KENTUCKY INFRASTRUCTURE AUTHORITY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2023

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

Report on the Audit of Financial Statements

Opinion

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, 2023, and the related notes to the financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2023, and the respective 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9, the schedule of proportionate share of the net pension liability and schedule of pension contributions on pages 39 through 40, the schedule of proportionate share of the net Other Postemployment Benefits (OPEB) liability and the schedule of OPEB contributions on pages 41 through 42, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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 Regulations* Part 200, *Uniform Administrative 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 was 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, 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

To the Board of Directors
Kentucky Infrastructure Authority
Frankfort, Kentucky

matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
December 21, 2023

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, 2023. 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 2023, the Authority reported an ending net position of $1,380,273,000, an increase of $64,283,000 (4.9%) in comparison with the prior year.
- The Authority's total liabilities increased $16,875,000 (8.8%) during fiscal year 2023.
- The Authority disbursed $85,646,000 to borrowers for eligible expenditures under loan assistance agreements.
- Principal in the amount of $77,533,000 was collected from borrowers for assistance agreements.
- The Authority recorded grant expenditures to local governmental entities of $24,838,000 in federal grants and $533,000 in state grants.

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 14 through 38. All dollar amounts have been rounded to the nearest thousand.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information
Statements of Net Position
As of June 30

	2023	% Increase (Decrease)	2022
Assets:			
Current assets	$ 546,066,000	16.6%	$ 468,422,000
Long-term receivables	1,040,282,000	0.4%	1,036,596,000
Capital assets, net	11,000	-47.6%	21,000
Total assets	1,586,359,000	5.4%	1,505,039,000
Deferred outflow of resources	3,742,000	-9.7%	4,142,000
Total assets and deferrals	1,590,101,000	5.4%	1,509,181,000
Liabilities:			
Current liabilities	74,671,000	107.6%	35,965,000
Long-term debt	134,970,000	-13.9%	156,801,000
Total liabilities	209,641,000	8.8%	192,766,000
Deferred inflow of resources	187,000	-56.%	425,000
Total liabilities and deferrals	209,828,000	8.6%	193,191,000
Net position:			
Net investment in capital assets	11,000	-47.6%	21,000
Restricted net position	1,380,262,000	4.9%	1,315,969,000
Total net position	$ 1,380,273,000	4.9%	$ 1,315,990,000

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

During 2023, the Authority's total cash and cash equivalents and investments increased $38,544,000. The increase is due to an increase in state appropriations and an increase in investment income.

During fiscal year 2023, payments to borrowers for eligible expenditures under assistance agreements were $85,646,000, which exceeded repayments of assistance agreements receivable of $77,533,000 and forgiveness of loan principal of $6,895,000 contributing to the increase in net assistance agreements receivable.

Total liabilities consist of bonds payable and related accrued interest, miscellaneous accounts and state grants payable, unearned revenue, 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

	2023	% Increase (Decrease)	2022
Operating revenues	$ 18,255,000	-1.7%	$ 18,580,000
Operating expenses	(11,692,000)	-23.1%	(15,211,000)
Operating income	6,563,000	94.8%	3,369,000
Non-operating revenues (expenses):			
Investment Income	13,738,000	1,972.1%	663,000
Federal grants	65,785,000	65.4%	39,774,000
Federal grants expense	(24,838,000)		-0-
Loan subsidy required by federal capitalization grants	(4,931,000)	-59.9%	(12,305,000)
Intergovernmental revenue from the Commonwealth	7,739,000	-10.1%	8,604,000
State grants expense	(533,000)	-72.1%	(1,913,000)
State appropriations	760,000	-1.6%	772,000
Change in net position	$ 64,283,000	65.0%	$ 38,964,000

Operating revenues primarily consist of interest and service fee revenue from assistance agreements receivable. Interest on assistance agreements receivable and related service fees decreased $325,000 (1.8%) from fiscal year 2022 due to the payments in assistance agreement receivable.

Operating expenses primarily consist of general and administrative costs, interest expense, and amortization related to revenue bonds payable. Interest expense on revenue bonds decreased $847,000 (9.9%). General and administrative costs decreased $386,000 (10.7%).

Non-operating revenues and expenses consist of income from investments, net changes in the fair market value of investments, debt issuance costs, grant revenues and expenses, required principal forgiveness, provisions for losses on assistance agreements, intergovernmental revenues, and state appropriations. Federal grant revenues totaled $65,785,000 and expenditures totaled $24,838,000 for loans and grants 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 2023, $4,931,000 in loan principal forgiveness was recorded as an expense in the statement of revenues, expenses, and changes in net position. The Authority forgave principal of $6,895,000 during the year. State grants are primarily disbursed to local taxing districts of the Commonwealth as appropriated by the General Assembly. State grant expenditures decreased $1,380,000 (-72.1%) from 2022. For details related to intergovernmental revenues, refer to Note 10 of the financial statements. For details on state appropriations, refer to Note 11 of the financial statements.

LONG-TERM DEBT

At June 30, 2023, the Authority had $132,675,000 in bond principal outstanding which is a decrease of 13.3% 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, 2023, 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:

	2023	% Increase (Decrease)	2022
Program revenue supported debt	$ 132,675,000	-13.3%	$ 153,105,000

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority administers grants under numerous House Bills. At June 30, 2023, approximately $2,125,000 of State Grant Commitments remained to be disbursed as outlined in Note 8 of the financial statements. At June 30, 2023, approximately $535,375,000 of Federal Grant Appropriations remained to be disbursed as outlined in Note 9 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, 2023. 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, 2023

ASSETS		
Current assets:		
Cash and cash equivalents	$	421,894,000
Investments		14,826,000
Federal grant receivables		25,879,000
Intergovernmental receivables		7,534,000
Accrued interest receivable, investments		1,710,000
Accrued interest receivable, assistance agreements		1,397,000
Current maturities of long-term receivables		72,826,000
Total current assets		546,066,000
Long-term receivables:		
Assistance agreements receivable:		
Principal		1,056,645,000
Less:		
Allowance for losses on assistance agreements		(2,000,000)
Allowance for loan subsidy		(14,363,000)
Total long-term receivables		1,040,282,000
Capital assets, net		11,000
Total assets	$	1,586,359,000
Deferred outflow of resources:		
Pension related	$	1,050,000
Post-employment benefits other than pension		343,000
Unamortized deferred amount on refunding		2,349,000
Total deferred outflows of resources	$	3,742,000
Total assets and deferrals	$	1,590,101,000
LIABILITIES		
Current liabilities:		
Current maturities of revenue bonds payable, including unamortized premiums	$	22,729,000
Accrued interest payable		2,667,000
State treasury for capitalization grant matching fund		26,913,000
Unearned revenue		15,850,000
Grants payable		6,490,000
Other payables		22,000
Total current liabilities		74,671,000
Long-term liabilities:		
Revenue bonds payable including long-term unamortized premiums, less current maturities		126,640,000
Net pension liability		7,174,000
Net post-employment benefit other than pension liability		1,156,000
Total liabilities	$	209,641,000
Deferred inflow of resources:		
Pension related	$	11,000
Post-employment benefits other than pension		176,000
Total deferred inflows of resources	$	187,000
Total liabilities and deferrals	$	209,828,000
NET POSITION		
Net investment in capital assets	$	11,000
Restricted net position		1,380,262,000
Total net position	$	1,380,273,000

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, 2023

Operating revenues:	
Assistance agreements:	
Servicing fee	$ 2,343,000
Interest income	15,912,000
Total operating revenues	18,255,000
Operating expenses:	
General and administrative	3,232,000
Intergovernmental administrative expense reimbursement	4,030,000
Revenue bonds:	
Amortization of bond premiums	(3,324,000)
Interest	7,754,000
Total operating expenses	11,692,000
Operating income	6,563,000
Non-operating revenues (expenses):	
Investment income	13,738,000
Federal grants	65,785,000
Federal grant expenditures	(24,838,000)
Loan subsidy required by federal capitalization grants	(4,931,000)
Intergovernmental revenue from the Commonwealth	7,739,000
State grant expenditures	(533,000)
State appropriations	760,000
Total non-operating revenues	57,720,000
Change in net position	64,283,000
Net position, beginning of year	1,315,990,000
Net position, end of year	$ 1,380,273,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:		
Administrative fees received	$	2,343,000
Collections on assistance agreements		77,533,000
Advances on assistance agreements		(85,646,000)
Interest received on assistance agreements		15,845,000
Cash payments for personnel expenses		(1,745,000)
Cash payments to suppliers for goods and services		(5,205,000)
Net cash from operating activities		3,125,000
Cash flows from noncapital financing activities:		
Principal payments on long-term debt		(20,430,000)
Interest paid on long-term debt		(7,426,000)
Receipt of federal grants		40,073,000
Federal grants disbursements		(18,639,000)
Cash payments for state grants		(533,000)
State appropriations		16,610,000
Payments from the Commonwealth		27,161,000
Net cash provided by noncapital financing activities		36,816,000
Cash flows from investing activities:		
Purchase of investment securities		(14,826,000)
Proceeds from sale and maturities of investment securities		1,087,000
Interest and other investment income received		12,342,000
Net cash provided by investing activities		(1,397,000)
Net change in cash and cash equivalents		38,544,000
Cash and cash equivalents, beginning of year		383,350,000
Cash and cash equivalents, end of year	$	421,894,000

See the accompanying notes to the financial statements.

KENTUCKY INFRASTRUCTURE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023

Reconciliation of operating income to net cash from operating activities:		
Operating income	$	6,563,000
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of assistance agreement discounts		(3,000)
Amortization of bond premium		(3,324,000)
Amortization of bond defeasance included in interest		721,000
Depreciation of capital assets		10,000
Interest paid on long-term debt		7,426,000
Changes in assets and liabilities:		
Increase in accrued interest receivable on assistance agreements		(64,000)
Increase in assistance agreements receivable		(8,113,000)
Decrease in accrued interest payable		(393,000)
Decrease in other payables		(37,000)
Change in deferred outflow related to pension and OPEB		(323,000)
Change in deferred inflow related to pension and OPEB		(236,000)
Change in net pension liability		824,000
Change in net OPEB liability		74,000
Net cash from operating activities	$	3,125,000
Supplemental disclosure of noncash investing activities:		
Net increase in fair value of investments	$	485
Forgiveness of loan principal	$	(6,895,000)

See the accompanying notes to the financial statements.

1. DESCRIPTION OF ORGANIZATION

In 1972, the General Assembly of Kentucky established the Kentucky Pollution Abatement Authority (KPAA) after determining that pollution was seriously harming the Commonwealth'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.

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. The figures presented in the financial statements and notes to the financial statements have been rounded to the nearest thousand dollars.

<u>Basis of Accounting</u>

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.

<u>Use of Estimates</u>

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.

<u>Cash and Cash Equivalents</u>

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

<u>Investments</u>

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.

<u>Description of Net Position Classes</u>

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, 2023.

<u>Assistance Agreements Receivable and Allowance for Loan Losses</u>

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.

<u>Amortization of Discounts on Assistance Agreements</u>

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.

<u>Amortization of Bond Premium</u>

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, 2023, cash and cash equivalents consist of the following:

First American Government Obligation Fund	$	419,262,000
Cash in state pool		2,632,000
Total cash and cash equivalents	$	421,894,000

The following schedule presents the carrying amounts of investments at June 30, 2023:

Investment		**Fair Value**
Investment in state pool		14,826,000
Total	$	14,826,000

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, 2023, 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, 2023, the Authority owed $26,913,000 in cash and investments to 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, 2023, 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, 2023 are summarized below:

	Cash and Cash Equivalents	Investments	Total
Operating Fund	$ 18,007,000	$ -0-	$ 18,007,000
Revolving Fund	132,590,000	-0-	132,590,000
Debt Service Reserve Fund	22,000	-0-	22,000
Arbitrage Rebate Fund	41,000	-0-	41,000
Surplus Fund	268,602,000	-0-	268,602,000
Funds in state pool	2,632,000	14,826,000	17,458,000
	$ 421,894,000	$ 14,826,000	$ 436,720,000

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, 2023:

State Property and Building Commission bond issue - funding of the state match for the Fund A Federally Assisted Wastewater Program (*)	$	5,210,000
State Property and Building Commission bond issue - funding of the state match for the Fund F Federally Assisted Drinking Water Program (*)		2,309,000
Due from the Commonwealth's General Fund for debt service and general and administrative costs		15,000
Total receivable from the Commonwealth	$	7,534,000

* 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, 2023, assistance agreement receivables, net of allowance for loan losses and loan subsidy, was as follows:

Fund A - Clean Water State Revolving Fund Loan Program	$	803,296,000
Fund B - Infrastructure Revolving Loan Program		63,732,000
Fund C - Governmental Agencies Program		30,833,000
Fund F - Drinking Water State Revolving Fund Loan Program		231,610,000
Sub total		1,129,471,000
Allowance for loan loss and loan subsidy required by federal capitalization grants		(16,363,000)
Net assistance agreement receivable		1,113,108,000
Current maturities		(72,826,000)
Long-term receivables	$	1,040,282,000

The provisions for the allowance for loan loss and principal forgiveness activity during the year ended June 30, 2023 was as follows:

	July 1, 2022 Allowance	Provisions	Principal Forgiveness	June 30, 2023 Allowance
Loan Loss Allowance	$ 2,000,000	$ -0-	$ -0-	$ 2,000,000
Principal Forgiveness Allowance	16,327,000	4,931,000	(6,895,000)	14,363,000
Total	$ 18,327,000	$ 4,931,000	$ (6,895,000)	$ 16,363,000

In addition to the net assistance agreements receivable, the Authority has commitments remaining at June 30, 2023, to disburse funds as summarized below:

Fund A - Clean Water State Revolving Fund Loan Program	$	126,104,000
Fund B - Infrastructure Revolving Loan Program		22,811,000
Fund C - Governmental Agencies Program		3,491,000
Fund F - Drinking Water State Revolving Fund Loan Program		139,368,000
Total commitments outstanding	$	291,774,000

7. LONG-TERM DEBT, REVENUE BONDS PAYABLE

Long-term debt consists of the following at June 30, 2023:

	Balance	Current	Long-term
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)	$ 3,640,000	$ -0-	$ 3,640,000
Series 2015A Revenue and Refunding Bonds, interest 4.00% to 5.00%, due semi-annually, principal due annually February 1, 2021 through February 1, 2026 (Funds A and F)	32,210,000	10,205,000	22,005,000
Series 2016A Revenue and Refunding Bonds, interest 2.00% to 5.00%, due semi-annually, principal due annually February 1, 2021 through February 1, 2028 (Funds A and F)	40,455,000	6,800,000	33,655,000
Series 2018A Revenue and Revenue Bonds, interest 3.00% to 5.00%, due semi-annually, principal due annually to February 1, 2031 (Funds A and F)	56,370,000	2,400,000	53,970,000
Bond principal payable	132,675,000	19,405,000	113,270,000
Unamortized premium	16,694,000	3,324,000	13,370,000
Total	$ 149,369,000	$ 22,729,000	$ 126,640,000

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

	Principal	Interest	Total
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	17,820,000	3,764,000	21,584,000
2028	17,635,000	2,873,000	20,508,000
2029-2033	40,865,000	3,909,000	44,774,000
	$ 132,675,000	$ 27,171,000	$ 159,846,000

The following summarizes long-term debt activity of the Authority for the year ended June 30, 2023:

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023
Bond principal payable	$ 153,105,000	$ -0-	$ 20,430,000	$ 132,675,000
Unamortized premiums	20,018,000	-0-	3,324,000	16,694,000
Total	$ 173,123,000	$ -0-	$ 23,754,000	$ 149,369,000

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, 2023.

8. STATE GRANT COMMITMENTS

As of June 30, 2023, 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		1,301,000
2016 HB303 Reallocated		490,000
Total funded by bond funds		2,109,000
2014 HB235 Coal Severance		14,000
Total grant commitments	$	2,125,000

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. FEDERAL GRANT APPROPRIATIONS AND COMMITMENTS

The primary funding sources for the Drinking Water and Wastewater Grant Program funds and Line-Item Grants are appropriations provided from the Coronavirus State and Local Fiscal Recovery Fund made available by specific General Assembly Senate and House Bills as listed below. Funds must be expended by December 31, 2026.

As of June 30, 2023, appropriations remaining for disbursement are as follows:

	Appropriation	Disbursements	Remaining Balance to Disburse
Drinking Water and Wastewater Grant Program			
2021 Senate Bill 36	$ 249,925,000	$ 15,997,000	$ 233,928,000
2022 House Bill 1	249,925,000	2,478,000	247,447,000
2022 House Bill 1 Line-Item Grants	54,000,000	-0-	54,000,000
Total	$ 553,850,000	$ 18,475,000	$ 535,375,000

Appropriations available for commitment are as follows:

	Appropriation	Commitments	Remaining for Commitment
Drinking Water and Wastewater Grant Program			
2021 Senate Bill 36	$ 249,925,000	$ 193,904,000	$ 56,021,000
2022 House Bill 1	249,925,000	249,925,000	-0-
2022 House Bill 1 Line-Item Grants	54,000,000	54,000,000	-0-
Total	$ 553,850,000	$ 497,829,000	$ 56,021,000

As allowed by law, the Authority may collect an administrative fee of 0.5 percent on the principal grant amount and the fee shall be applied to the administrative processing servicing costs of the grants and necessary operating expenses of the program.

10. INTERGOVERNMENTAL REVENUE

Intergovernmental revenue from the Commonwealth during the fiscal year ended June 30, 2023 is as follows:

State Property and Building Commission bond issue - funding of the state match for the Federally Assisted Wastewater Program (Fund A)	$ 5,210,000
State Property and Building Commission bond issue - funding of the state match for the Federally Assisted Drinking Water Program (Fund F)	2,309,000
State grant funding under previous legislative authorizations	220,000
Total intergovernmental revenue from the Commonwealth	$ 7,739,000

11. STATE APPROPRIATIONS

Appropriations from the Commonwealth for administrative costs during the fiscal year ended June 30, 2023 were $760,000.

12. RESTRICTED NET POSITION

Since the use of the Authority's resources is mandated by Kentucky Revised Statute 224A, the Authority considers all net position, other than 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 2023:

Restricted by law	$	1,380,262,000
Total restricted net position	$	1,380,262,000

13. INTERGOVERNMENTAL EXPENSE

Intergovernmental expense for the year ended June 30, 2023, totaled $4,030,000 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).

14. 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, 2023. The Authority incurred expenses for office space from the Finance and Administration Cabinet in the amount of $91,000 for the year ended June 30, 2023. Anticipated expenses to the Finance and Administration Cabinet for office space during fiscal year June 30, 2023, are approximately $93,000.

15. 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 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation **X** Benefit Factor **X** Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump sum compensation payments (before and at retirement).	5 complete fiscal 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 Public Pension Authority's Board. For the fiscal year ended June 30 2023, 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 percent for the insurance fund. The Authority was contractually required to contribute 7.82 percent of covered payroll plus a monthly amount determined by the KERS actuary for its own portion of the total unfunded liability over a set period regardless of covered payroll to the nonhazardous KERS pension plan during the year ended June 30, 2023. 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, 2023 was $606,000.

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, 2023, the Authority reported a liability of $7,174,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to 2022 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, 2023, the Authority's proportionate share of the plan's total net pension liability was 0.0541 percent.

There have been no actuarial assumption or method changes since June 30, 2021. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related incident. The total pension liability as of June 30, 2022 is determined using these updated benefit provisions.

Actuarial Assumptions	
Actuarial Valuation Date	June 30, 2021
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	27 years, closed
Actuarial Assumptions:	
Investment Rate of Return	5.25%
Inflation Rate	2.30%
Projected Salary Increases	3.30% to 15.30%, varies by service
Mortality Tables:	
Active Members	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 2019.
Disabled Members	PUB-2010 Disabled 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.
Date of Experience Study	The period July 1, 2013 - June 30, 2018
Update Procedures Applied	The actuarial valuation date of June 30, 2021, was rolled forward from the valuation date to the plan's fiscal year end of June 30, 2022 using standard roll forward procedures.

For the year ended June 30, 2023, the Authority recognized pension expenses of $875,000 and deferred inflows and outflows related to pension from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -0-	$ 8,000
Net difference between projected and actual earnings on	30,000	-0-
Changes in proportion and difference between employer	414,000	3,000
Contributions subsequent to the measurement date	606,000	-0-
Total	$ 1,050,000	$ 11,000

The $606,000 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, 2024. 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, 2022 plan year, the estimated remaining service life was 2.02 years. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Years	
2024	$ 394,000
2025	8,000
2026	(7,000)
2027	38,000
Total	$ 433,000

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Equity:		
Public Equity	32.50%	4.45%
Private Equity	7.00%	10.15%
Fixed Income:		
Core Bonds	20.50%	0.28%
Specialty Credit/High Yield	15.00%	2.28%
Cash	5.00%	-0.91%
Inflation Protected:		
Real Estate	10.00%	3.67%
Real Return	10.00%	4.07%
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 27-year amortization period of the unfunded actuarial accrued liability.

June 30, 2021 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	$ 8,251,000	$ 7,174,000	$ 6,287,000

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.

16. 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, 2021. 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	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 Authority was contractually required to contribute 2.15% of cover payroll plus a monthly amount determined by the KERS actuary for its own portion of the total unfunded liability over a set period regardless of covered payroll to the nonhazardous KERS OPEB plan during the year ended June 30, 2023. 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, 2023 was $71,000.

At June 30, 2023, the Authority reported a liability of $1,156,000 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to 2022 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, 2023, Authority's proportionate share of the plan's total net OPEB liability was 0.0523 percent.

For the year ended June 30, 2023, the Authority recognized OPEB expenses of $165,000 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	$ 28,000	$ 93,000
Net difference between projected and actual earnings	24,000	-0-
Changes of assumption	64,000	77,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	133,000	6,000
Contributions and implicit subsidy subsequent to the measurement date	94,000	-0-
Total	$ 343,000	$ 176,000

Of the total amount reported as deferred outflows of resources related to OPEB, $71,000 resulting from Authority statutorily required contributions and $23,000 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, 2023. 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, 2022 plan year, the estimated remaining service life was 3.44 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:

Fiscal Years	Amount
2024	$ 62,000
2025	(5,000)
2026	(4,000)
2027	20,000
Total	$ 73,000

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, 2021, using the actuarial assumptions shown in the table below, rolled forward from the valuation date to the plan's fiscal year end, June 30, 2022, using generally accepted actuarial principles.

Actuarial Assumptions	
Actuarial Valuation Date	June 30, 2021
Experience Study	The period July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, closed
Actuarial Assumptions:	
Investment Rate of Return	6.25%
Inflation Rate	2.3%
Payroll Growth Rate	0%
Salary Growth Rate	3.55% to 15.30%, varies by service

Mortality Tables:	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 2019
Healthcare Trend Rates (pre-65):	Initial trend starting at 6.40% at January 1, 2022 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 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Update Procedures Applied	The actuarial valuation date of June 30, 2021, was rolled forward from the valuation date to the plan's fiscal year end of June 30, 2022 using standard roll forward procedures.

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.

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Equity:		
Public Equity	43.50%	4.45%
Private Equity	10.00%	10.15%
Fixed Income:		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	15.00%	2.28%
Cash	1.50%	-0.91%
Inflation Protected:		
Real Estate	10.00%	3.67%
Real Return	10.00%	4.07%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.72 percent for the KERS Nonhazardous insurance plan assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA

Index" as of June 30, 2022. 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 KERS's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the KERS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash 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 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 (4.72 percent) or 1-percentage-point higher (6.72 percent) than the current discount rate:

	1% Decrease (4.72%)	Discount (5.72%)	1% Increase (6.72%)
The Authority's proportionate share	$ 1,384,000	$ 1,156,000	$ 946,000

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 6.30 percent at January 1, 2022, and gradually decreasing to 4.05 percent over a period of 13 years):

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Authority's proportionate share	$ 951,000	$ 1,156,000	$ 1,377,000

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.

17. 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.

18. 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.

The following table sets forth by level within hierarchy, the Authority's investment at fair value for June 30, 2023:

Assets at Fair Value as of June 30, 2023

	Level 1	*Level 2*	*Level 3*	*Total*
Investment in State Pool	$ 813,000	$ 14,013,000	$ -0-	$ 14,826,000
	$ 813,000	$ 14,013,000	$ -0-	$ 14,826,000

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, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY INFRASTRUCTURE AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.0541%	0.0479%	0.0474%	0.0427%	0.0344%	0.0347%	0.0484%	0.0516%	0.0497%
Proportionate share of the net pension liability	$ 7,174,183	$ 6,350,343	$ 6,719,145	$ 6,027,697	$ 4,683,236	$ 4,644,598	$ 5,511,653	$ 5,178,848	$ 4,214,000
Covered payroll	$ 797,516	$ 690,979	$ 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	899.57%	919.04%	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	18.51%	18.48%	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, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	$ 606,187	$ 596,542	$ 506,349	$ 480,395	$ 540,448	$ 266,046	$ 215,839	$ 241,061	$ 255,559	$ 504,336
Contribution in relation to the statutorily required contribution	606,187	596,542	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-	$ -0-	$ -0-
Covered payroll	$ 868,436	$ 797,516	$ 690,979	$ 676,327	$ 760,873	$ 647,943	$ 536,379	$ 781,651	$ 828,620	$ 772,709
Contribution as a percentage of covered payroll	69.80%	74.80%	73.28%	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%	65.27%
Notes to Schedule										
Valuation date	June 30, 2020	June 30, 2019	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	Entry Age Normal	Entry Age Normal	Not available
Experience study	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	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	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	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%	5.25%	5.25%	6.75%	6.75%	6.75%	7.50%	7.75%	Not available
Inflation	2.30%	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%	Not available
Projected salary increase	3.30% to 15.30%, varies by service	3.55% to 15.30%, varies by service	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 Mortaility Table projected to with scale BB to 2013 (multipled 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 Mortaility Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. Beginning in 2022, the retiree mortality is a 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 2019. 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 experinece investigation is conducted.

KENTUCKY INFRASTRUCTURE AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY

JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017
Proportion of the net OPEB liability	0.0523%	0.0479%	0.0474%	0.0427%	0.034400%	0.034700%	0.191420%
Proportionate share of the net OPEB liability	$ 1,156,292	$ 1,080,971	$ 1,201,356	$ 948,732	$ 815,546	$ 879,752	$ 3,953,169
Covered payroll	$ 797,516	$ 690,979	$ 676,327	$ 760,873	$ 647,943	$ 536,379	$ 3,005,194
Proportionate share of the net OPEB liability as a percentage of its covered payroll	144.99%	156.44%	177.63%	124.69%	125.87%	164.02%	131.54%
Plan fiduciary net position as a percentage of the total OPEB liability	38.15%	38.38%	29.47%	30.92%	27.32%	24.37%	24.48%

*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, 2023

	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contribution	$ 71,193	$ 76,562	$ 77,044	$ 83,865	$ 94,348	$ 54,492	$ 242,750	$ 238,312
Contribution in relation to the statutorily required contribution	71,193	76,562	77,044	83,865	94,348	54,492	242,750	238,312
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered payroll	$ 868,436	$ 797,516	$ 690,979	$ 676,327	$ 760,873	$ 647,943	$ 536,379	$ 781,651
Contribution as a percentage of covered payroll	8.20%	9.60%	11.15%	12.40%	12.40%	8.41%	45.26%	30.49%
Notes to Schedule								
Valuation date	June 30, 2020	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	Not available
Experience Study	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	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	
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
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 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	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	Not available
Amortization period	30 Years, Closed	30 Years, Closed	26 Years, Closed	26 Years, Closed	27 Years, Closed	27 Years, Closed	28 Years, Closed	Not available
Investment return	6.25%	6.25%	6.25%	6.25%	7.50%	7.50%	7.50%	Not available
Inflation	2.30%	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	Not available
Payroll growth rate	0.00%	0.00%	0.00%	0.00%	4.00%	4.00%	4.00%	Not available
Projected salary increase	3.55 to 15.30, varies by service	3.55 to 15.30, varies by service	3.55 to 15.55, varies by service	3.55 to 15.55, varies by service	4.00% average	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.40% at 1/1/22 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.	Initial trend starting at 6.25% at 1/1/2021 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 7.25% 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.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	Initial trend starting at 6.30% at 1/1/22 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 5.50% at 1/1/2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 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 5.10% 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.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

Mortality

RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). Beginning in 2022, a 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 2019.

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, 2023

***Federal Grantor/* Pass-through entity Program or Cluster Title**	**Federal Assistance Listing Number**	**Grant Number**	**Grant Period**	**Passed Through to Subrecipients**	**Total Federal Expenditures**
U. S. Environmental Protection Agency					
Clean Water State Revolving Fund Cluster-Cluster					
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS210001-21	7/1/22 - 9/30/24		$ 70,182
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS210001-22	7/1/22 - 9/30/25		10,801,557
Capitalization Grants for Clean Water State Revolving Funds	66.458	4C02D373-22	7/1/22 - 9/30/25		8,379,345
Total Clean Water State Revolving Fund Cluster-Cluster				$ 19,070,758	19,251,084
Drinking Water State Revolving Fund Cluster-Cluster					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS02D147-21	7/1/21 - 9/30/24		12,909,418
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS984547-22	7/1/22 - 9/30/25		7,913,257
Total Drinking Water State Revolving Fund Cluster-Cluster				20,682,946	20,822,675
Total U. S. Environmental Protection Agency				39,753,704	40,073,759
U.S. Department of the Treasury					
Passed through the Kentucky Office of State Budget Director					
COVID-19, Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP1027	3/3/21 - 12/31/24	18,475,700	19,349,763
Total U. S. Department of the Treasury				18,475,700	19,349,763
Total Federal programs expended				**$ 58,229,404**	**$ 59,423,522**

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

KENTUCKY INFRASTRUCTURE AUTHORITY
NOTES TO THE SUPPLEMENTARY SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Kentucky Infrastructure Authority under programs of the federal government for the year ended June 30, 2023. 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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.

3. INDIRECT COST RATE

The authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. RECONCILIATION OF FEDERAL AWARDS TO THE FINANCIAL REPORT

The Authority's financial statements are presented on an accrual basis, rounded to the nearest thousand. The Schedule of Expenditure of Federal Awards shows total expenditures of $59,423,522, which rounded to the nearest thousand reconciles to the financial statements as follows:

Federal Revenues	$ 65,785,000
Add: FY 2022 accrued, disbursed in FY 2023	129,000
Less: FY 2023 accruals, not yet disbursed	(6,490,000)
Total federal awards expended	$ 59,424,000

5. LOANS OUTSTANDING

AL No.	Name of Grant	Amount
66.458	Clean Water State Revolving Funds	$ 803,296,485
66.468	Drinking Water State Revolving Funds	231,609,967
	Total	$ 1,034,906,452

KENTUCKY INFRASTRUCTURE AUTHORITY
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2023

	Fund A	Fund B	Fund C	Fund F	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 242,533,000	$ 23,577,000	$ 15,627,000	$ 140,157,000	$ 421,894,000
Investments	-0-	14,826,000	-0-	-0-	14,826,000
Federal grants receivable	-0-	25,879,000	-0-	-0-	25,879,000
Intergovernmental receivables	5,210,000	15,000	-0-	2,309,000	7,534,000
Accrued interest receivable, investments	987,000	85,000	64,000	574,000	1,710,000
Accrued interest receivable, assistance agreements	920,000	154,000	72,000	251,000	1,397,000
Current maturities of long-term receivables	51,545,000	5,090,000	2,640,000	13,551,000	72,826,000
Total current assets	301,195,000	69,626,000	18,403,000	156,842,000	546,066,000
Long-term receivables:					
Assistance agreements receivable:					
Principal	751,751,000	58,641,000	28,194,000	218,059,000	1,056,645,000
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	(7,320,000)	-0-	-0-	(7,043,000)	(14,363,000)
Total long-term receivables	744,431,000	56,641,000	28,194,000	211,016,000	1,040,282,000
Capital assets, net	-0-	11,000	-0-	-0-	11,000
Total assets	$ 1,045,626,000	$ 126,278,000	$ 46,597,000	$ 367,858,000	$ 1,586,359,000
Deferred outflow of resources:					
Pension related	$ 494,000	$ 42,000	$ 63,000	$ 451,000	$ 1,050,000
Post-employment benefit other than pension	161,000	14,000	20,000	148,000	343,000
Unamortized deferred amount on refunding	1,935,000	-0-	-0-	414,000	2,349,000
Total deferred outflows of resources	$ 2,590,000	$ 56,000	$ 83,000	$ 1,013,000	$ 3,742,000
Total assets and deferrals	$ 1,048,216,000	$ 126,334,000	$ 46,680,000	$ 368,871,000	$ 1,590,101,000
LIABILITIES					
Current liabilities:					
Current maturities of revenue bonds payable,					
including unamortized premiums	$ 17,073,000	$ -0-	$ -0-	$ 5,656,000	$ 22,729,000
Accrued interest payable	1,956,000	-0-	-0-	711,000	2,667,000
State treasury for capitalization grant matching fund	5,210,000	19,394,000	-0-	2,309,000	26,913,000
Unearned revenue	-0-	15,850,000	-0-	-0-	15,850,000
Grants payable	-0-	6,490,000	-0-	-0-	6,490,000
Other payables	-0-	22,000	-0-	-0-	22,000
Total current liabilities	24,239,000	41,756,000	-0-	8,676,000	74,671,000
Long-term debt:					
Revenue bonds payable including long-term					
unamortized premiums	92,606,000	-0-	-0-	34,034,000	126,640,000
Net pension liability	3,391,000	297,000	413,000	3,073,000	7,174,000
Net post-employment benefits other than pension liability	546,000	48,000	67,000	495,000	1,156,000
Total liabilities	$ 120,782,000	$ 42,101,000	$ 480,000	$ 46,278,000	$ 209,641,000
Deferred inflow of resources:					
Pension related	5,000	-0-	1,000	5,000	11,000
Post-employment benefits other than pension	84,000	7,000	9,000	76,000	176,000
	$ 89,000	$ 7,000	$ 10,000	$ 81,000	$ 187,000
Total liabilities and deferrals	120,871,000	42,108,000	490,000	46,359,000	209,828,000
NET POSITION					
Net invested in capital assets	$ -0-	$ 11,000	$ -0-	$ -0-	$ 11,000
Restricted net position	927,345,000	84,215,000	46,190,000	322,512,000	1,380,262,000
Total net position	$ 927,345,000	$ 84,226,000	$ 46,190,000	$ 322,512,000	$ 1,380,273,000

KENTUCKY INFRASTRUCTURE AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2023

	Fund A	Fund B	Fund C	Fund F	Total
Operating revenues:					
Assistance agreements:					
Servicing fee	$ 1,608,000	$ 129,000	$ 65,000	$ 541,000	$ 2,343,000
Interest income	11,254,000	925,000	966,000	2,767,000	15,912,000
Total operating revenues	12,862,000	1,054,000	1,031,000	3,308,000	18,255,000
Operating expenses:					
General and administrative	1,364,000	1,060,000	92,000	716,000	3,232,000
Intergovernmental administrative expense reimbursement	310,000	-0-	-0-	3,720,000	4,030,000
Revenue bonds payable:					
Amortization of bond premiums	(2,568,000)	-0-	-0-	(756,000)	(3,324,000)
Interest - revenue bonds payable	5,775,000	-0-	-0-	1,979,000	7,754,000
Total operating expenses	4,881,000	1,060,000	92,000	5,659,000	11,692,000
Operating income (loss)	7,981,000	(6,000)	939,000	(2,351,000)	6,563,000
Non-operating revenues (expenses):					
Investment Income	7,715,000	668,000	487,000	4,868,000	13,738,000
Federal grants	19,251,000	25,712,000	-0-	20,822,000	65,785,000
Federal grants expenditures	-0-	(24,838,000)	-0-	-0-	(24,838,000)
Loan subsidy required by federal capitalization grants	(1,541,000)	-0-	-0-	(3,390,000)	(4,931,000)
Intergovernmental revenue from the Commonwealth	5,210,000	220,000	-0-	2,309,000	7,739,000
State grant expenditures	-0-	(533,000)	-0-	-0-	(533,000)
State appropriations	-0-	760,000	-0-	-0-	760,000
Total non-operating revenues (expenses)	30,635,000	1,989,000	487,000	24,609,000	57,720,000
Change in net position	38,616,000	1,983,000	1,426,000	22,258,000	64,283,000
Net position, beginning of year	888,729,000	82,243,000	44,764,000	300,254,000	1,315,990,000
Net position, end of year	$ 927,345,000	$ 84,226,000	$ 46,190,000	$ 322,512,000	$ 1,380,273,000

See report of independent auditors.

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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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 21, 2023.

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 and significant deficiencies may exist that have not been identified.

To the 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
December 21, 2023

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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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Kentucky Infrastructure Authority's (the Authority) compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

To the Board of Directors
Kentucky Infrastructure Authority

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Blue & Co., LLC

Lexington, Kentucky
December 21, 2023

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 for major programs

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

Identification of major programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
21.027	Covid Fiscal Recovery Fund

Dollar threshold used to distinguish between type A and type B programs:	$ 1,782,713	
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, 2022.