving Fund	860,282	68,691,857	69,552,139
Debt Service Reserve Fund	-	430,500	430,500
Revenue Fund	119,472	28,775,377	28,894,849
Arbitrage Rebate Fund	5,724	475,105	480,829
Surplus Fund	866,946	185,021,520	185,888,466
Funds in state pool	944,325	3,587,549	4,531,874
	$ 3,836,353	$ 299,810,091	$ 303,646,444

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 - designated 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. Arbitrage Rebate Fund - designated for reserves to rebate the United States Treasury for interest earned in excess of the maximum yield rate set for each bond issue.

F. Surplus Fund - designated reserve for advances to municipalities in anticipation of new bond issues, transfers to other funds to cover deficiencies, and other lawful purposes of the Authority.

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following reimbursements for expenditures incurred prior to June 30, 2019:

State Property and Building Commission bond issue - funding of the state match for the Fund A Federally Assisted Wastewater Program (*)	$ 4,373,984
State Property and Building Commission bond issue - funding of the state match for the Fund F Federally Assisted Drinking Water Program (*)	3,660,600
State Property and Building Commission bond issue - funding of water and sewer projects under various House Bills	150,143
Total receivable from the Commonwealth	$ 8,184,727

* 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 time of the original disbursement.

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. Assistance Agreements Receivable balances, net of allowance for loan losses, at June 30, 2019 were as follows:

Fund A - Clean Water State Revolving Fund Loan Program	$ 807,298,209
Fund B - Infrastructure Revolving Loan Program	66,702,269
Fund C - Governmental Agencies Program	34,832,691
Fund F - Drinking Water State Revolving Fund Loan Program	222,688,109
Sub total	1,131,521,278
Allowance for loan loss	(2,000,000)
Net assistance agreement receivable	1,129,521,278
Current maturities	(68,705,387)
Unamortized discounts	(133,494)
Long-term receivables	$ 1,060,682,397

No additional provision for the allowance for loan loss was recorded during the year ended June 30, 2019 and no loan balances were charged against the allowance for loan loss.

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

Fund A - Clean Water State Revolving Fund Loan Program	$ 182,056,000
Fund B - Infrastructure Revolving Loan Program	10,783,000
Fund C - Governmental Agencies Program	7,783,000
Fund F - Drinking Water State Revolving Fund Loan Program	74,596,000
Total commitments outstanding	$ 275,218,000

7. LONG-TERM DEBT, REVENUE BONDS PAYABLE

Long-term debt consists of the following at June 30, 2019:

Description	Balance	Current	Long-term
Series 2004A Revenue and Revenue Refunding Bonds, interest 4.25% to 4.625%, due semi-annually, principal due annually to August 1, 2022 (Fund C)	$ 1,625,000	$ 380,000	$ 1,245,000
Series 2010A Revenue and Revenue Refunding Bonds, interest 3.00% to 5.00%, due semi-annually, principal due annually to February 1, 2020 (Funds A and F)	11,420,000	11,420,000	-
Series 2012A Revenue and Revenue Refunding Bonds, interest 3.00% to 5.00%, due semi-annually, principal due annually to February 1, 2032 (Funds A and F)	22,415,000	6,250,000	16,165,000
Series 2015 Revenue Bonds, interest 2.25% to 4.00%, due semi-annually, principal due annually to August 1, 2021 (Fund C)	2,680,000	1,045,000	1,635,000
Series 2015A Revenue and Refunding Bonds, interest 4.00% to 5.00%, due semi-annually, principal due annually February 1, 2021 through February 1, 2026 (Funds A and F)	63,510,000	-	63,510,000
Series 2016A Revenue and Refunding Bonds, interest 2.00% to 5.00%, due semi-annually, principal due annually February 1, 2021 through February 1, 2028 (Funds A and F)	49,070,000	-	49,070,000
Series 2018A Revenue and Revenue Bonds, interest 3.00% to 5.00%, due semi-annually, principal due annually to February 1, 2031 (Funds A and F)	60,000,000	390,000	59,610,000
Bond principal payable	210,720,000	19,485,000	191,235,000
Unamortized bond premiums	31,228,958	4,548,593	26,680,365
Total	$ 241,948,958	$ 24,033,593	$ 217,915,365

The required annual payments for all debt for each of the years ended June 30 are as follows:

	Principal	Interest	Total
2020	$ 19,485,000	$ 9,930,475	$ 29,415,475
2021	19,405,000	9,138,613	28,543,613
2022	18,725,000	8,255,200	26,980,200
2023	20,430,000	7,426,388	27,856,388
2024	19,405,000	6,480,613	25,885,613
2025 - 2029	88,650,000	18,772,688	107,422,688
2030 - 2032	24,620,000	1,917,938	26,537,938
	$210,720,000	$ 61,921,913	$ 272,641,913

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2019:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Bond principal payable	$230,435,000	$ -	$ 19,715,000	$210,720,000
Unamortized bond premiums	36,977,203	-	5,748,245	31,228,958
Total	$267,412,203	$ -	$ 25,463,245	$241,948,958

Events of default include a failure to pay principal or interest when due and a failure to comply with any of the covenants, agreements or conditions contained in the general trust indentures or series trust indentures. There were no direct borrowings or placements during the year ended June 30, 2019.

As of June 30, 2019, $155,085,000 of defeased bonds were outstanding of which $104,090,000 will be redeemed in February 2020 and $50,995,000 will be redeemed in February 2022.

8. STATE GRANT COMMITMENTS

The Authority has outstanding commitments for state grant expenditures as follows:

2020 Program Funds	$ 2,000
Funded by bond funds:	
2005 House Bill (HB) 267	100,000
2006 HB380	278,000
2008 HB406 / 608	2,187,000
2016 HB303 Reallocated	3,659,000
Total funded by bond funds	6,224,000
2008 HB410; 2010 HB1; 2012 HB365; 2014 HB235; HB 303 (reallocated) Coal Severance	2,786,000
Total grant commitments	$ 9,012,000

The primary funding sources for the 2020 program 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.

9. INTERGOVERNMENTAL REVENUE

Intergovernmental revenue from the Commonwealth during the fiscal year ended June 30, 2019 is as follows:

State Property and Building Commission bond issue - funding of the state match for the Federally Assisted Wastewater Program (Fund A)	$ 4,085,600
State Property and Building Commission bond issue - funding of the state match for the Federally Assisted Drinking Water Program (Fund F)	3,660,600
State grant funding under previous legislative authorizations	2,119,951
Total intergovernmental revenue from the Commonwealth	$ 9,866,151

10. STATE APPROPRIATIONS

Appropriations from the Commonwealth for administrative costs during the fiscal year ended June 30, 2019 were $1,139,352.

11. RESTRICTED NET POSITION

Since the use of the Authority's resources is mandated by KRS 224A, the Authority considers all net position other than the amount of net investment in capital assets, to be restricted by law or for debt service. Restricted net position consists of the following at June 30, 2019:

Restricted by law	$ 1,187,604,608
Restricted for debt service	430,500
Total restricted net position	$ 1,188,035,108

12. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the year ended June 30, 2019 totaled $6,651,808 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 the Clean Water State Revolving Program (Fund A) and the Drinking Water State Revolving Program (Fund F).

13. RELATED PARTY TRANSACTIONS

The Authority incurred expenses for office space received from the Commonwealth of Kentucky's Department for Local Government (DLG) in the amount of $29,000 during the fiscal year ended June 30, 2019. Additionally, the Authority incurred expenses for information technology support received from the Commonwealth Office of Technology (COT) in the amount of $47,000 for the fiscal year ended June 30, 2019.

14. RETIREMENT AND OTHER POST EMPLOYMENT BENEFIT PLANS

KERS Plan

Plan description and benefits provided – Under the provisions of KRS Section 61.645, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). These are cost-sharing, multiple employer defined benefit pension and OPEB plans. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving a benefit, in accordance with the provisions of KRS Sections 16.510, 61.515, 61.702, 78.520, and 78.630. Under the provisions of KRS Section 61.701, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Retirement Systems' Insurance Fund (Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) KERS; (2) CERS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan.

The KERS Pension Fund and KERS Insurance Fund cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. Benefit contributions and provisions are established by statute. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.

Non-hazardous employees can retire with full retirement benefits after 27 years of service or age 65. Non-hazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit. Retirement benefits are determined based upon a maximum of 2.2 percent of the employee's years of service multiplied by their Final Compensation. Final Compensation is calculated based upon the average of the five highest fiscal years (or last five fiscal years for employees who begin participation on or after September 1, 2008) of salary prior to attainment of KERS specified age (or age and service combinations).

KERS allows non-hazardous employees to retire prior to meeting the requirements above and receive partial benefits, providing they meet certain age and service related criteria. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal the employee's final full-year salary.

KERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Contributions – Benefit and contribution rates are established by state statute. Non-hazardous covered employees are required to contribute 5.00% of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.00% of their salary to the plan. The Authority’s contribution rate for non-hazardous employees was 83.43%, 49.47% and 48.59% for the years ended June 30, 2019, 2018 and 2017, respectively.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute 5% (non-hazardous) of their creditable compensation each month to their own account, and 1% to the Insurance Fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board of Trustees of the Kentucky Retirement Systems based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (non-hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Plan

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the Authority reported a liability of $4,683,236 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the pension plan relative to the actual contributions of all participating organizations.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

For the year ended June 30, 2019, the Authority recognized pension expense of $70,300. At June 30, 2019, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 33,358	$ 13,099
Net difference between projected and actual earnings on investments	35,100	30,629
Change of assumption	209,143	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	463,544
Contributions subsequent to the measurement date of June 30, 2018	523,771	-
Total	$ 801,372	$ 507,272

The deferred outflows of resources related to the Authority's contributions to the KERS pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. The deferred outflows and inflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred outflows and inflows of resources related to pensions are amortized and recognized in pension expense over the average expected remaining service life of the entire plan membership, which is 2.71 years for non-hazardous employees. The net increase (decrease) by fiscal year in pension expense related to the amortization of these deferred outflows and inflows of resources is as follows:

2020	$	(227,105)
2021		9,575
2022		(9,244)
2023		(2,897)
Total	$	(229,671)

Actuarial Assumptions – For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.3%
Payroll Growth	0.0%
Salary Increases	3.05%
Investment rate of return	5.25%

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
US Equity	17.50%	5.75%
International Equity	17.50%	7.38%
Global Bonds	10.00%	2.63%
Global Credit	17.00%	3.63%
Real Estate	5.00%	6.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	5.13%
Private Equity	10.00%	8.25%
Cash	3.00%	1.88%
	100.00%	5.46%

Discount rate – The discount rate used to measure the total pension liability was 5.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate – The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 5.25 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.25 percent) or 1 percentage point higher (6.25 percent) than the current rate:

	Discount Rate Less 1.00% (4.25%)	Discount Rate (5.25%)	Discount Rate Plus 1.00% (6.25%)
Authority's proportionate share	$ 5,335,277	$ 4,683,236	$ 4,140,167

OPEB Plan

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2019, the Authority reported a liability of $815,546 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net OPEB liability was based on the Authority's actual contributions to the OPEB plan relative to the actual contributions of all participating organizations.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

For the year ended June 30, 2019, the Authority recognized OPEB expense of $76,755. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 53,251
Net difference between projected and actual earnings on investments	-	11,945
Change of assumption	85,731	3,082
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	12,238
Contributions subsequent to the measurement date of June 30, 2018	98,825	-
Total	$ 184,556	$ 80,516

The deferred outflows of resources related to the Authority's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. The deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized and recognized in OPEB expense over the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is determined to be 4.94 years for non-hazardous employees. The net increase (decrease) in OPEB expense for future fiscal years related to the amortization of deferred inflows and outflows of resources is as follows:

2020	$	6,943
2021		6,943
2022		6,943
2023		(15,614)
Total	$	5,215

Actuarial Assumptions – For financial reporting the actuarial valuation as of June 30, 2018, was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

Inflation	2.3%
Payroll growth rate	0.0%
Salary increase	3.05%
Investment rate of return	6.25%
Healthcare trend rates:	
Pre – 65	Initial trend starting at 7.0% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.0% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

Discount Rate – The projection of cash flows used to determine the discount rate of 5.86% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the Kentucky Retirement System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the Kentucky Retirement System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the pension section above.

Sensitivity of the Authority's proportionate share of the net OPEB liability to changes in the discount rate – The following presents the Authority's proportionate share of the net OPEB liability, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.86%) or 1 percentage point higher (6.86%) than the current discount rate:

	Discount Rate Less 1.00% (4.86%)	Discount Rate (5.86%)	Discount Rate Plus 1.00% (6.86%)
Authority's proportionate share	$ 956,872	$ 815,546	$ 697,928

Sensitivity of the Authority's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the Authority's proportionate share of the net OPEB liability, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	Healthcare Trend Rate Less 1.00%	Current Trend Rate	Healthcare Trend Rate Plus 1.00%
Authority's proportionate share	$ 693,385	$ 815,546	$ 962,463

Deferred Compensation Plans

The Authority's employees may elect to participate in two deferred compensation plans offered by the Kentucky Public Employees Deferred Compensation Authority under sections 401(k) and 457 of the Internal Revenue Code. Under the plans, employees may defer up to 100% of their compensation after deducting required contributions to the KERS plan. The Authority does not make matching contributions to these plans.

15. 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.

16. 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.
- 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, 2019.

- *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 the fair value hierarchy, the Authority's investments at fair value as of June 30, 2019:

	Level 1	*Level 2*	*Level 3*	*Total*
Investment in State Pool	$ -	$ 3,587,549	$ -	$ 3,587,549
Federal Home Loan Bank Discount Notes	-	175,978,101	-	175,978,101
U.S Treasury Bill	-	111,762,277	-	111,762,277
U.S Treasury Notes	-	1,479,278	-	1,479,278
Federal Farm Credit Banks	-	7,002,886	-	7,002,886
	$ -	$ 299,810,091	$ -	$ 299,810,091

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 fiscal year ended June 30, 2019.

17. RECENT GASB PRONOUNCEMENTS

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

GASB Statement No. 84, *Fiduciary Activities,* will be effective for periods beginning after December 15, 2018. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2019

	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.0344%	0.0347%	0.0484%	0.0516%	0.0497%
Proportionate share of the net pension liability	$ 4,683,236	$ 4,644,598	$ 5,511,653	$ 5,178,848	$ 4,214,000
Covered payroll *	$ 647,943	$ 536,379	$ 781,651	$ 828,620	$ 772,709
Proportionate share of the net pension liability as a percentage of its covered payroll	722.79%	865.92%	705.13%	625.00%	545.35%
Pension plan fiduciary net position as a percentage of the total pension liability	12.84%	13.30%	14.80%	18.83%	22.32%

* The amounts presented for each fiscal year were determined as of the measurement date of the net pension liability, which is as of the Authority's prior fiscal year end.

This schedule is intended to present 10 years of the proportionate share of the net pension liability. Additional years will be displayed as they become available.

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2019

	2019	2018	2017	2016	2015
Statutorily required contribution	$ 540,448	$ 266,046	$ 215,839	$ 241,061	$ 255,559
Contribution in relation to the statutorily required	540,448	266,046	215,839	241,061	255,559
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 760,873	$ 647,943	$ 536,379	$ 781,651	$ 828,620
Contribution as a percentage of covered payroll	71.03%	41.06%	40.24%	30.84%	30.84%

This schedule is intended to present 10 years of the contributions and related ratios. Additional years will be displayed as they become available.

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
JUNE 30, 2019

	2019	2018
Proportion of the net OPEB liability	0.0344%	0.0347%
Proportionate share of the net OPEB liability	$ 815,546	$ 879,752
Covered payroll *	$ 647,943	$ 536,379
Proportionate share of the net OPEB liability as a percentage of its covered payroll	125.87%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	27.32%	24.37%

* The amounts presented for each fiscal year were determined as of the measurement date of the net OPEB liability, which is as of the Authority's prior fiscal year end.

This schedule is intended to present 10 years of the contributions and related ratios. Additional years will be displayed as they become available.

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF OPEB CONTRIBUTIONS
JUNE 30, 2019

	2019	2018
Statutorily required contribution	$ 94,348	$ 54,492
Contribution in relation to the statutorily required	94,348	54,492
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$ 760,873	$ 647,943
Contribution as a percentage of covered payroll	12.40%	8.41%

This schedule is intended to present 10 years of the contributions and related ratios. Additional years will be displayed as they become available.

SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Grant Name	Federal CFDA No.	Grant Number	Grant Period	Expenditures	Passed through to other agencies (including revenue redistribution)	Amounts Passed to subrecipients
U.S. Environmental Protection Agency						
Major Program:						
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-16	7/2016 - 9/2018	$ 296,946	$ 111,842	
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-17	7/2017 - 9/2019	7,402,875	2,376,302	
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-18	7/2018 - 9/2020	7,610,150	3,472,164	
Total Capitalization Grants for Drinking Water State Revolving Fund				$ 15,309,971	$ 5,960,308	$ 9,349,663
Non-Major Program:						
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-17	7/2017 - 9/2019	$ 705,753	$ 122,056	
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-18	7/2018 - 9/2020	19,841,917	569,444	
Total Capitalization Grants for Drinking Water State Revolving Fund				$ 20,547,670	$ 691,500	$ 19,856,170
Total all programs				$ 35,857,641	$ 6,651,808	$ 29,205,833

See report of independent auditors and accompanying notes to the schedule.

1. BASIS OF ACCOUNTING

The accompanying supplementary schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The award revenues received and expended are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations. The authority did not elect to use the 10% de minimis indirect cost rate.

2. PASSED THROUGH TO OTHER AGENCY

CFDA No.	Name of Grant	Amount	Pass Through Entity
66.458	Clean Water State Revolving Fund	$ 691,500	Energy and Environment Cabinet
66.468	Drinking Water State Revolving Fund	5,960,308	Energy and Environment Cabinet
	Total	$ 6,651,808	

3. LOANS OUTSTANDING

CFDA No.	Name of Grant	Amount
66.458	Clean Water State Revolving Fund	$ 807,298,209
66.468	Drinking Water State Revolving Fund	222,688,109
	Total	$ 1,029,986,318

4. LOAN PRINCIPAL FORGIVENESS

CFDA No.	Name of Grant	Amount
66.458	Clean Water State Revolving Fund	$ 3,214,266
66.468	Drinking Water State Revolving Fund	2,806,344
	Total	$ 6,020,610

5. SUB-RECIPIENTS

The accompanying supplementary schedule of expenditures of federal awards includes expenditures consisting of federal awards provided to sub-recipients as follows:

CFDA No.	Name of Grant	Amount
66.458	Clean Water State Revolving Fund	$ 19,856,170
66.468	Drinking Water State Revolving Fund	9,349,663
	Total	$ 29,205,833

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF NET POSITION
JUNE 30, 2019

	Fund A	Fund B	Fund C	Fund F	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,267,144	$ 1,414,601	$ 101,150	$ 1,053,458	$ 3,836,353
Investments, current portion	176,155,961	16,618,075	11,265,030	95,340,525	299,379,591
Intergovernmental receivables	4,373,984	150,143	-	3,660,600	8,184,727
Accrued interest receivable, investments	15,617	1,385	13,590	11,218	41,810
Accrued interest receivable, assistance agreements	983,847	88,199	76,986	262,525	1,411,557
Current maturities of long-term receivables	48,284,000	4,592,000	2,344,387	13,485,000	68,705,387
Total current assets	231,080,553	22,864,403	13,801,143	113,813,326	381,559,425
Investments, restricted for debt service	-	-	430,500	-	430,500
Long-term receivables:					
Assistance agreements receivable	759,014,209	62,110,269	32,488,304	209,203,109	1,062,815,891
Allowance for losses on assistance agreements	-	(2,000,000)	-	-	(2,000,000)
Unamortized discounts	-	-	(133,494)	-	(133,494)
Total long-term receivables	759,014,209	60,110,269	32,354,810	209,203,109	1,060,682,397
Capital assets, net	-	16,250	-	-	16,250
Total assets	$ 990,094,762	$ 82,990,922	$ 46,586,453	$ 323,016,435	$ 1,442,688,572
Deferred outflows of resources:					
Pension related	$ 376,955	$ 31,339	$ 48,630	$ 344,448	$ 801,372
Post-employment benefits other than pension	87,656	7,755	10,339	78,806	184,556
Unamortized deferred amount on refunding	4,337,123	-	-	903,814	5,240,937
Total deferred outflows of resources	$ 4,801,734	$ 39,094	$ 58,969	$ 1,327,068	$ 6,226,865
LIABILITIES					
Current liabilities:					
Current maturities of revenue bonds payable, net of unamortized premiums and discounts	$ 18,660,280	$ -	$ 1,474,131	$ 3,899,182	$ 24,033,593
Accrued interest payable	3,033,538	-	67,050	963,015	4,063,603
State treasury advances for capitalization grant matching funds	4,373,984	-	-	3,660,600	8,034,584
Grants payable	-	156,143	-	-	156,143
Other payables	-	-	441,904	-	441,904
Total current liabilities	26,067,802	156,143	1,983,085	8,522,797	36,729,827
Long-term liabilities:					
Revenue bonds payable, less current maturities and unamortized premiums and discounts	161,681,310	-	2,933,226	53,300,829	217,915,365
Net pension liability	2,218,226	196,429	266,635	2,001,946	4,683,236
Net post-employment benefits other than pension liability	387,423	34,234	45,651	348,238	815,546
Other payables	-	-	49,099	-	49,099
Total liabilities	$ 190,354,761	$ 386,806	$ 5,277,696	$ 64,173,810	$ 260,193,073
Deferred inflows of resources:					
Pension related	$ 240,100	$ 21,012	$ 28,676	$ 217,484	$ 507,272
Post-employment benefits other than pension	38,208	3,400	4,528	34,380	80,516
Unamortized deferred amount on refunding	-	-	99,468	-	99,468
Total deferred inflows of resources	$ 278,308	$ 24,412	$ 132,672	$ 251,864	$ 687,256
NET POSITION					
Net investment in capital assets	$ -	$ 16,250	$ -	$ -	$ 16,250
Restricted net position	804,263,427	82,602,548	41,235,054	259,917,829	1,188,018,858
Total net position	$ 804,263,427	$ 82,618,798	$ 41,235,054	$ 259,917,829	$ 1,188,035,108

See accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	$ 1,563,200	$ 128,095	$ 64,257	$ 558,173	$ 2,313,725
Interest income	11,993,738	943,379	942,165	3,309,077	17,188,359
Total operating revenues	13,556,938	1,071,474	1,006,422	3,867,250	19,502,084
Operating expenses:					
General and administrative	633,117	1,042,765	27,412	542,637	2,245,931
Intergovernmental administrative expense reimbursement	691,500	-	-	5,960,308	6,651,808
State grant expenditures	-	2,133,250	-	-	2,133,250
Revenue bonds:					
Amortization of bond premiums	(4,687,779)	-	(110,744)	(1,011,335)	(5,809,858)
Interest	8,414,246	-	136,800	2,548,624	11,099,670
Arbitrage expense	-	-	22,677	-	22,677
Total operating expenses	5,051,084	3,176,015	76,145	8,040,234	16,343,478
Operating income / (loss)	8,505,854	(2,104,541)	930,277	(4,172,984)	3,158,606
Non-operating gain / (loss):					
Investment income	3,842,174	313,289	331,231	1,998,118	6,484,812
Federal grants	20,547,671	-	-	15,309,971	35,857,642
Loan subsidy required by federal capitalization grants	(3,214,266)	-	-	(2,806,344)	(6,020,610)
Intergovernmental revenue from the Commonwealth	4,085,600	2,119,951	-	3,660,600	9,866,151
State appropriations	-	1,139,352	-	-	1,139,352
Total non-operating revenues	25,261,179	3,572,592	331,231	18,162,345	47,327,347
Change in net position	33,767,033	1,468,051	1,261,508	13,989,361	50,485,953
Net position, beginning of year	770,496,394	81,150,747	39,973,546	245,928,468	1,137,549,155
Net position, end of year	$ 804,263,427	$ 82,618,798	$ 41,235,054	$ 259,917,829	$ 1,188,035,108

See report of independent auditors.

DEANDORTON

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 3,2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
October 3, 2019

DEANDORTON

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Kentucky Infrastructure Authority's (the Authority), a component unit of the Commonwealth of Kentucky, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
October 3, 2019

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified opinion**

Internal control over financial reporting:

Material weakness(es) identified?	___ Yes	**X** No
Significant deficiency(ies) identified?	___ Yes	**X** None Reported
Noncompliance material to financial statements noted?	___ Yes	**X** No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	___ Yes	**X** No
Significant deficiency(ies) identified?	___ Yes	**X** None Reported

Type of auditors' report issued on compliance for major federal programs: **Unmodified opinion**

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	___ Yes	**X** No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs	$ 1,075,729	
Auditee qualified as low-risk auditee?	**X** Yes	___ No

Section II - FINANCIAL STATEMENT FINDINGS

None identified.

Section III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None identified.

Section IV - PRIOR AUDIT FINDINGS

Finding 2018-001: Lack of Segregation of Duties

Condition

During our audit we noted that there is limited segregation of duties in the accounting department. The Fiscal Officer has the ability to both post and approve journal entries. The Fiscal Officer is also responsible for reconciliation of account balances. There is little to no supervision or approval of entries or reconciliations performed by the Fiscal Officer.

Criteria

A governmental agency's internal controls should be in compliance with guidance in ''Standards for Internal Control in the Federal Government'' (the Green Book) issued by the Comptroller General of the United States and the ''Internal Control Integrated Framework'', issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO framework).

The Uniform Guidance, in 2 CFR 200 section 200.303, states that a non-Federal entity must establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in the Green Book and the COSO framework.

Both the Green Book and the COSO framework identify proper segregation of duties as an essential element of an entity's internal control environment, as it forms the basic building block of sustainable risk management and internal controls. The Green Book states "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

Effect

The lack of segregation of duties with regards to key processes of the accounting function exposes the Authority to greater risk of misstatement due to human error and fraud.

Current Year Status

The finding was resolved in the current year.