KENTUCKY INFRASTRUCTURE AUTHORITY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2021

KENTUCKY INFRASTRUCTURE AUTHORITY

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CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited the accompanying financial statements of Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, 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 auditing 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 opinions 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8, the schedule of proportionate share of the net pension liability and schedule of pension contributions on pages 43 through 44, the schedule of proportionate share of the net Other Postemployment Benefits (OPEB) liability and the schedule of OPEB contributions on pages 45 through 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards;* the Combining Statement of Net Position; and the Combining Statement of Revenues, Expenses, and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2021 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 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 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.

Blue & Co., LLC

Lexington, Kentucky
November 12, 2021

As management of the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial performance of the Authority for the fiscal year ended June 30, 2021. 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 2021, the Authority reported an ending net position of $1,277,026,000, an increase of $38,771,000 (3.1%) in comparison with the prior year.
- The Authority's total liabilities decreased $17,115,000 (7.5%) during fiscal year 2021.
- The Authority disbursed $94,306,000 to borrowers for eligible expenditures under loan assistance agreements and $2,358,000 to local governmental entities for state grants.
- Principal in the amount of $87,029,000 was collected from borrowers for assistance agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of revenues, expenses and changes in net position shows how the Authority's net position changed during the most recent 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 42.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information
Statements of Net Position
As of June 30

	2021	% Increase (Decrease)	2020
Assets:			
Current assets	$ 443,255,000	8.2%	$ 409,835,000
Long-term investments	288,000	0.0%	288,000
Long-term receivables	1,040,412,000	-1.1%	1,051,551,000
Capital assets, net	11,000	57.1%	7,000
Total assets	1,483,966,000	1.5%	1,461,681,000
Deferred outflow of resources	5,545,000	-11.8%	6,285,000
Total assets and deferrals	1,489,511,000	1.5%	1,467,966,000
Liabilities:			
Current liabilities	31,265,000	14.8%	27,238,000
Long-term debt	181,057,000	-10.5%	202,199,000
Total liabilities	212,322,000	-7.5%	229,437,000
Deferred inflow of resources	163,000	-40.5%	274,000
Total liabilities and deferrals	212,485,000	-7.5%	229,711,000
Net position:			
Net investment in capital assets	11,000	57.1%	7,000
Restricted net position	1,277,015,000	3.1%	1,238,248,000
Total net position	$ 1,277,026,000	3.13%	$ 1,238,255,000

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

During 2021, the Authority's total cash and cash equivalents and investments increased $17,447,000. The increase is due to decreased payments made on revenue bonds and an increase in receipts related to assistance agreement receivable.

At June 30, 2021, investments consist of a current portion of $202,593,000 and a non-current portion of $288,000. The current portion is representative of U.S. Government Agency debt securities with maturities longer than three months when purchased, but also having maturities prior to June 30, 2022. The non-current portion is representative of the Authority's investments with maturities greater than one year. The Authority's investments primarily consist of a concentration of investments with a maturity of three months or less when purchased (cash equivalents) in order to maintain sufficient liquidity.

During fiscal year 2021, payments to borrowers for eligible expenditures under assistance agreements were $94,306,000, which exceeded repayments of assistance agreements receivable of $87,029,000 and forgiveness of loan principal of $8,305,000 contributing to the $1,028,000 decrease in net assistance agreements receivable.

Total liabilities consist of bonds payable and related accrued interest, miscellaneous accounts and state grants payable, accrued pension liabilities and other postemployment benefits (OPEB) liabilities.

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

	2021	% Increase (Decrease)	2020
Operating revenues	$ 19,264,000	-3.5%	$ 19,961,000
Operating expenses	19,464,000	23.8%	15,722,000
Operating income (loss)	(200,000)	-104.7%	4,239,000
Non-operating revenues (expenses):			
Investment Income	289,000	-94.7%	5,499,000
Federal grants and reimbursements	36,401,000	-3.0%	37,533,000
Loan subsidy required by federal capitalization grants	(8,305,000)	53.2%	(5,422,000)
Intergovernmental revenue from the Commonwealth	9,813,000	32.8%	7,387,000
State appropriations	773,000	-21.4%	984,000
Change in net position	$ 38,771,000	-22.8%	$ 50,220,000

Operating revenues primarily consist of interest and service fee revenue from assistance agreements receivable. Interest on assistance agreements receivable and related service fees decreased $697,000 (3.5%) from fiscal year 2020 due to the payments in assistance agreement receivable.

Operating expenses primarily consist of general and administrative costs, state grant disbursements, 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 increased $415,000 (21.22%) from 2020. Interest expense on revenue bonds decreased $880,000 (8.51%). General and administrative costs increased of $228,000.

Non-operating revenues and expenses consist of income from investments, net changes in the fair market value of investments, debt issuance costs, federal grant revenues and required principal forgiveness, provisions for losses on assistance agreements, intergovernmental revenues, and state appropriations. Federal grant revenues and expenditures totaled $36,401,000 for loans made to municipalities under federal programs and the cost of administration of the programs. A portion of these funds was awarded under federal regulations that required additional subsidization which the Authority chose to provide as principal forgiveness. For 2021, $8,305,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net position. The Authority recorded an additional provision for loan losses due to principle loan forgiveness of $5,224,000 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, 2021, the Authority had $171,830,000 in bond principal outstanding which is a decrease of 10.1% from last year. The decrease is due to scheduled maturities during the year. More detailed information about the Authority's long-term liabilities is presented in Note 7 of the financial statements.

Bond Ratings: As of June 30, 2021, the Wastewater and Drinking Water program supported debt rating is Aaa from Moody's and AAA from Standard & Poor's and Fitch. The Governmental Agencies program revenue bonds of the Authority are rated AA by Standard & Poor's. There was no appropriation supported debt outstanding.

Limitations on Debt: The Authority is required by Kentucky Revised Statute (KRS) 56.870(1) to obtain General Assembly approval for issuance of general fund appropriation-supported debt. For debt related to issues that require no appropriation of state funds, General Assembly approval must be obtained for bonds or notes having a final maturity extending beyond three (3) years, if the aggregate principal amount of the bonds or notes outstanding under any trust indenture or bond resolution exceeds the sum of five hundred million dollars ($500,000,000) (KRS 224A. 165 (2) (b)). The Authority's outstanding debt, which meets this criterion, is significantly below this limit.

Outstanding debt at June 30 consists of the following:

	2021	% Increase (Decrease)	2020
Program revenue supported debt	$ 171,830,000	-10.1%	$ 191,235,000

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority administers grants under numerous House Bills. At June 30, 2021 approximately $4,542,000 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, 2021. 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, 2021

ASSETS		
Current assets:		
Cash and cash equivalents	$	153,189,000
Investments, current portion		202,593,000
Intergovernmental receivables		5,776,000
Accrued interest receivable, investments		668,000
Accrued interest receivable, assistance agreements		1,362,000
Current maturities of long-term receivables		79,667,000
Total current assets		443,255,000
Investments, restricted for debt service		288,000
Long-term receivables:		
Assistance agreements receivable:		
Principal		1,048,449,000
Less:		
Allowance for losses on assistance agreements		(2,000,000)
Allowance for loan subsidy required by federal capitalization grants		(6,000,000)
Unamortized discounts		(37,000)
Total long-term receivables		1,040,412,000
Capital assets, net		11,000
Total assets	$	1,483,966,000
Deferred outflow of resources:		
Penison related	$	1,256,000
Post-employment benefits other than pension		494,000
Unamortized deferred amount on refunding		3,795,000
Total deferred outflows of resources	$	5,545,000
Total assets and deferrals	$	1,489,511,000
LIABILITIES		
Current liabilities:		
Current maturities of revenue bonds payable, including unamortized premiums	$	22,053,000
Accrued interest payable		3,405,000
State treasury advances for capitalization grant matching funds		5,762,000
Grants payable		13,000
Other payables		32,000
Total current liabilities		31,265,000
Long-term liabilities:		
Revenue bonds payable including long-term unamortized premiums, less current maturities		173,122,000
Net pension liability		6,720,000
Net post-employment benefit other than pension liability		1,201,000
Other payables		14,000
Total liabilities	$	212,322,000
Deferred inflow of resources:		
Post-employment benefits other than pension	$	128,000
Unamortized deferred amount on refunding		35,000
Total deferred inflows of resources	$	163,000
Total liabilities and deferrals	$	212,485,000
NET POSITION		
Net investment in capital assets	$	11,000
Restricted net position		1,277,015,000
Total net position	$	1,277,026,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2021

Operating revenues:	
Assistance agreements:	
Servicing fee	$ 2,328,000
Interest income	16,936,000
Total operating revenues	19,264,000
Operating expenses:	
General and administrative	3,631,000
Intergovernmental administrative expense reimbursement	7,423,000
State grant expenditures	2,371,000
Revenue bonds:	
Amortization of bond premiums	(3,407,000)
Interest	9,456,000
Arbitrage expense	(10,000)
Total operating expenses	19,464,000
Operating loss	(200,000)
Non-operating revenues (expenses):	
Investment income	289,000
Federal grants	36,401,000
Loan subsidy required by federal capitalization grants	(8,305,000)
Intergovernmental revenue from the Commonwealth	9,813,000
State appropriations	773,000
Total non-operating revenues	38,971,000
Change in net position	38,771,000
Net position, beginning of year	1,238,255,000
Net position, end of year	$ 1,277,026,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:		
Administrative fees received	$	2,328,000
Collections on assistance agreements		87,029,000
Advances on assistance agreements		(94,306,000)
Interest received on assistance agreements		16,956,000
Cash payments for grants		(2,358,000)
Cash payments for personnel expenses		(1,429,000)
Cash payments to suppliers for goods and services		(9,124,000)
Net cash used by operating activities		(904,000)
Cash flows from capital and related financing activities:		
Purchase of capital assets		(10,000)
Cash flows from noncapital financing activities:		
Principal payments on long-term debt		(19,405,000)
Interest paid on long-term debt		(9,136,000)
Receipt of federal grants		36,401,000
State appropriations		773,000
Payments from the Commonwealth		9,961,000
Net cash provided by noncapital financing activities		18,594,000
Cash flows from investing activities:		
Purchase of investment securities		(837,064,000)
Proceeds from sale and maturities of investment securities		966,937,000
Interest and other investment income received		1,124,000
Net cash provided by investing activities		130,997,000
Net change in cash and cash equivalents		148,677,000
Cash and cash equivalents, beginning of year		4,512,000
Cash and cash equivalents, end of year	$	153,189,000

See the accompanying notes to the financial statements.

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(200,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Provision for loan subsidy required by federal capitalization grant		8,305,000
Amortization of bond premium		(3,442,000)
Amortization of assistance agreements discounts		35,000
Amortization of bond defeasance included in interest		692,000
Depreciation of capital assets		6,000
Interest paid on long-term debt		9,136,000
Changes in assets and liabilities:		
Decrease in accrued interest receivable on assistance agreements		20,000
Increase in assistance agreements receivable		(15,581,000)
Decrease in accrued interest payable		(373,000)
Increase in grants payable		13,000
Decrease in other payables		(398,000)
Change in deferred outflow related to pension and OPEB		17,000
Change in deferred inflow related to pension and OPEB		(79,000)
Change in net pension liability		692,000
Change in net OPEB liability		253,000
Net cash used by operating activities	$	(904,000)
Supplemental disclosure of noncash investing activities:		
Net decrease in fair value of investments	$	(1,356,000)
Charge-off of loan principal	$	(3,081,000)

1. DESCRIPTION OF ORGANIZATION

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

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

The Authority is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's Annual Comprehensive Financial Report. The Authority is attached to the Department of 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 Kentucky. The provisions of KRS 224A.165 restrict the amount of notes and bonds the Authority can have outstanding. The purpose of the loans is to assist eligible entities in financing the construction of infrastructure projects. The following provides a description of the Authority's various programs:

Fund A - Clean Water State Revolving Fund Loan Program

Wastewater treatment, collection, and 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 service.

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 account was established to assist in making potable water available to all Kentuckians by the year 2020.

The General Assembly has periodically appropriated funds to be administered 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 considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

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

Description of Net Position Classes

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

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

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

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." The Authority does not have any unrestricted net assets as of June 30, 2021.

Assistance Agreements Receivable and Allowance for Loan Losses

Assistance Agreements receivable are stated at their outstanding principal balances net of allowances for loan losses and loan subsidies required by federal capitalization grants.

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.

The allowance for loan subsidy required by the federal capitalization grants is based on the approved principal forgiveness on certain assistance agreements. The calculation of the loan subsidy is performed after each draw request based upon the approved principal forgiveness percentage up to the Board of Directors approved principal forgiveness amount.

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 included in revenue bonds payable and 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 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 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 expenses.

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. These plans consist of 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 liabilities, 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, cash equivalents, 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, 2021, cash and cash equivalents consist of the following:

First American Government Obligation Fund	$ 152,420,000
State cash and investment pool	769,000
Total cash and cash equivalents	$ 153,189,000

The following schedule presents the carrying amounts of investments at June 30, 2021:

Investment	Fair Value	Maturity	Rate	Credit Rating
U S Treasury Bill	89,998,000	07/15/21	0.00%	N/A
U S Treasury Bill	7,000,000	08/12/21	0.12%	N/A
U S Treasury Bill	5,000,000	09/09/21	0.13%	N/A
U S Treasury Bill	9,998,000	12/02/21	0.15%	N/A
U S Treasury Notes	89,065,000	02/15/22	1.50%	AAA
U S Treasury Notes State & Local Government Securities	288,000	08/01/22	5.12%	N/A
	201,349,000			
Investment in state pool	1,532,000			
Total	202,881,000			
Less: current portion	202,593,000			
Long-term investments	$ 288,000			

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, 2021, 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) to determine suitable investments.

At June 30, 2021, the Authority maintained $2,301,000 of cash and investments with the State Investment Pool of the State Investment Commission of the Commonwealth of Kentucky. The State Investment Commission (the Commission) is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commission delegates the day to day management of the Commonwealth's investments to the Office of Financial Management (OFM). The purpose of the investment pools is to provide: economies of scale that enhance yield, ease of administration for both the user agencies and OFM, and increase accountability and control. All investments shall be permitted investments as defined in KRS 42.500 and as further limited by 200 Kentucky Administrative Regulation (KAR) Chapter 14. Funds in the pools are available to be spent at any time. The Authority had no collateral or insurance as security for the balances with the Commission at June 30, 2021, but they own a proportionate interest in the securities held in the respective pools.

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

4. REVENUE BOND FUND ACCOUNTS

Components of the Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2021 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	$ 10,284,000	$ 4,500,000	$ 14,784,000
Revolving Fund	39,067,000	24,998,000	64,065,000
Debt Service Reserve Fund	-0-	288,000	288,000
Revenue Fund	26,727,000	1,500,000	28,227,000
Arbitrage Rebate Fund	61,000	-0-	61,000
Surplus Fund	76,281,000	170,063,000	246,344,000
Funds in state pool	769,000	1,532,000	2,301,000
	$ 153,189,000	$ 202,881,000	$ 356,070,000

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 reserve 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 as a reserve for advances to municipalities in anticipation of new bond issues, transfers to other funds to cover deficiencies, and other lawful purposes of the Authority.

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following reimbursements for expenditures incurred prior to June 30, 2021:

State Property and Building Commission bond issue - funding of the state match for the Fund A Federally Assisted Wastewater Program (*)	$	1,259,000
State Property and Building Commission bond issue - funding of the state match for the Fund F Federally Assisted Drinking Water Program (*)		4,503,000
Due from the Commonwealth's General Fund for administrative costs		14,000
Total receivable from the Commonwealth	$	5,776,000

* The State Treasury periodically authorizes disbursement of funds by the Authority representing the state match for awarded EPA capitalization grants. The disbursements are recorded as a current liability, "State Treasury Advances for Capitalization Grant Matching Funds", until the State Property and Building Commission issues bonds as the final funding source for the state match. Income as well as a receivable from the State Property and Building Commission are recorded by the Authority at the 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. At June 30, 2021, assistance agreement receivables, net of allowance for loan losses and loan subsidy, was as follows:

Fund A - Clean Water State Revolving Fund Loan Program	$	799,002,000
Fund B - Infrastructure Revolving Loan Program		71,330,000
Fund C - Governmental Agencies Program		35,647,000
Fund F - Drinking Water State Revolving Fund Loan Program		222,137,000
Sub total		1,128,116,000
Allowance for loan loss and loan subsidy required by federal capitalization grants		(8,000,000)
Net assistance agreement receivable		1,120,116,000
Current maturities		(79,667,000)
Unamortized discounts		(37,000)
Long-term receivables	$	1,040,412,000

The provisions for the allowance for loan loss and principal forgiveness activity during the year ended June 30, 2021 was as follows:

	July 1, 2020 Allowance	Provisions	Charge-offs	June 30, 2021 Allowance
Loan Loss Allowance	$ 2,000,000	$ 0	$ 0	$ 2,000,000
Principal Forgiveness Allowance	776,000	8,305,000	(3,081,000)	6,000,000
Total	$ 2,776,000	$ 8,305,000	$ (3,081,000)	$ 8,000,000

In addition to the net assistance agreements receivable, the Authority has commitments remaining at June 30, 2021, to disburse funds as summarized below:

Fund A - Clean Water State Revolving Fund Loan Program	$	208,766,000
Fund B - Infrastructure Revolving Loan Program		4,277,000
Fund C - Governmental Agencies Program		1,006,000
Fund F - Drinking Water State Revolving Fund Loan Program		118,663,000
Total commitments outstanding	$	332,712,000

7. LONG-TERM DEBT, REVENUE BONDS PAYABLE

Long-term debt consists of the following at June 30, 2021:

	Balance	Current	Long-term
Series 2004A Revenue and Revenue Refunding Bonds, interest 4.25% to 4.625%, due semi-annually, principal due annually on August 1, 2022 (Fund C)	$ 855,000	$ 415,000	$ 440,000
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)	9,855,000	6,215,000	3,640,000
Series 2015 Revenue Bonds, interest 2.25% to 4.00%, due semi-annually, principal due annually to August 1, 2021 (Fund C)	570,000	570,000	-0-
Series 2015A Revenue and Refunding Bonds, interest 4.00% to 5.00%, due semi-annually, principal due annually February 1, 2021 to February 1, 2026 (Funds A and F)	53,070,000	9,640,000	43,430,000
Series 2016A Revenue and Refunding Bonds, interest 2.00% to 5.00%, due semi-annually, principal due annually February 1, 2021 to February 1, 2028 (Funds A and F)	48,295,000	1,435,000	46,860,000
Series 2018A Revenue and Refunding Bonds, interest 3.00% to 5.00%, due semi-annually, principal due annually to February 1, 2031 (Funds A and F)	59,185,000	450,000	58,735,000
Bond principal payable	171,830,000	18,725,000	153,105,000
Unamortized premium	23,345,000	3,328,000	20,017,000
Total	$ 195,175,000	$ 22,053,000	$ 173,122,000

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

	Principal	Interest	Total
2022	$ 18,725,000	8,255,000	26,980,000
2023	20,430,000	7,426,000	27,856,000
2024	19,405,000	6,481,000	25,886,000
2025	18,540,000	5,521,000	24,061,000
2026	18,410,000	4,623,000	23,033,000
2027-2031	74,070,000	10,465,000	84,535,000
2032	2,250,000	82,000	2,332,000
	$ 171,830,000	$ 42,853,000	$ 214,683,000

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2021:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021
Bond principal payable	$ 191,235,000	$ -0-	$ 19,405,000	$ 171,830,000
Unamortized premiums	26,716,000	-0-	3,371,000	23,345,000
Total	$ 217,951,000	$ -0-	$ 22,776,000	$ 195,175,000

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, 2021.

As of June 30, 2021, $50,995,000 of defeased bonds were outstanding and will be redeemed in February 2022.

8. STATE GRANT COMMITMENTS

As of June 30, 2021, the Authority has committed to disburse state grant expenditures as follows:

2020 program funds	$	2,000
Funded by bond funds:		
2005 House Bill (HB) 267		100,000
2006 HB 380 Coal		218,000
2008 HB 406 / 608		1,557,000
2016 HB303 Reallocated		2,642,000
Total funded by bond funds		4,517,000
2014 HB235 Coal Severance		23,000
Total grant commitments	$	4,542,000

The primary funding sources for the 2020 program funds are 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, 2021 is as follows:

State Property and Building Commission bond issue - funding of the state match for the Federally Assisted Wastewater Program (Fund A)	$	4,045,000
State Property and Building Commission bond issue - funding of the state match for the Federally Assisted Drinking Water Program (Fund F)		4,503,000
State grant funding under previous legislative authorizations		1,265,000
Total intergovernmental revenue from the Commonwealth	$	9,813,000

10. STATE APPROPRIATIONS

Appropriations from the Commonwealth for administrative costs during the fiscal year ended June 30, 2021 were $773,000.

11. RESTRICTED NET POSITION

Since the use of the Authority's resources is mandated by Kentucky Revised Statute 224A, the Authority considers all net position, other than 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 2021:

Restricted by law	$	1,276,727,000
Restricted for debt service		288,000
Total restricted net position	$	1,277,015,000

12. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the year ended June 30, 2021, totaled $7,423,000 for services provided by the Commonwealth Energy and Environment Cabinet’s Division of Water related to federal grant compliance for the federal funds administered under 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 information technology support received from the Commonwealth Office of Technology (COT) in the amount of $45,000 for the year ended June 30, 2021. The Authority incurred expenses for office space from the Finance and Administration Cabinet in the amount of $85,000 for the year ended June 30, 2021. Anticipated expenses to the Finance and Administration Cabinet for office space during fiscal year June 30, 2022, are approximately $85,000.

14. RETIREMENT PLANS

All employees who work more than one hundred hours per month participate in a defined benefit plan administered by KERS, a cost-sharing multi-employer public employee retirement system per Kentucky Revised Statue 61.565(3).

	Tier 1	**Tier 2**	**Tier 3**
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation **X** Benefit Factor **X** Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation.

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Benefit Factor:	1.97% - If do not have 13 months of credit for 1/1/1998 - 1/1/1999. 2.00% - If have 13 months of credit for 1/1/1998 - 1/1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. For the fiscal year ended June 30 2021, plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees participating in Tier 2 and 3 were required to contribute an additional 1% for the insurance fund. The Authority was contractually required to contribute 73.28 percent of covered payroll to the nonhazardous KERS pension. The contribution rate is actuarially determined as an amount that, when combined with employee contributions during the year, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Authority's total required contributions to KERS nonhazardous pension plan for the year ended June 30, 2021 was $506,000

In accordance with Senate Bill 2, signed by the Governor of Kentucky 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% 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 of 4% is deposited to the member's account. The employer pay credit represents a portion of the employer contribution.

At June 30, 2021, the Authority reported a liability of $6,720,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to 2020 using generally accepted actuarial principles. The Authority's proportion of the net pension liability was based on projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2021, the Authority's proportion was 0.0474 percent.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018. The Total Pension liability as of June 30, 2020, was determined using these updated assumptions.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions that were previously established. Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

House Bill 8 passed during the 2021 regular session and changed the KERS nonhazardous actuarially accrued liability contribution (unfunded liability payment) that is payable by employers on or after July 1, 2021, from a value that is paid as a percent of pay on each employee to a set dollar amount and provide that the set dollar amount shall be allocated to each individual employer based upon the employer's percent share of the liability as of the June 30, 2019, actuarial valuation and shall be paid by employers in equal installments monthly.

Actuarial Assumptions	
Actuarial Valuation Date	June 30, 2019
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.
Remaining Amortization Period	24 years, closed
Actuarial Assumptions:	
Investment Rate of Return	6.25%
Inflation Rate	2.30%
Projected Salary Increases	3.30% to 15.30%, varies by service
Mortality Tables:	
Active Member	Pub-2010 General Mortality tables projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthy Retired Members	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020.
Disable Members	PUB-2010 Disable Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

For the year ended June 30, 2021, the Authority recognized pension expenses of $1,297,000 and deferred inflows and outflows related to pension from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ 38,000	$ -0-
Net difference between projected and actual earnings on investments	7,000	-0-
Change of assumption	76,000	-0-
Changes in proportion and difference between employer	629,000	-0-
Contributions subsequent to the measurement date	506,000	-0-
Total	$ 1,256,000	-0-

The $506,000 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the pension plan for other deferred items. As of June 30, 2020 plan year, the estimated remaining service life was 2.26 years. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

Fiscal Years	
2022	$ 652,000
2023	86,000
2024	6,000
2025	6,000
Total	$ 750,000

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocations percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long term inflation assumption is 2.30% per annum for non-hazardous.

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

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth:		
US Equity	15.75%	4.30%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	20.50%	-0.25%
Cash	3.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.25% assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2020 is the actuarial valuation date upon which the total pension liability is based. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used.

The following presents the net pension liability of the Authority, calculated using the discount rate of 5.25%, as well as what the Authority's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%):

	1% Decrease (4.25%)	Discount (5.25%)	1% Increase (6.25%)
The Authority's proportionate share	$ 7,696,000	$ 6,720,000	$ 5,916,000

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The report may be obtained from http://kyret.ky.gov, by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800. The Commonwealth of Kentucky's Annual Comprehensive Financial Report should be referred to for additional disclosures related to KERS.

In addition to the above defined benefit pension plan, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority (KPEDCA) issues a publicly available financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

15. EMPLOYMENT HEALTH CARE BENEFITS

All regular full-time employees who work in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any eligible local agencies participate in an other postemployment benefits (OPEB) plan administered by the KERS, a cost-sharing multi-employer public employee retirement system. The plan provides health insurance benefits to plan members and also to certain beneficiaries of plan members under prescribed circumstances.

Covered Employees: Contribution rates for employers and employees are established by Kentucky Statue KRS 21.427. The Traditional plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2019. This amount has been brought forward from that date based on actual cash flows and prorated allocation of investment returns. The Hybrid plan member contributes 1% of their official salary. Employer contributions are determined by the budget bill.

Benefit Factor:

Participation prior to July 2003		Participation between July 2003 and August 2008		Participation on or after September 2008	
Months of Service	Percent of premium	Months of Service	Percent of premium paid	Months of Service	Percent of premium
<48	0%	Greater than or equal to 120	$10 per month for each year of service without regard to a maximum dollar adjusted by 1.5% annually.	Greater than or equal to 180	$10 per month for each year of service without regard to a maximum dollar adjusted 1.5% annually.
48 to 119 inclusive	25%				
120 to 179 inclusive	50%				
180 to 239 inclusive	75%				
240 or more	100%				

Cost of Living Adjustment (COLA): Members participating after 2003 receive 1.5% increase annually

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. Employees with a participation date after September 1, 2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The plan was contractually required to contribute 11.15 percent of covered payroll to the nonhazardous KERS insurance plans. The contribution rate is actuarially determined as an amount that, when combined with employee contributions during the year, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Authority's total required contributions to KERS nonhazardous insurance plan for the year ended June 30, 2021 was $77,000.

At June 30, 2021, the Authority reported a liability of $1,201,000 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to 2020 using generally accepted actuarial principles. The Authority's proportion of the collective net OPEB liability was based on projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the plan's proportion was 0.0474 percent.

For the year ended June 30, 2021, the Authority recognized OPEB expenses of $188,000 and deferred outflows and deferred inflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 100,000	$ 120,000
Net difference between projected and actual earnings	17,000	-
Changes of assumption	88,000	2,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	194,000	6,000
Contributions subsequent to the measurement date	95,000	-0-
Total	$ 494,000	$ 128,000

Of the total amount reported as deferred outflows of resources related to OPEB, $77,000 resulting from Authority statutorily required contributions and $18,000 resulting from the implicit subsidy subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the OPEB plan for other deferred items. As of June 30, 2020 plan year, the estimated remaining service life was 3.69 years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Authority's OPEB expense as follows:

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

Fiscal Years	Amount
2022	$ 112,000
2023	80,000
2024	74,000
2025	5,000
Total	$ 271,000

The total OPEB liability, net OPEB liability, and sensitivity information shown in this report are based on an actuarial valuation performed as of June 30, 2019, using the actuarial assumptions shown in the table below, rolled forward from the valuation date to the plan's fiscal year end, June 30, 2020, using generally accepted actuarial principles.

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2019
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal, Level percentage of pay
Asset Valuation Method	5 years smoothing
Remaining amortization period	24 year, closed
Actuarial assumptions:	
Inflation rate	2.3%
Payroll Growth Rate	0%
Salary Growth	3.30% to 15.30%, varies by service (3.05% used for the June 30, 2018)
Mortality Tables:	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthcare Trend Rates Pre-65	Initial trend starting at 6.40% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Healthcare Trend Rates Post-65	Initial trend starting at 2.90% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's election are unknown at this time, no adjustments to the Total OPEB liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

House Bill 8 passed during the 2021 regular session and changed the KERS nonhazardous actuarially accrued liability contribution (unfunded liability payment) that is payable by employers on or after July 1, 2021, from a value that is paid as a percent of pay on each employee to a set dollar amount and provide that the set dollar amount shall be allocated to each individual employer based upon the employer's percent share of the liability as of the June 30, 2019, actuarial valuation and shall be paid by employers in equal installments monthly.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the below table.

Kentucky Retirement Systems

Asset Class	**Target Allocation**	**Long-Term Nominal Rate of Return**
Growth:		
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity:		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.43% for KERS Nonhazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 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 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth's Annual Comprehensive Financial Report.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, Gabriel Roeder Smith (GRS) may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 50 of GASB Statement No. 74) Legislation has been enacted for multiple years (for Fiscal Year 18/19, Fiscal Year 19/20, and Fiscal Year 20/21) that allowed certain employers (referred to as "Quasi" agencies) in the KERS Non-hazardous Fund to contribute 8.41% of pay into the insurance fund, which is less than the actuarially determined contribution rate. GRS confirmed that the single discount rate used in the GASB calculations remains unchanged if these Quasi agencies were assumed to continue making contributions at a reduced rate in future years.

The following presents the Authority's proportionate share of the collective net OPEB liability, as well as what the Authority's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.43 percent) or 1-percentage-point higher (6.43 percent) than the current discount rate:

	1% Decrease (4.43%)	Discount (5.43%)	1% Increase (6.43%)
The Authority's proportionate share	$ 1,435,000	$ 1,201,000	$ 1,015,000

The following presents the Authority's proportionate share of the collective net OPEB liability, as well as what the Authority's proportionate share of the collective 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 (Pre-65 - Initial trend starting at 6.40 percent at January 1, 2022, and gradually decreasing to 4.05 percent over a period of 14 years and Post-65 - Initial trend starting at 2.90 percent at January 1, 2022, and gradually decreasing to 4.05 percent over a period of 14 years):

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Authority's proportionate share	$ 1,014,000	$ 1,201,000	$ 1,435,000

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Annual Comprehensive Financial Report should be referred to for additional disclosures related to KERS.

16. RISK MANAGEMENT

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

17. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

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

- 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, 2021.

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

The following table sets forth by level within hierarchy, the Authority's investment at fair value for June 30, 2021:

	Assets at Fair Value as of June 30, 2021			
	Level 1	*Level 2*	*Level 3*	*Total*
Investment in State Pool	$ -0-	$ 1,532,000	$ -0-	$ 1,532,000
U.S Treasury Bills	-0-	111,996,000	-0-	111,996,000
U.S Treasury Notes	-0-	89,353,000	-0-	89,353,000
	$ 0	$ 202,881,000	$ -0-	$ 202,881,000

The Authority's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2021.

18. CONTINGENCY

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Authority's future operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19; future collections of principal and/or interest on assistance agreements receivable; shortages of personnel; delays, loss of, or reduction to revenue, state appropriations, and funding; and investment portfolio declines. Management believes the Authority is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

19. RECENT GASB PRONOUNCEMENTS

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

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

In May 2020, the GASB issued GASB Statement No 96, *Subscription-Based Information Technology Arrangements (SBITA*), which requires the recognition of certain SBITA assets and liabilities for SBITA that previously were classified as an operating lease and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standards for SBITAs are based on the standards established in Statement No. 87, *Leases*. GASB Statement No 96 will be effective for the periods beginning after June 15, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHUDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2021

	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.0474%	0.0427%	0.0344%	0.0347%	0.0484%	0.0516%	0.0497%
Proportionate share of the net pension liability	$ 6,719,145	$ 6,027,697	$ 4,683,236	$ 4,644,598	$ 5,511,653	$ 5,178,848	$ 4,214,000
Covered payroll	$ 676,327	$ 760,873	$ 647,943	$ 536,379	$ 781,651	$ 828,620	$ 772,709
Proportionate share of the net pension liability as a percentage of its covered payroll	993.48%	792.21%	722.79%	865.92%	705.13%	625.00%	545.35%
Plan fiduciary net position as a percentage of the total pension liability	14.01%	13.66%	12.84%	13.32%	14.80%	18.83%	22.32%

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

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	$ 506,349	$ 480,395	$ 540,448	$ 266,046	$ 215,839	$ 241,061	$ 255,559	$ 504,336
Contribution in relation to the statutorily required contribution	506,349	480,395	540,448	266,046	215,839	241,061	255,559	504,336
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered payroll	$ 690,979	$ 676,327	$ 760,873	$ 647,943	$ 536,379	$ 781,651	$ 828,620	$ 772,709
Contribution as a percentage of covered payroll	73.28%	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%	65.27%
Notes to Schedule								
Valuation date	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2014	Not available
Methods and assumptions used to determine contributions:								
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Experience study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	Not available
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed market	Five-year smoothed market	Not available
Investment return	5.25%	5.25%	6.75%	6.75%	6.75%	7.50%	7.75%	Not available
Inflation	2.30%	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%	Not available
Projected salary increase	3.55% to 15.55%, varies by service	3.55% to 15.55%, varies by service	4.0%, average	4.0%, average	4.0%, average, including inflation	4.0%, average, including inflation	4.50% per annum	Not available

Mortality

The rate of mortality for active members is based on the RP-2000 Combined Mortality Table projected to with scale BB to 2013 (multiplied by 50% for males and 30% for females). For health retired members and beneficiaries, the mortality table is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females) For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY

JUNE 30, 2021

	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0474%	0.0427%	0.034400%	0.034700%
Proportionate share of the net OPEB liability	$ 1,201,356	$ 948,732	$ 815,546	$ 879,752
Covered payroll	$ 676,327	$ 760,873	$ 647,943	$ 536,379
Proportionate share of the net OPEB liability as a percentage of its covered payroll	177.63%	124.69%	125.87%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	29.47%	30.92%	27.32%	24.37%

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

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF OPEB CONTRIBUTIONS

JUNE 30, 2021

	2021	2020	2019	2018
Statutorily required contribution	$ 77,044	$ 83,865	$ 94,348	$ 54,492
Contribution in relation to the statutorily required contribution	77,044	83,865	94,348	54,492
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-
Covered payroll	$ 690,979	$ 676,327	$ 760,873	$ 647,943
Contribution as a percentage of covered payroll	11.15%	12.40%	12.40%	8.41%
Notes to Schedule				
Valuation date	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Methods and assumptions used to determine contributions:				
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization period	26 Years, Closed	26 Years, Closed	27 Years, Closed	27 Years, Closed
Investment return	6.25%	6.25%	7.50%	7.50%
Inflation	2.30%	2.30%	3.25%	3.25%
Payroll growth rate	0.00%	0.00%	4.00%	4.00%
Projected salary increase	3.55 to 15.55, varies by service	3.55 to 15.55, varies by service	4.00% average	4.00% average
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality

RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2021

Grant Name	Federal AL No.	Grant Number	Grant Period	Expenditures	Amounts passed to subrecipients
U.S Environmental Protection Agency					
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-18	7/2018 - 9/2021	$ 161,000	$
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-19	7/2019 - 9/2022	11,102,000	
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS984547-20	7/2020 - 9/2023	4,417,000	
Total Capitalization Grants for Drinking Water State Revolving Fund				15,680,000	8,747,000
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-19	7/2019 - 9/2022	781,000	
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS210001-20	7/2020 - 9/2023	19,940,000	
Total Capitalization Grants for Clean Water State Revolving Fund				20,721,000	19,416,000
Total all programs				$ 36,401,000	$ 28,163,000

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. LOANS OUTSTANDING

CFDA No.	Name of Grant		Amount
66.458	Clean Water State Revolving Funds	$	799,002,000
66.468	Drinking Water State Revolving Funds		222,137,000
	Total	$	1,021,139,000

3. LOAN PRINCIPAL FORGIVENESS

CFDA No.	Name of Grant		Amount
66.458	Clean Water State Revolving Funds	$	4,357,000
66.468	Drinking Water State Revolving Funds		3,948,000
	Total	$	8,305,000

4. SUB-RECIPIENTS

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

Sub-recipient Name			Amount
Lexington Fayette Urban County Government	A15-026	$	52,000
Augusta Regional Sewer Authority	A17-001		543,000
City of Marion	A18-003		50,000
La Grange Utilities Commission	A18-016		314,000
City of Lancaster	A19-011		50,000
Regional Water Resource Agency	A19-024		219,000
Louisville Metropolitan Sewer	A19-028		17,788,000
City of Morehead	A19-032		152,000
City of Bardstown	A19-047		186,000
City of Burkesville	A20-002		39,000
City of Mount Sterling	A20-007		23,000
Total Sub-recipients for Clean Water State Revolving Funds		$	19,416,000
Allen County Water District	F19-025	$	623,000
City of Burnside	F19-005		218,000
City of Campbellsville	F17-014		150,000
City of Danville	F19-042		676,000
City of Edmonton	F19-004		1,294,000
City of Evarts	F16-036		61,000
City of Hopkinsville	F13-020		344,000
City of Irvine	F17-006		305,000
City of Jamestown	F19-019		185,000
City of Lancaster	F18-017		1,613,000
City of Lebanon	F18-006		878,000
City of Morehead	F18-014		174,000
City of Mortons Gap	F19-044		291,000
City of Pineville	F18-003		237,000
City of Stanford	F17-005		285,000
Western Pulaski County Water District	F16-003		1,413,000
Total Sub-recipients for Drinking Water State Revolving Funds		$	8,747,000

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2021

		Fund A		Fund B		Fund C		Fund F		Total
ASSETS										
Current assets:										
Cash and cash equivalents	$	94,781,000	$	6,810,000	$	7,083,000	$	44,515,000	$	153,189,000
Investments, current portion		119,665,000		6,532,000		2,500,000		73,896,000		202,593,000
Intergovernmental receivables		1,259,000		14,000		-0-		4,503,000		5,776,000
Accrued interest receivable, investments		414,000		-0-		6,000		248,000		668,000
Accrued interest receivable, assistance agreements		953,000		102,000		81,000		226,000		1,362,000
Current maturities of long-term receivables		52,505,000		5,236,000		2,965,000		18,961,000		79,667,000
Total current assets		269,577,000		18,694,000		12,635,000		142,349,000		443,255,000
Investments, restricted for debt service		-0-		-0-		288,000		-0-		288,000
Long-term receivables:										
Assistance agreements receivable:										
Principal		746,497,000		66,094,000		32,682,000		203,176,000		1,048,449,000
Less:										
Allowance for losses on assistance agreements		-0-		(2,000,000)		-0-		-0-		(2,000,000)
Allowance for loan subsidy required by federal capitalization grants		(3,381,000)		-0-		-0-		(2,619,000)		(6,000,000)
Unamortized Discount		-0-		-0-		(37,000)		-0-		(37,000)
Total long-term receivables		743,116,000		64,094,000		32,645,000		200,557,000		1,040,412,000
Capital assets, net		-0-		11,000		-0-		-0-		11,000
Total assets	$	1,012,693,000	$	82,799,000	$	45,568,000	$	342,906,000	$	1,483,966,000
Deferred outflow of resources:										
Pension related	$	591,000	$	50,000	$	75,000	$	540,000	$	1,256,000
Post-employment benefit other than pension		232,000		20,000		30,000		212,000		494,000
Unamortized deferred amount on refunding		3,136,000		-0-		-0-		659,000		3,795,000
Total deferred outflows of resources	$	3,959,000	$	70,000	$	105,000	$	1,411,000	$	5,545,000
LIABILITIES										
Current liabilities:										
Current maturities of revenue bonds payable, including unamortized premiums	$	17,078,000	$	-0-	$	989,000	$	3,986,000	$	22,053,000
Accrued interest payable		2,521,000		-0-		23,000		861,000		3,405,000
State treasury for capitalization grant matching funds		1,259,000		-0-		-0-		4,503,000		5,762,000
Grants payable		-0-		13,000		-0-		-0-		13,000
Other payables		3,000		2,000		25,000		2,000		32,000
Total current liabilities		20,861,000		15,000		1,037,000		9,352,000		31,265,000
Long-term debt:										
Revenue bonds payable including long-term unamortized premiums		127,157,000		-0-		440,000		45,525,000		173,122,000
Net pension liability		3,177,000		280,000		387,000		2,876,000		6,720,000
Net post-employment benefits other than pension liability		569,000		49,000		69,000		514,000		1,201,000
Other payables		-0-		-0-		14,000		-0-		14,000
Total liabilities	$	151,764,000	$	344,000	$	1,947,000	$	58,267,000	$	212,322,000
Deferred inflow of resources:										
Post-employment benefits other than pension		60,000		5,000		8,000		55,000		128,000
Unamortized deferred amount on refunding		-0-		-0-		35,000		-0-		35,000
	$	60,000	$	5,000	$	43,000	$	55,000	$	163,000
NET POSITION										
Net invested in capital assets	$	-0-	$	11,000	$	-0-	$	-0-	$	11,000
Restricted net position		864,828,000		82,509,000		43,683,000		285,995,000		1,277,015,000
Total net position	$	864,828,000	$	82,520,000	$	43,683,000	$	285,995,000	$	1,277,026,000

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2021

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	$ 1,572,000	$ 134,000	$ 72,000	$ 550,000	$ 2,328,000
Interest income	11,943,000	988,000	1,076,000	2,929,000	16,936,000
Total operating revenues	13,515,000	1,122,000	1,148,000	3,479,000	19,264,000
Operating expenses:					
General and administrative	1,644,000	523,000	116,000	1,348,000	3,631,000
Intergovernmental administrative expense reimbursement	843,000	-0-	-0-	6,580,000	7,423,000
State grant expenditures	-0-	2,371,000	-0-	-0-	2,371,000
Revenue bonds payable:					
Amortization of bond premiums	(2,567,000)	-0-	(84,000)	(756,000)	(3,407,000)
Interest - revenue bonds payable	7,128,000	-0-	29,000	2,299,000	9,456,000
Arbitrage expense	-0-	-0-	(10,000)	-0-	(10,000)
Total operating expenses	7,048,000	2,894,000	51,000	9,471,000	19,464,000
Operating income (loss)	6,467,000	(1,772,000)	1,097,000	(5,992,000)	(200,000)
Non-operating revenues (expenses):					
Investment Income	191,000	4,000	19,000	75,000	289,000
Federal grants	20,721,000	-0-	-0-	15,680,000	36,401,000
Loan subsidy required by federal capitalization grants	(4,357,000)	-0-	-0-	(3,948,000)	(8,305,000)
Intergovernmental revenue from the Commonwealth	4,045,000	1,265,000	-0-	4,503,000	9,813,000
State appropriations	-0-	773,000	-0-	-0-	773,000
Total non-operating revenues (expenses)	20,600,000	2,042,000	19,000	16,310,000	38,971,000
Change in net position	27,067,000	270,000	1,116,000	10,318,000	38,771,000
Net position, beginning of year	837,761,000	82,250,000	42,567,000	275,677,000	1,238,255,000
Net position, end of year	$ 864,828,000	$ 82,520,000	$ 43,683,000	$ 285,995,000	$ 1,277,026,000

CPAs / ADVISORS

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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*

To the 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 the Kentucky Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 12, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Board of Directors
Kentucky Infrastructure Authority

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 financial statements. 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 matter 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
November 12, 2021

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We have audited the Kentucky Infrastructure Authority's (the Authority) 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, 2021. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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.

Board of Directors
Kentucky Infrastructure Authority

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, 2021.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
November 12, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? _______ yes ___X___ no

Significant deficiency(ies) identified that are not considered to be material weaknesses? _______ 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 that are not considered to be material weaknesses? _______ yes ___X___ none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? _______ yes ___X___ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs: $1,092,019

Auditee qualified as low-risk auditee: ___X____ yes______no

Section II - Findings - Financial Statement Audit

None

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

None

There were no findings reported for the year ended June 30, 2021.