REPORT OF THE AUDIT OF THE KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

For The Fiscal Years Ended
June 30, 2017 and 2016

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Greg Thomas, Chairman
Kentucky Public Transportation Infrastructure Authority
Board of Directors

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky Public Transportation Infrastructure Authority (Authority), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2017 and 2016, and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note 1, the financial statements present only the Authority, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 12 and information about infrastructure assets reported using the modified approach on pages 39 through 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of the Authority's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

December 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management of the Kentucky Public Transportation Infrastructure Authority (the Authority), a discretely presented component unit of the Commonwealth of Kentucky, offers the readers of the Authority's financial statements this narrative overview and analysis of the financial performance of the Authority for the fiscal years ended June 30, 2017 and 2016. We encourage readers to read it in conjunction with the Authority's financial statements and the accompanying notes.

The Authority is an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky (the Commonwealth). The Authority was established in 2009 by the Extraordinary Session of the General Assembly through the enactment of Kentucky Revised Statutes (KRS) Chapter 175B, as amended, to review, approve, and monitor certain significant transportation projects within the Commonwealth and between the Commonwealth and neighboring states and, if necessary, to assist with the operation, financing, and management of those projects. Projects are developed through the approval of financial plans. The Authority is authorized to construct, reconstruct, operate, finance and manage highway projects that are either part of the designated federal interstate system or built to the standards of the interstate system that would be designated as a mega-project by the Federal Highway Administration. The Authority is also authorized to construct, reconstruct, operate, finance, and manage any project which is a fully or partially controlled highway or section of such a highway not designated as part of or built to the standards of the federal highway system, which exceeds $100 million dollars in total costs.

The Authority, the Kentucky Transportation Cabinet (KYTC), the Indiana Department of Transportation (INDOT), the Indiana Finance Authority (IFA), and the Louisville and Southern Indiana Bridges Authority (LSIBA) entered into a legal agreement in October 2012 known as the "Bi-State Development Agreement" which governs The Louisville-Southern Indiana Ohio River Bridges Project (LSIORBP). The project consists of the construction of the East End Bridge and highway connections that complete an outer loop around the greater Louisville area and continuing north of the Ohio River to connect to Interstate 65; a Downtown Crossing including a new I-65 bridge for northbound traffic; a revamped John F. Kennedy Memorial Bridge for southbound traffic, and rebuilding of the downtown interchange on both sides of the Ohio River. Kentucky was responsible for financing, reconstruction and operational improvements of the Downtown Crossing Bridges; and Indiana is responsible for financing and constructing the East End Crossing. During fiscal year 2014, the Authority finalized the financing package for the Downtown Crossing Bridges through the sale of $364.5 million Toll Revenue Bonds and $452.2 million Toll Revenue Bond Anticipation Notes. The Bond Anticipation Notes were refunded in 2017 with the proceeds of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan also approved during fiscal year 2014. Project revenues will be used to repay the Toll Revenue Bonds and TIFIA Loan as well as to pay for operations and maintenance on the project. These transactions provided approximately $592 million in project construction funds with the remaining proceeds used for capitalized interest, debt service reserve funding and costs of issuance. More detailed information about the LSIORBP can be obtained at the project website www.kyinbridges.com.

The Authority is authorized pursuant to Part I, A., 4., (16) of Kentucky House Bill 2 of the 2012 Extraordinary Session of the General Assembly to participate as the developing and issuing authority as described in KRS 175B.025 in the development, construction, financing, and operation and maintenance of the LSIORBP.

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

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased from $2,863,000 to $-0- in 2017 and decreased from $124,653,000 to approximately $2,863,000 in 2016.
- Investments decreased from $115,754,000 to approximately $85,645,000 in 2017 and decreased from $231,948,000 to approximately $115,754,000 in 2016.
- Capital assets increased from approximately $1,036,754,000 to $1,100,255,000 in 2017 and increased from $861,092,000 to $1,036,754,000 in 2016.
- The Authority's total debt decreased from $758,016,000 to approximately $755,293,000 in 2017 and decreased from $760,715,000 to $758,016,000 in 2016.
- Construction was completed during fiscal year 2017 and tolling commenced on December 31, 2016, resulting in net toll revenues of $31,323,565 through June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: Management's Discussion and Analysis (this section), the basic financial statements, the accompanying notes to the financial statements, and the required supplementary information other than Management's Discussion and Analysis. The Authority 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 Statements of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

The Statements of Cash Flows provides relevant information about the cash receipts and cash payments of the Authority during the fiscal year. The statement should help users assess the Authority's ability to generate future net cash flows, meet future obligations as they become due, the Authority's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 21 through 36.

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information
Statements of Net Position
As of June 30

	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
Assets:					
Current assets	$ 103,433,701	20%	$ 86,146,776	(59)%	$ 208,688,368
Long-term cash and investments	-0-	(100)%	32,644,663	(78)%	148,125,121
Net capital assets	1,100,224,982	6%	1,036,753,871	20%	861,092,151
Total assets	1,203,658,683	4%	1,155,545,310	(5)%	1,217,905,640
Liabilities:					
Current liabilities	18,642,503	(34)%	28,356,821	(22)%	36,376,366
Long-term debt	755,292,653	0%	758,016,122	0%	760,715,277
Total liabilities	773,935,156	(2)%	786,372,943	(1)%	797,091,643
Net position:					
Net investment in capital assets	485,821,810	11%	437,834,799	2%	429,759,696
Unrestricted net position (deficit)	(56,098,283)	(18)%	(68,662,432)	668%	(8,945,699)
Total net position	$ 429,723,527	16%	$ 369,172,367	(12)%	$ 420,813,997

Total assets consist primarily of cash and cash equivalents, investments, and capital assets.

During 2017, the Authority's total cash and cash equivalents and investments decreased approximately $32,971,000 from continued construction costs and debt interest payments.

Capital assets increased in 2017 by approximately $63,471,000 resulting from the completed construction of the Downtown Crossing.

Total liabilities primarily consist of current and non-current portions of revenue bonds, the TIFIA Loan, revenue bond anticipation notes payable and related accrued interest thereon. During fiscal year 2017, long-term debt decreased approximately $2,723,000.

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

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

	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
Operating revenues	$ 31,323,565	100%	$ -0-	N/A	$ -0-
Operating expenses	40,854,801	(32)%	60,510,002	1050%	5,260,859
Operating loss	(9,531,236)	(84)%	(60,510,002)	1050%	(5,260,859)
Nonoperating revenues (expenses):					
Interest earned on investments	204,497	159663%	128	(47)%	241
Interest expense	(14,808,436)	100%	-0-	N/A	-0-
Intergovernmental revenues	36,699,324	4527%	793,141	128%	348,104
Total nonoperating revenues (expenses)	22,095,385	2685%	793,269	128%	348,345
Contributed capital from KYTC	47,987,011	494%	8,075,103	(91)%	91,947,020
Contributions to KYTC	-0-	N/A	-0-	100%	(33,979,865)
Change in net position	60,551,160	217%	(51,641,630)	(197)%	53,054,641
Net position, beginning of year	369,172,367	(12)%	420,813,997	14%	367,759,356
Net position, end of year	$ 429,723,527	16%	$ 369,172,367	(12)%	$ 420,813,997

Operating revenues primarily consist of tolls, but also include administrative fees and fines for nonpayment of tolls and other miscellaneous deposits.

Operating expenses currently consist primarily of KYTC staff salaries and benefits for certain employees assigned to the Authority, vehicle usage, professional services, and board meeting expenses, such as transcription services and member travel expenses in addition to maintenance and operation of the roadway.

Nonoperating revenues and expenses consist of income from investments, net changes in the fair market value of investments, and contributed capital from KYTC. Contributed capital from KYTC in 2017 and 2016, represents capitalized construction costs paid for the LSIORBP by KYTC. Contributions to KYTC in 2015 represent preservation payments made by the Authority on infrastructure that was transferred to the Authority on June 2, 2015. These costs were incurred prior to the date of the transfer, see capital assets section below for further detail.

LONG-TERM DEBT

At June 30, 2017, the Authority had approximately $755,293,000 in bonds and notes payable outstanding, net of unamortized premiums and discounts, which is a decrease from approximately $758,016,000 as of June 30, 2016 and a decrease from approximately $760,715,000 as of June 30, 2015. The decrease in 2017 and 2016 is a result of the amortized premium and discounts.

The Authority entered into a loan agreement with the U.S. Department of Transportation under the Transportation Infrastructure Finance and Innovation Act (TIFIA) to refund the Subordinate Toll Revenue Bond Anticipation Notes. On June 30, 2017, the TIFIA loan proceeds of $452,200,000 were received and deposited with the Trustee in a redemption fund account and pledged to pay the principal balance of $452,200,000 of the Subordinate Toll Revenue Bond Anticipation Notes when due on July 1, 2017. As a result, the Subordinate Toll Revenue Bond Anticipation Notes were fully redeemed in 2017 and the liabilities have been removed from the Statement of Net Position.

Bond Ratings. The Authority's first tier toll revenue bonds and third tier TIFIA loan/subordinate tier bond anticipation notes debt rating is BBB- from Fitch and Baa3 from Moody's.

The Authority's outstanding debt at June 30:

	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
First tier toll revenue bonds	$ 364,525,000	0%	$ 364,525,000	0%	$ 364,525,000
Subordinate toll revenue bond anticipation notes	-0-	(100)%	452,200,000	0%	452,200,000
TIFIA loan	452,200,000	100%	-0-	N/A	-0-
Unamortized premiums	-0-	(100)%	11,596,834	(50)%	23,193,664
Unamortized discounts	(61,432,347)	(13)%	(70,305,712)	(11)%	(79,203,387)
Total	$ 755,292,653	0%	$ 758,016,122	(0)%	$ 760,715,277

CAPITAL ASSETS

During the year ended June 30, 2015, the Authority received ownership of the existing Kennedy Bridge and interchanges, right of ways, and easements as a result the recording of a deed of conveyance on June 2, 2015. Upon conveyance, the existing Kennedy Bridge and interchanges were contributed to the Authority and reported by the Authority as infrastructure. The Required Supplementary Information (RSI) for the existing Kennedy Bridge and interchanges is reported by the Authority for the current period.

For financial reporting purposes, the Authority has elected to utilize the "Modified Approach" for reporting infrastructure assets as defined in GASB (Governmental Accounting Standards Board) Statement Number 34 "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.*" Under this alternative method of financial reporting the Authority expenses certain maintenance and preservation costs and will not report depreciation expense. GASB 34 requires infrastructure assets being reported under the modified approach to present certain information regarding preservation and maintenance, including assessed condition levels, of those assets to be included in RSI. See the RSI included after the notes to the financial statements. Because the project has been under significant construction, no condition assessment was updated or reported for the current fiscal year. All costs of maintaining the assets during construction were paid from project construction funds through payment to the contractor for the downtown crossing.

Upon project termination of the LSIORBP, currently scheduled for December 2053, in accordance with the Bi-State Development Agreement, Indiana and the Commonwealth, through the Authority, will exchange values for portions of sections three and four, as identified in the Bi-State Development Agreement, of the LSIORBP, where one state is currently working and recording construction in progress on the other state's land, which will eventually be the maintenance responsibility of the home state.

During 2017, major construction on the LSIORBP was completed, the bridges were opened to traffic and tolling commenced on December 31, 2016, resulting in net toll revenues of $31,323,565 through June 30, 2017. Further information on capital asset activity can be found in Note 7 to the financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, legislators, citizens, taxpayers, and federal government officials, as well as, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kentucky Public Transportation Infrastructure Authority, ATTN: Megan McLain, 200 Mero Street, Frankfort, Kentucky, 40622.

FINANCIAL STATEMENTS

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
Assets:		
Current assets:		
Cash and cash equivalents-restricted	$ -0-	$ 2,863,209
Investments-restricted	85,645,823	83,109,251
Accounts receivable - restricted, net of allowances of $1,165,000	17,696,240	-0-
Accrued interest receivable	91,638	174,316
Total current assets	103,433,701	86,146,776
Noncurrent assets:		
Investments-restricted	-0-	32,644,663
Capital assets:		
Right-of-way easements	66,501,182	7,087,960
Infrastructure	1,033,723,800	44,263,171
Construction in progress	-0-	985,402,740
Net capital assets	1,100,224,982	1,036,753,871
Total noncurrent assets	1,100,224,982	1,069,398,534
Total assets	1,203,658,683	1,155,545,310
Liabilities:		
Current liabilities:		
Payable from restricted assets:		
Accounts payable	-0-	12,181,869
Due to KYTC	2,467,551	-0-
Accrued interest payable	16,174,952	16,174,952
Total current liabilities	18,642,503	28,356,821
Noncurrent liabilities:		
Long term debt, including unamortized net discounts of $61,432,347 and $58,708,878	755,292,653	758,016,122
Total liabilities	773,935,156	786,372,943
Net position:		
Net investment in capital assets	485,821,810	437,834,799
Unrestricted (deficit)	(56,098,283)	(68,662,432)
Total net position	$ 429,723,527	$ 369,172,367

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating revenues:		
Tolls, net of discounts and allowances of approximately $4,800,000 for the year ended June 30, 2017	$ 31,323,565	$ -0-
Operating expenses:		
Roadway operations and maintenance	38,540,320	59,716,861
Toll operations and maintenance	2,026,340	-0-
General administration	288,141	793,141
Total operating expenses	40,854,801	60,510,002
Operating loss	(9,531,236)	(60,510,002)
Nonoperating revenues (expenses):		
Interest earned on investments	204,497	128
Interest expense	(14,808,436)	-0-
Intergovernmental revenues	36,699,324	793,141
Total nonoperating revenues (expenses)	22,095,385	793,269
Contributed capital from KYTC	47,987,011	8,075,103
Change in net position	60,551,160	(51,641,630)
Net position, beginning of year	369,172,367	420,813,997
Net position, end of year	$ 429,723,527	$ 369,172,367

The accompanying notes are an integral part of the financial statements.

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

	2017	2016
Operating activities:		
Receipts from patrons	$ 13,627,325	$ -0-
Payments to service providers	$ (13,869,795)	$ (59,716,861)
Net cash flows from operating activities	(242,470)	(59,716,861)
Capital and related financing activities:		
Other financing use - payment to refunded bond escrow agent	(452,200,000)	-0-
Other financing source - TIFIA loan proceeds	452,200,000	-0-
Interest paid on long-term debt outstanding	(32,349,904)	(32,349,904)
Acquisition and construction of capital assets	(856,167)	(146,510,895)
Net cash flows from capital and related financing activities	(33,206,071)	(178,860,799)
Investing activities:		
Purchase of investments	(14,101,167)	(442,891)
Proceeds from sales and maturities of investments	44,209,259	116,637,007
Interest received	477,240	593,710
Net cash flows from investing activities	30,585,332	116,787,826
Net change in cash and cash equivalents	(2,863,209)	(121,789,834)
Cash and cash equivalents, beginning of year	2,863,209	124,653,043
Cash and cash equivalents, end of year	$ -0-	$ 2,863,209
Reconciliation of cash presentation to cash and cash equivalents:		
Cash and cash equivalents - restricted	$ -0-	$ 2,863,209
Total cash and cash equivalents	$ -0-	$ 2,863,209
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	$ (9,531,236)	$ (60,510,002)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Intergovernmental revenue for operating expenses	36,699,324	793,141
Changes in assets and liabilities		
Increase in accounts receivable	(17,696,240)	-0-
Decrease in accounts payable	(12,181,869)	-0-
Increase in amounts due to KYTC	2,467,551	-0-
Net cash flows from operating activities	$ (242,470)	$ (59,716,861)
Supplemental schedule of noncash capital and related financing activities:		
Construction in progress contributed as capital from KYTC	$ 47,987,011	$ 8,075,103
Interest costs capitalized and accrued	14,627,933	29,095,265
Capital assets included in accounts payable	-0-	12,181,869

The accompanying notes are an integral part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND JUNE 30, 2016

1. DESCRIPTION OF THE ORGANIZATION

The Kentucky Public Transportation Infrastructure Authority (the Authority) is an independent de jure municipal corporation and political subdivision of the Commonwealth. The Authority was established in 2009 by the Commonwealth pursuant to the provisions of Kentucky Revised Statutes (KRS) Chapter 175B, as amended, to review, approve, and monitor certain significant transportation projects within the Commonwealth and between the Commonwealth and the State of Indiana and, if necessary, to assist with the operation, financing, and management of those projects. The Authority is reported as a discretely presented component unit of the Commonwealth. Financial activities between the Commonwealth and the Authority are related party activities, and are disclosed as such.

The Authority currently has ten voting members; Chairman Greg Thomas, Vice Chair William M. Landrum III, Steve Austin, Charles Buddeke, Don Kelly, Harold McKinney, Glenn Mitchell, Michael Walker, and James Ward. The Authority is attached administratively to the Kentucky Transportation Cabinet (KYTC) and relies exclusively on KYTC staff to operate. Currently, the Authority is engaged in overseeing a single project, the Louisville-Southern Indiana Ohio River Bridges Project (LSIORBP), as described below. More information on the Authority can be obtained by visiting their website at http://transportation.ky.gov/KPTIA.

The Commonwealth, the Authority, KYTC, the Indiana Department of Transportation, and the Indiana Finance Authority entered into a legal agreement in October 2012 known as the “Bi-State Development Agreement” which governs the LSIORBP. The LSIORBP consists of the construction of the East End Bridge and highway connections that will complete an outer loop around the greater Louisville area and continuing north of the Ohio River to connect to Interstate 65; a Downtown Crossing including a new I-65 bridge for northbound traffic; a revamped John F. Kennedy Memorial Bridge for southbound traffic, and rebuilding of the downtown interchange on both sides of the Ohio River. Kentucky is responsible for financing, reconstruction and operational improvements of the Downtown Crossing Bridges; and Indiana is responsible for financing and constructing the East End Crossing. More detailed information about the LSIORB Project can be obtained at the project website www.kyinbridges.com.

The Authority is authorized pursuant to Part I, A., 4., (16) of Kentucky House Bill 2 of the 2012 Extraordinary Session of the General Assembly to participate as the developing and issuing authority as described in KRS 175B.025 in the development, construction, financing, and operation and maintenance of the LSIORBP.

The Bi-State Development Agreement and the related Interlocal Agreement create two bi-state bodies, the Joint Board for the LSIORBP (the "Joint Board") and the Tolling Body for the LSIORBP (the "Tolling Body"). The Joint Board is responsible for the bi-state administration of the LSIORBP. It has authorized a number of procurements for bi-state consultants and contractors working on the LSIORBP and approves amendments to the Bi-State Development Agreement as needed. It is made up of the Secretary of KYTC, the Chairperson of the Authority, the Commissioner of the Indiana Department of Transportation, and the Director of the Indiana Finance Authority. The Tolling Body is responsible for setting toll rates and toll policy for the LSIORBP. It is made up of the Secretary of KYTC, the Chairperson of the Authority, the Commissioner of the Indiana Department of Transportation, the Director of the Indiana Finance Authority, one additional Authority member, and one member of the Indiana Finance Authority. Through its representation on the Joint Board and the Tolling Body, the Authority ensures toll revenues are sufficient to meet its financial obligations and hires contractors and consultants working on the portions of the LSIORBP which are not otherwise assigned to the State of Indiana or the Commonwealth of Kentucky in the Bi-State Development Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Authority is presented to assist in understanding the Authority's 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.

<u>Measurement Focus, Basis of Accounting and Financial Statement Presentation</u>

The Authority's financial statements are included in the Commonwealth's Comprehensive Annual Financial Report as a discretely presented component unit. The activities of the Authority are accounted for as an enterprise fund. The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs of providing goods and services. An enterprise fund prepares operating statements using the flow of economic resources as its measurement focus. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned, and expenses are recorded when the liabilities are incurred.

<u>Use of Estimates</u>

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND JUNE 30, 2016
(Continued)

Description of Net Position Classes

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 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 the 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 the net position that does not meet the definition of "restricted" or "net investment in capital assets."

Cash and Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and cash equivalents consist of unspent proceeds received from the issuance of bonds and anticipation notes described in Note 3 and Note 6. The unspent proceeds are restricted for use in accordance with the bond and anticipation notes documents.

Accounts Receivable

Accounts receivable are reported at their net realizable value.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net position. Unrealized gains and losses are included in the changes in net position in the accompanying statements of revenues, expenses, and changes in net position. Restricted investments consist of unspent proceeds received from the issuance of bonds and anticipation notes described in Note 4 and Note 6 that are invested in U.S. Treasuries. The unspent proceeds are restricted for use in accordance with the bond and anticipation notes documents.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Contributed capital assets are recorded at the asset's book value at the time of the contribution.

Infrastructure assets are not being depreciated, as the Authority has elected to use the modified approach, as defined by GASB 34. As a result, certain maintenance and preservation costs are expensed when incurred. Additions and improvements to infrastructure assets are capitalized when capacity and efficiency have increased.

Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Total interest charged during the years ended June 30, 2017 and 2016 was $32,349,904. Capitalized interest, net of related interest earned on debt proceeds amounted to $14,627,933 and $29,095,265 for the years ended June 30, 2017 and 2016, respectively.

Amortization of Bond Premium and Discount

Bond premium and discounts 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.

Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those which comprise the Authority's principal ongoing operations. Other revenues and expenses are classified as nonoperating. Toll revenues are recognized when vehicles pass through LSIORB. Operating expenses consist primarily of operations, administrative, maintenance, renewal and replacement costs, and business development and marketing costs.

Contributed Capital

Contributed capital arises from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

3. CASH DEPOSITS

Cash includes amounts on deposit with the Commonwealth's cash and investment pool and cash held by Bank of New York Mellon (the Trustee). See the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2017 and 2016, for disclosure of the credit risk classifications of the cash and investment pool. The carrying amount of the Authority's cash and cash equivalents invested in the Commonwealth's cash and investment pool balance was $-0- and $2,863,209 at June 30, 2017 and 2016, respectively.

4. INVESTMENTS

All Authority investments, legally authorized by KRS 175B.075 and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement, are direct obligations of the United States of America or direct federal agency obligations or other similar obligations to the extent that the full faith and credit of the United States of America is pledged for the timely payment thereof. Direct obligations shall include money market mutual funds that invest solely in the obligations referenced above.

All project funds are held in a segregated account with the Commonwealth's investment pools. These are reported at fair value. The State Investment Commission has statutory responsibility and authority to safeguard the funds. See the Commonwealth's Comprehensive Annual Financial Report for the years ended June 30, 2017 and 2016, for disclosure of the credit risk classifications of the additional cash and investment pool.

All remaining funds are held with the bond trustee, Bank of New York Mellon. The following schedule presents the carrying amounts of investments by maturity at June 30, 2017:

Investment	Fair Value	Maturity	Rate
U.S. Treasury Notes State and Local Governments Series	5,101,915	7/1/2017	0.83%
U.S. Treasury Notes State and Local Governments Series	10,560,299	7/1/2017	0.83%
U.S. Treasury Notes State and Local Governments Series	5,123,091	1/1/2018	1.04%
Fidelity Treasury Money Market Fund	64,860,518	N/A	0.00%
	85,645,823		

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

Investment	Fair Value	Maturity	Rate
U.S. Treasury Notes State and Local Governments Series	$ 15,579,540	7/1/2016	0.44%
U.S. Treasury Notes State and Local Governments Series	15,613,815	1/1/2017	0.62%
U.S. Treasury Notes State and Local Governments Series	15,662,217	7/1/2017	0.83%
U.S. Treasury Notes State and Local Governments Series	5,123,091	1/1/2018	1.04%
Fidelity Treasury Money Market Fund	51,915,896	N/A	0.00%
	103,894,559		
Investments in state pool	11,859,355		
Total	115,753,914		
Less: current portion	83,109,251		
Long-term investments	$ 32,644,663		

Custodial Credit Risk: For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2017, the

Authority's investments are neither insured nor registered, but are held by the Authority's custodial agent for the benefit of the Authority.

Credit Risk: Under state statutes, the Authority is permitted to invest direct obligations of the United States of America or direct federal agency obligations or other similar obligations to the extent that the full faith and credit of the United States of America is pledged for the timely payment thereof. Direct obligations shall include money market mutual funds that invest solely in the obligations referenced above. The credit ratings and concentration by issuer of the Authority's investments is as follows at June 30, 2017:

	Fair Value	Rating	Percent
U.S. Treasury Notes State and Local Governments Series	20,785,305	U.S. Treasuries	24.27%
Fidelity Treasury Money Market Fund	64,860,518	Unrated	75.73%
Total investments	$ 85,645,823		100.00%

The credit ratings and concentration by issuer of the Authority's investments is as follows at June 30, 2016:

	Fair Value	Rating	Percent
U.S. Treasury Notes State and Local Governments Series	51,978,663	U.S. Treasuries	50.03%
Fidelity Treasury Money Market Fund	51,915,896	Unrated	49.97%
Total investments	$ 103,894,559		100.00%

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority's trustee consults with the Office of Financial Management (within the Finance and Administration Cabinet) to determine suitable investments.

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.

5. 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.

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- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive 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 the asset or liability has a specified (contractual) term, the level 2 input 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 measurement.

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 the hierarchy, the Authority's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016 are as follows:

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
U.S. government securities	$ -0-	$ 20,785,305	$ -0-	$ 20,785,305
Money market mutual funds	-0-	64,860,518	-0-	64,860,518
Total assets at fair value	$ -0-	$ 85,645,823	$ -0-	$ 85,645,823

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
U.S. government securities	$ -0-	$ 51,978,663	$ -0-	$ 51,978,663
Money market mutual funds	-0-	51,915,896	-0-	51,915,896
Investment's held in the Commonwealth investment Pool	-0-	11,859,355	-0-	11,859,355
Total assets at fair value	$ -0-	$ 115,753,914	$ -0-	$ 115,753,914

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 2017 or 2016.

The Authority holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

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6. REVENUE BOND FUND ACCOUNTS

Components of the Toll Revenue Bond Fund accounts by cash, cash equivalents and investments at June 30, 2017, are summarized below:

	Money Market Mutual Funds	U.S. Treasuries	Total
Authority System Revenue Fund	7,403,609	-0-	7,403,609
Debt Service Funds	50,727,433	-0-	50,727,433
Capitalized Interest Fund	372,639	20,785,305	21,157,944
Tolling O&M Reserve Fund	6,356,822	-0-	6,356,822
General O&M Reserve Fund	15	-0-	15
Total	$ 64,860,518	$ 20,785,305	$ 85,645,823

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

	Money Market Mutual Funds	U.S. Treasuries	Total
Authority System Revenue Fund	$ -0-	$ -0-	$ -0-
Debt Service Funds	46,146,291	-0-	46,146,291
Capitalized Interest Fund	1,361,615	51,978,663	53,340,278
Tolling O&M Reserve Fund	4,407,975	-0-	4,407,975
General O&M Reserve Fund	15	-0-	15
Total	$ 51,915,896	$ 51,978,663	$ 103,894,559

The General Trust Indenture contains a provision which establishes that specific accounts are maintained by the Authority to properly account for the financial activities as described below:

A. Authority System Revenue Fund - This fund receives all Pledged Receipts and other moneys received by the Authority except for funds required to be deposited into another fund by the General Trust Indenture. Funds received into the authority system revenue fund are allocated, based on priority as defined in the General Trust Indenture to the funds below.

B. Project Funds - Funds deposited into the project funds shall be expended only for the purpose of paying costs of the Project.

C. Cost of Issuance Fund - Designated to pay the costs of issuance established for each series, as specified in the respective Series Trust Indentures.

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D. Debt Service Funds

   a) First Tier Debt Service Account - Designated to pay the principal and interest on the First Tier Bonds.

   b) First Tier Common Debt Service Reserve Account and within such Account, a “Proceeds Subaccount” and a “Revenue Subaccount” - Designated a reserve for the payment of principal and interest on First Tier Bonds that are not TIFIA Bonds when funds for that purpose are available in the First Tier Debt Service Account.

   c) Second Tier Debt Service Account - Designated to pay the principal and interest on the Second Tier Bonds.

   d) Second Tier Common Debt Service Reserve Account - Designated a reserve for the payment of principal and interest on Second Tier Bonds when funds for that purpose are available in the Second Tier Debt Service Account.

   e) Third Tier Debt Service Account - Designated to pay the principal and interest on the Third Tier Bonds.

   f) Third Tier Common Debt Service Reserve Account - Designated a reserve for the payment of principal and interest on Third Tier Bonds when funds for that purpose are available in the Third Tier Debt Service Account.

E. Redemption Fund - Designated for the redemption of outstanding bonds or bond anticipation obligations.

F. Tolling Operation & Maintenance (O&M) Reserve Fund - Designated to pay Toll System Collection Expenses for the current fiscal year as reflected in the Authority System Budget.

G. General O&M Reserve Fund - Designated to pay General O&M expenses for the current fiscal year as reflected in the Authority System Budget.

H. M&R Reserve Fund - Designated to pay M&R expenses for the current fiscal year as reflected in the then-current capital improvement program and Authority System Budget and to pay any other M&R expenses that must be incurred to restore or maintain any portion of the Authority System in a safe operating condition. M&R expenses represent lifecycle costs and/or capital costs necessary to continue to maintain the Authority system in good operating order and that are not normally recurring costs.

I. Lease Payment Fund - Funds designated to pay amounts due from the Authority to KYTC under the Lease Agreement.

J. General Reserve Fund - Designated to pay expenses relating to the Authority System, providing for debt service on bonds or as may otherwise be permitted by the Act or required by the Development Agreement, Lease Agreement, or the Inter-local Agreement, including, but not limited to fees and expenses of credit providers, hedge termination payments, and the payment of the debt service on any subordinated bonds.

K. Rebate Fund - Designated for the collection and payment of earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the applicable bonds, plus any income attributable to such excess.

L. Capitalized Interest Fund - Designated for the payment of interest, when due, on the bonds and notes.

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Infrastructure	$ 44,263,171	$ 989,460,629	$ -0-	$ 1,033,723,800
Right-of-way easements	7,087,960	59,413,222	-0-	66,501,182
Construction in progress	985,402,740	63,471,111	(1,048,873,851)	-0-
Total capital assets	$1,036,753,871	$ 1,112,344,962	$(1,048,873,851)	$ 1,100,224,982

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Infrastructure	$ 23,420,539	20,842,632	-0-	44,263,171
Right-of-way easements	7,087,960	-0-	-0-	7,087,960
Construction in progress	830,583,652	175,661,720	(20,842,632)	985,402,740
Total capital assets	$ 861,092,151	$ 196,504,352	$ (20,842,632)	$ 1,036,753,871

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND JUNE 30, 2016
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8. LONG-TERM LIABILITIES

Long-term debt consists of the following at June 30 2017 and 2016:

	2017	2016
First Tier Toll Revenue Bonds, Series 2013A Current Interest Bonds; interest fixed at rates ranging from 5.75% to 6.00%, due semi-annually; principal due July 1, 2049 and July 1, 2053 with mandatory sinking fund redemption in part prior to maturity beginning July 1, 2046.	$ 174,865,000	$ 174,865,000
First Tier Toll Revenue Bonds, Series 2013B Capital Appreciation Bonds; interest fixed at rates ranging from 3.75% to 6.65% will not be paid on a current basis, but will be added to the principal amount on a semi-annual basis; principal due annually beginning July 1, 2019 through July 1, 2032.	52,185,000	52,185,000
First Tier Toll Revenue Bonds, Series 2013C Convertible Capital Appreciation Bonds; interest fixed at rates ranging from 6.40% to 6.875% will not be paid on a current basis prior to the conversion date, but will be added to the principal amount on a semi-annual basis; principal due annually beginning July 1, 2033 through July 1, 2046.	137,475,000	137,475,000
Subordinate Toll Revenue Bond Anticipation Notes, Tax Exempt Series 2013A; interest fixed at rates ranging from 3.00% to 5.00%, due semi-annually; principal due July 1, 2017.	-0-	426,045,000
Subordinate Toll Revenue Bond Anticipation Notes, Taxable Series 2013B; interest fixed at 3.22%, due semi-annually; principal due July 1, 2017.	-0-	26,155,000
Transportation Infrastructure Finance and Innovation Act loan (see below for further detail)	452,200,000	-0-
Total	816,725,000	816,725,000
Unamortized premium	-0-	11,596,834
Unamortized discount	(61,432,347)	(70,305,712)
	$ 755,292,653	$ 758,016,122

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
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The Series 2013 Bonds and Series 2013 Bond Anticipation Notes above represent the debt of the Authority. The debt is secured by the Trust Estate, as defined by the General Trust Indenture, which primarily consists of all pledged receipts (the Authority's 50% share of toll revenues and certain investment earnings), and all moneys and securities on deposit in the funds and accounts established by the General Trust Indenture. In the event that toll revenues are insufficient to make the operations and maintenance deposits required in the General Trust Indenture, the Authority entered into a lease agreement (the Lease) with KYTC, whereby KYTC is obligated to pay rent, as defined in the Lease, to satisfy the required operation and maintenance deposits. Rent, as defined in the lease, shall represent a loan to the Authority and bear interest at a rate of 5.0%. The loan is payable by the Authority from the pledged receipts and shall be due in amounts available to make such payments in accordance with Section 504 of the General Trust Indenture. As of June 30, 2017, no rent payments have been made by the KYTC under the terms of the lease.

The Authority entered into a loan agreement with the U.S. Department of Transportation under the Transportation Infrastructure Finance and Innovation Act (TIFIA) to refund the Subordinate Toll Revenue Bond Anticipation Notes. On June 30, 2017, the TIFIA loan proceeds of $452,200,000 were received and deposited with the Trustee in a redemption fund account and pledged to pay the principal balance of $452,200,000 of the Subordinate Toll Revenue Bond Anticipation Notes when due on July 1, 2017. As a result, the Subordinate Toll Revenue Bond Anticipation Notes were fully redeemed in 2017 and the liabilities have been removed from the statement of net position. The TIFIA loan bears interest at 3.88% with principal and interest due semi-annually beginning July 1, 2018, through July 1, 2051. The TIFIA loan is secured by the Trust Estate, which includes all property, rights, and other assets assigned to the Trustee.

Debt service payments on the Series 2013 Bonds and TIFIA loan are as follows:

	Debt Service		
	Principal	Interest	Total
2018	$ 0	$ 30,169,467	$ 30,169,467
2019	1,000,000	27,825,264	28,825,264
2020	1,555,000	27,786,463	29,341,463
2021	4,955,000	27,747,717	32,702,717
2022	6,910,000	27,708,863	34,618,863
2023-2027	24,130,883	170,204,505	194,335,388
2028-2032	37,876,814	182,184,448	220,061,262
2033-2037	87,146,992	171,812,903	258,959,895
2038-2042	151,793,388	143,038,767	294,832,155
2043-2047	197,129,900	100,083,344	297,213,244
2048-2052	252,432,023	46,551,161	298,983,184
2053-2054	51,795,000	3,152,850	54,947,850
Total	$ 816,725,000	$ 958,265,752	$ 1,774,990,752

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
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JUNE 30, 2017 AND JUNE 30, 2016
(Continued)

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
TIFIA loan	$ -0-	$ 452,200,000	$ -0-	$ 452,200,000
Bonds principal payable	816,725,000	-0-	452,200,000	364,525,000
Unamortized premiums	11,596,834	-0-	11,596,834	-0-
Unamortized discounts	(70,305,712)	-0-	(8,873,365)	(61,432,347)
	$ 758,016,122	$ 452,200,000	$ 454,923,469	$ 755,292,653

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

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Bonds principal payable	$ 816,725,000	$ -0-	$ -0-	$ 816,725,000
Unamortized premiums	23,193,664	-0-	11,596,830	11,596,834
Unamortized discounts	(79,203,387)	-0-	(8,897,675)	(70,305,712)
	$ 760,715,277	$ -0-	$ 2,699,155	$ 758,016,122

9. RESTRICTED ASSETS

Certain of the Authority's assets have constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets whose use, in whole or in part, is restricted for specific purposes bound by virtue of contractual agreements, legal requirements, or enabling legislation. The Authority's cash, accounts receivable, and investments are restricted for use by the trust indentures which restrict the manner in which the bond, bond anticipation note, and toll proceeds may be spent.

Restricted assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Restricted for capital projects	$ -0-	$ 14,722,564
Restricted for debt service	71,885,377	99,486,569
Restricted for maintenance reserves	6,356,837	4,407,990
Restricted for other Authority funds	25,099,849	-0-
Total	$ 103,342,063	$ 118,617,123

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
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(Continued)

10. RELATED PARTY TRANSACTIONS

The Authority received the benefit of accounting, legal, and administrative services from KYTC for 2017 and 2016. The cost of these services was directly charged to the accounts of the Authority. Amounts charged to expense for accounting, legal, and administrative services and included in intergovernmental revenues on the statement of revenues, expenses, and changes in net position amounted to $191,180 and $265,925 for the years ended June 30, 2017 and 2016, respectively. In addition, KYTC paid certain invoices on behalf of the Authority totaling $36,508,143 and $527,216 for the years ended June 30, 2017 and 2016, respectively, which are included in intergovernmental revenues on the statement of revenues, expenses, and changes in net position. Additionally, KYTC paid certain invoices on behalf of the Authority totaling $2,467,551 for the year ended June 30, 2017, which are reimbursable to KYTC.

The Authority received $47,987,011 and $8,075,103 in capital contributions from KYTC during the years ended June 30, 2017 and 2016, respectively. The contributions in both years related to construction work completed on Kentucky roads, bridge approaches, and right-of-way related to the bridge construction project.

The Authority received the benefit of consultant services from the Finance and Administration Cabinet for 2017 and 2016. The Finance and Administration Cabinet did not assess a fee for the cost of these services.

The Authority received services from the Commonwealth Office for Technology (COT) which provides technical support for State government agencies in the application of information technology including major information resource functions such as data and voice communications, data administration, hardware selection and installation, printing, and related end-user and customer support services. During 2017 and 2016, KYTC paid for all services provided by COT. KYTC did not assess a fee to the Authority for their respective portion of the charges and will not request reimbursement from the Authority.

11. 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 exposure to these potential losses. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund. KYTC carried commercial insurance, including builders risk coverage on the LSIORBP, for all risks of loss during construction.

12. COMMITMENTS

The Authority and the State of Indiana have entered into a legal agreement known as the "Bi-State Development Agreement" which governs the LSIORBP. The project consists of the construction of the East End Bridge and highway connections that will complete an outer loop around the greater Louisville area; a Downtown Crossing including a new I-65 bridge for northbound traffic; a revamped John F. Kennedy Memorial Bridge for southbound traffic, and rebuilding of the downtown interchange on both sides of the Ohio River. Kentucky is responsible for financing, reconstruction and operational improvements of the Downtown Crossing Bridges; and Indiana is responsible for financing and constructing the East End Crossing.

The LSIORBP structures will be ultimately owned 50% by Indiana and 50% by Kentucky. The project was funded with a combination of governmental purpose tax-exempt debt in the form of a TIFIA loan, Grant Anticipation Revenue Vehicle (GARVEE) bonds backed by future federal funds, and governmental purpose tax-exempt and taxable debt in the form of toll revenue bonds. The toll revenue bonds principal and interest and the TIFIA loan principal and interest have been issued by the Authority and paid solely by Kentucky's share of project revenues (primarily tolls). These financing instruments do not constitute a debt of the Commonwealth or any of its political subdivisions. Neither the faith and credit nor the taxing power of the Commonwealth is pledged to the payment of the above described debt.

The Commonwealth parties (KPTIA and KYTC) have entered into various contracts in connection with the implementation and operation of the toll system for the LSIORBP.

<u>TSP Contract:</u> As authorized by Joint Board Resolution JB 2015-4, the Indiana Finance Authority entered into a contract with Kapsch TraffiCom for the installation and operation of the toll system. The toll installation and operations contract will expire 2023. The contractor will be paid $12,567,405 for the installation of the toll system and will be paid approximately $4 million per year for the operation and maintenance of the toll system. The Commonwealth parties are equally responsible with the Indiana for the direction of this work and the payment of these costs. The Commonwealth parties paid approximately $2,863,000 and $1,960,000 for the installation work performed under the contract during the years ended June 30, 2017 and 2016, respectively. These costs were included in the construction costs for the LSIORBP project. Approximately $1,879,000, was paid for operations of the toll system in 2017 and was included in toll operations and maintenance expense.

<u>Toll Oversight:</u> As authorized by Joint Board resolution JB 2016-3, the Indiana Department of Transportation amended their existing contract with Parsons to include work related to oversight and inspection of the installation and operations of the toll system. The oversight and inspection contract will expire in fiscal year 2018. The Commonwealth parties are equally responsible with Indiana for the direction of this work and the payment of these costs. The Commonwealth parties paid approximately $829,000 and $547,000 for work performed under this contract during the years ended June 30, 2017 and 2016, respectively. This total is included in the construction costs for the LSIORBP as toll oversight.

Toll Marketing: As authorized by Joint Board resolution JB 2014-4, the Kentucky Transportation Cabinet entered into an agreement with New West for work related to marketing and communications for the toll system. The toll marketing contract will expire in August of 2018. The Commonwealth parties are equally responsible with Indiana for the direction of this work and the payment of these costs. The Commonwealth parties paid approximately $712,000 and $623,000 for work performed under this contract in the years ended June 30, 2017 and 2016, respectively. Approximately $31,000, of the toll marketing costs paid in 2017, are included in toll operations and maintenance expense with the remaining amounts paid during 2017 and 2016, included in the construction costs for the LSIORBP for project.

Revenue Control Manager: As authorized by Joint Board resolution JB 2015-2, the Cabinet entered into an agreement with KPMG to provide revenue control manager services for the toll system. The revenue control manager contract will expire at the end of fiscal year 2018. The Commonwealth parties are equally responsible with Indiana for the direction of this work and the payment of these costs. The Commonwealth parties paid approximately $215,000 and $80,000 for the work performed under this contract in the years ended June 30, 2017 and 2016, respectively. Revenue control manager costs are included in toll operations and maintenance expense.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Authority has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Authority expenses certain maintenance and preservation costs and does not report depreciation expense. The Authority's assets accounted for, under the modified approach, include approximately 56.1 lane miles of roads and 48 bridge structures.

In order to utilize the modified approach, the Authority is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate, each year, the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Authority.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Pavement

<u>Measurement Scale</u>

The Authority uses numerous methods to determine the condition of roadway pavements; including the Pavement Condition Index (PCI) to measure and monitor pavement conditions. In use since the mid-1980s, the PCI for any particular pavement section is the mathematical difference between the current pavement smoothness and the acceptable pavement smoothness threshold based on traffic volumes. The corresponding pavement condition is based on the following PCI ranges:

Condition	PCI
Good	Greater than +0.4
Fair	Between 0.0 and 0.4
Poor	Less than 0.0

<u>Established Minimum Condition Level</u>

No more than 30% of the pavements shall be rated as "poor."

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(CONTINUED)

Assessed Conditions

The Authority assesses pavement condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of "Good", "Fair", and "Poor" for the past five years.

Condition	2017	2016
Good	90.3%	90.3%
Fair	9.7%	9.7%
Poor	0.0%	0.0%

Bridges

Measurement Scale

The Authority maintains information on its bridge in compliance with the National Bridge Inspection guidelines established by the Federal Highway Administration. The Authority inspects all bridges at least once every two years and the conditioned assessment results are coded on a 0-9 scale with 9 being the most desirable. The condition ratings are based on the following scale:

Rating	Description
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(CONTINUED)

Established Minimum Condition Level

No more than 10% of the bridges shall be rated as "structurally deficient." In addition, the total deck area of structurally deficient, state maintained bridges will not exceed 12% of the total deck area of all state maintained bridges.

Assessed Conditions

A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic. The following table reports the percentage of bridges whose condition was assessed as "structurally deficient" in the corresponding year:

Calendar Year	Structurally Deficient	Deck Area Structurally Deficient
2015	43%	42%
2016	Not reported due to ongoing construction	
2017	2.1%	10.4%

The bridge condition goals above represent the Cabinet's goal for all structures located on the Commonwealth's state maintained highway system. The actual conditions of the bridges for which the Authority is responsible did not meet this stated goal in 2015 and was not reported in 2016. The LSIORBP has required a lengthy planning and development period and in anticipation of the construction activities much of the needed preservation works was postponed. For the 2016 reporting period, the LSIORBP area was under active construction and the condition of the bridges in the area could not be assessed and was the responsibility of the contractor. During construction, however, routine inspections were continued and required maintenance was performed to insure all bridges are safe for traffic.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(CONTINUED)

Estimated Actual Costs to Maintain

The following table presents the Authority's estimate of spending necessary to preserve and maintain the pavements, bridges, and maintenance condition at, or above, the "Established Condition Levels" cited above and the actual amount spent during the past three fiscal years:

	Roadways	Bridges	Total
Fiscal Year 2015	$ 4,912,755	$ -0-	$ 4,912,755
Fiscal Year 2016	$ 42,252,627	$ 17,464,234	$ 59,716,861
Fiscal Year 2017	$ 16,589,419	$ 21,950,901	$ 38,540,320
Estimated 2015	$ -0-	$ -0-	$ -0-
Estimated 2016	$ -0-	$ -0-	$ -0-
Estimated 2017	$ -0-	$ -0-	$ -0-

Note: Estimated costs for roadways was not developed for the years ended June 30, 2017, 2016 and 2015 by the Authority as the date of transfer of assets was uncertain and given the significant expansion and the extensive reconstruction of the site that continued throughout the majority of the fiscal year ended June 30, 2017.

REPORT 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*

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report 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*

Independent Auditor's Report

Greg Thomas, Chairman
Kentucky Public Transportation Infrastructure Authority
Board of Directors

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Public Transportation Infrastructure Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency, which is identified as finding 17-KPTIA-01.

Compliance and Other Matters

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

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

December 8, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2017

17-KPTIA-01: The Kentucky Public Transportation Infrastructure Authority Failed To Acquire Information Required For Financial Reporting Timely And Meet Bond Continuing Disclosure Requirements

The Kentucky Public Transportation Infrastructure Authority (the Authority), a component unit of the Commonwealth, prepares and issues audited financial statements which are required to comply with terms stipulated within its executed Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement. The Authority failed to ensure information necessary for complete and accurate financial reporting was available timely. As a result, the Authority failed to meet its bond continuing disclosure requirement deadline of November 27, 2017.

Additionally, as was reported in the prior year finding 16-KPTIA-02, the Authority's financial activities are commingled with transactions of the Kentucky Transportation Cabinet (KYTC). This creates an unclear audit trail and brings into question the propriety of ownership or entitlement for posted transactions and reported assets.

The Authority is required to coordinate with several service organizations, contractors, and governmental entities in order to ensure information required for complete and accurate financial reporting is available for timely completion of the financial statements. Failure to receive financial information timely could limit the review process allowing material misstatements to occur and go undetected. This is also makes it difficult for the Authority to meet audit deadlines stipulated by its bond continuing disclosure requirements.

Section 22. Financial Plan, Statements, and Reports, of the TIFIA loan agreement,

(d) The Borrower shall furnish to the FIFIA Lender:

(ii) as soon as available, but no later than one hundred fifty (150) days after the end of each Borrower Fiscal Year, a copy of the audited income statement and balance sheet of the Borrower and of the Transportation Cabinet as of the end of such Borrower Fiscal Year and the related audited statements of operations, changes in member capital and of cash flow of the Borrower for such Borrower Fiscal Year, setting forth in each case in comparative form the figures for the previous Borrower Fiscal Year, certified without a "going concern" or like qualification or exception, or qualification as to the scope of the audit, by an independent public accounting firm selected by the Borrower and which is reasonably acceptable to the TIFIA Lender.

2017-KPTIA-01: The Kentucky Public Transportation Infrastructure Authority Failed To Acquire Information Required For Financial Reporting Timely And Meet Bond Continuing Disclosure Requirements (Continued)

Recommendation

We recommend the Authority take the steps necessary to ensure information required for financial reporting is received timely so management can meet its responsibility for accurate financial reporting, provide adequate review and oversight over the compilation process in order to attest that the financial statements and related disclosures are complete and accurate, and enhance the agency's ability to meet its continuing disclosure agreement audit requirements.

Management's Response and Corrective Action Plan

Management acknowledges that the Authority failed to meet its bond continuing disclosure deadline. The employee assigned to oversee the operational and financial activities of the Authority was not able to obtain reliable accounts receivable information from the toll system until after the deadline because the accounts receivable reporting was still under development. This is the first year the Authority has needed to rely on accounts receivable reporting from its toll vendor. The development of that reporting took longer than expected but is complete now and is available. This specific financial reporting should, therefore, not be a problem in the future. Despite this, the gathering of financial reporting from the toll system needed for the Authority's financial statements was not as efficient as it could be. The Authority is working with its partners in Indiana and its consultants to provide a more complete suite of financial reports for the toll system before next fiscal year. Lastly, management believes that additional staff assigned to the Authority could help increase the pace of development and provide reporting in a timely manner. This staffing is expected to be added before the end of February 2018.

The construction of the Louisville-Southern Indiana Ohio River Bridges ("LSIORB") Project included a variety of funding sources, some the responsibility of the Cabinet and some the responsibility of the Authority. Management acknowledges that sorting through the different sources of funding for the construction of that project was complicated and required separate tracking devices outside of eMars. Now that construction of the LSIORB Project is complete, tracking expenses associated with the upkeep of the LSIORB Project will be much simpler and will be able to be reported on solely using eMars queries. Additionally, before the Authority begins any other projects, management commits to evaluating the way funding sources are tracked to make it as clear as possible, drawing from its experience with the LSIORB Project.