

**KENTUCKY PUBLIC TRANSPORTATION
INFRASTRUCTURE AUTHORITY**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2014

**KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE
AUTHORITY**

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COMPILATION REPORT OF INDEPENDENT ACCOUNTANTS

To the Members of the Kentucky Public
Transportation Infrastructure Authority
Kentucky Public Transportation Infrastructure Authority
Frankfort, Kentucky

We have compiled the accompanying statement of net position of the Kentucky Public Transportation Infrastructure Authority (the Authority), a component unit of the Commonwealth of Kentucky, as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the quarter then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 7 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information has been compiled by us without audit or review and, accordingly, we do not express an opinion or provide any assurance on it.

Blue & Co., LLC

November 26, 2014

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

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 quarter ended September 30, 2014. 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 the State of Indiana and, if necessary, to assist with the operation, financing, and management of those projects. Projects are developed through a bi-state development agreement. 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, 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 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. The Authority's financing package for the Downtown Crossing Bridges includes \$364.5 million Toll Revenue Bonds and \$452.2 million Toll Revenue Bond Anticipation Notes. The Bond Anticipation Notes will be refunded in 2017 with the proceeds of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. 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.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

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.

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents increased from approximately \$104,446,000 to approximately \$124,651,000 during the quarter ended September 30, 2014.
- Investments decreased from approximately \$543,310,000 to approximately \$426,072,000 during the quarter ended September 30, 2014.
- Capital assets increased from approximately \$598,244,000 to approximately \$692,423,000 during the quarter ended September 30, 2014.
- The Authority's total debt decreased from approximately \$763,407,000 to approximately \$762,729,000 during the quarter ended September 30, 2014.

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 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 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 statement of revenues, expenses and changes in net position presents 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 statement of cash flows provides relevant information about the cash receipts and cash payments of the Authority during the period. 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

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

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 11 through 23.

FINANCIAL ANALYSIS OF THE AUTHORITY

The June 30, 2014 financial statements were the first financial statements issued for the Authority. Comparative information is not available for the quarter ended September 30, 2014. Comparative information will be presented in future years when the information is available.

Condensed Financial Information Statements of Net Position As of

| | September 30, 2014 | % Increase (Decrease) | June 30, 2014 |
|----------------------------------|-----------------------|--------------------------|------------------|
| Assets: | | | |
| Current assets | \$ 208,976,176 | 10% | \$ 190,275,062 |
| Long-term cash and investments | 341,857,977 | (25)% | 457,719,433 |
| Net capital assets | 692,423,032 | 16% | 598,244,167 |
| Total assets | 1,243,257,185 | 0% | 1,246,238,662 |
| Liabilities: | | | |
| Current liabilities | 34,089,765 | (13)% | 39,361,781 |
| Long-term debt | 762,728,582 | 0% | 763,407,058 |
| Total liabilities | 796,818,347 | (1)% | 802,768,839 |
| Net position: | | | |
| Net investment in capital assets | 450,471,957 | 1% | 447,503,008 |
| Unrestricted net position | (4,033,119) | 0% | (4,033,185) |
| Total net position | \$ 446,438,838 | 1% | \$ 443,469,823 |

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

During the quarter ended September 30, 2014, the Authority's total cash and cash equivalents and investments decreased approximately \$97,033,000 resulting from construction on the LSIORBP and interest payments on outstanding debt.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

At September 30, 2014, investments consist of a current portion of approximately \$84,214,000 and a non-current portion of approximately \$341,858,000. As of September 30, 2014, the current portion is representative of short-term investments in the Commonwealth's cash and investment pool and investments with maturities less than one year held with the bond trustee, Bank of New York Mellon. The non-current portion is representative of the Authority's investments maintained within the Commonwealth's cash and investment pool and other investments with maturities greater than one year.

Capital assets increased in the quarter ended September 30, 2014 by approximately \$94,179,000 resulting from construction of the Downtown Crossing.

Total liabilities primarily consist of current and non-current portions of revenue bonds and revenue bond anticipation notes payable and related accrued interest thereon. During the quarter ended September 30, 2014, long-term debt decreased approximately \$678,000.

Condensed Financial Information Statement of Revenues, Expenses, and Changes in Net Position For the Quarter Ended September 30, 2014

| | |
|-----------------------------------|----------------------------|
| Operating expenses | <u>\$ 37,360</u> |
| Operating loss | (37,360) |
| Nonoperating revenues (expenses): | |
| Interest earned on investments | 66 |
| Intergovernmental revenues | <u>37,360</u> |
| Total nonoperating expenses | 37,426 |
| Contributed capital from KYTC | <u>2,968,949</u> |
| Change in net position | <u><u>\$ 2,969,015</u></u> |

Operating revenues will primarily consist of tolls, but also include administrative fees and fines for nonpayment of tolls and other miscellaneous deposits. Tolls will not commence until new capacity is added to the I-65 corridor, which under current construction schedules will be October of 2016.

Operating expenses currently consist primarily of KYTC staff salaries and benefits for employees assigned to the Authority, vehicle usage, professional services, and board meeting expenses, such as transcription services and member travel expenses. After project operations commence in 2016, maintenance and operation of the roadway and tolling infrastructure will also be included.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

Nonoperating revenues and expenses consist of income from investments, net changes in the fair market value of investments, bond issuance costs, and contributed capital from KYTC. Contributed capital from KYTC represents capitalized expenses paid for the LSIORBP by KYTC that were contributed to the Authority, as the developing authority for the LSIORBP.

LONG-TERM DEBT

At September 30, 2014, the Authority had approximately \$762,729,000 in bonds payable outstanding, net of unamortized discounts, which is a decrease from \$763,407,000 as of June 30, 2014. The decrease is a result of the amortization of premiums and discounts on the bonds and bond anticipation notes. More detailed information about the Authority's long-term liabilities is presented in Note 7 of the financial statements.

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:

| | September 30, 2014 | % Increase (Decrease) | June 30, 2014 |
|--|-----------------------|--------------------------|-----------------------|
| First tier toll revenue bonds | 364,525,000 | 0% | 364,525,000 |
| Subordinate toll revenue bond anticipation notes | 452,200,000 | 0% | 452,200,000 |
| Unamortized premiums | 31,843,760 | (8)% | 34,758,810 |
| Unamortized discounts | <u>(85,840,178)</u> | (3)% | <u>(88,076,752)</u> |
| Total | <u>\$ 762,728,582</u> | 0% | <u>\$ 763,407,058</u> |

CAPITAL ASSETS

During the quarter ended September 30, 2014, the Authority paid construction costs of the LSIORBP. Construction costs will be moved from construction in progress to infrastructure when the assets are placed in service.

For financial reporting purposes the Authority anticipates electing to utilize the "Modified Approach" for reporting infrastructure assets as defined in GASB (Government 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 will expense 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

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

information on the preservation and maintenance of those assets as Required Supplementary Information (RSI).

As of September 30, 2014, the historical cost of the existing Kennedy Bridge and interchanges and right of ways and easements purchased for the LSIORBP are owned and reported by the Commonwealth and not the Authority. A deed of conveyance is expected to be recorded in FY 2015 to transfer ownership of the existing Kennedy Bridge and interchanges, right of ways, and easements to the Authority. Upon conveyance, the existing Kennedy Bridge and interchanges will be contributed to the Authority and reported by the Authority as infrastructure. The RSI for the existing Kennedy Bridge and interchanges will be reported by the Authority upon conveyance.

Upon completion of construction on the Downtown Crossing and East End Crossing, currently scheduled for December 2016, in accordance with the Bi-State Development Agreement, Indiana and the Commonwealth, through KPTIA, 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.

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: David Talley, 200 Mero Street, Frankfort, Kentucky, 40622.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

STATEMENT OF NET POSITION SEPTEMBER 30, 2014

Assets:

Current assets:

| | |
|--------------------------------------|--------------------|
| Cash and cash equivalents-restricted | \$ 124,650,509 |
| Investments-restricted | 84,214,412 |
| Accrued interest receivable | 111,255 |
| Total current assets | <u>208,976,176</u> |

Noncurrent assets:

| | |
|------------------------|--------------------|
| Investments-restricted | <u>341,857,977</u> |
|------------------------|--------------------|

Capital assets:

| | |
|--------------------------|--------------------|
| Construction in progress | <u>692,423,032</u> |
|--------------------------|--------------------|

Total noncurrent assets 1,034,281,009

Total assets \$ 1,243,257,185

Liabilities:

Current liabilities:

Payable from restricted assets:

| | |
|---------------------------------------|-------------------|
| Accounts payable and accrued expenses | \$ 26,090,196 |
| Accrued interest payable | 7,999,569 |
| Total current liabilities | <u>34,089,765</u> |

Noncurrent liabilities:

| | |
|---|--------------------|
| Long term debt, including unamortized net discounts of \$53,996,418 | <u>762,728,582</u> |
|---|--------------------|

Total liabilities 796,818,347

Net position:

Net investment in capital assets 450,471,957

Unrestricted (deficit) (4,033,119)

Total net position \$ 446,438,838

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION QUARTER ENDED SEPTEMBER 30, 2014

| | |
|--|-----------------------|
| Operating expenses: | |
| General administration | \$ 37,360 |
| Total operating expenses | <u>37,360</u> |
| Operating loss | <u>(37,360)</u> |
| Nonoperating revenues (expenses): | |
| Interest earned on investments | 66 |
| Intergovernmental revenues | 37,360 |
| Total nonoperating revenues (expenses) | <u>37,426</u> |
| Contributed capital from KYTC | <u>2,968,949</u> |
| Change in net position | 2,969,015 |
| Net position, beginning of year | <u>443,469,823</u> |
| Net position, end of year | <u>\$ 446,438,838</u> |

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

STATEMENT OF CASH FLOWS QUARTER ENDED SEPTEMBER 30, 2014

| | |
|---|------------------------------|
| Capital and related financing activities: | |
| Interest paid on long-term debt outstanding | \$ (17,163,421) |
| Acquisition and construction of capital assets | <u>(80,272,439)</u> |
| Net cash flows from capital and related financing activities | <u>(97,435,860)</u> |
| Investing activities: | |
| Purchase of investments | (241,733) |
| Proceeds from sales and maturities of investments | 117,478,965 |
| Interest received | 402,643 |
| Net cash flows from investing activities | <u>117,639,875</u> |
| Net change in cash and cash equivalents | 20,204,015 |
| Cash and cash equivalents, beginning of year | <u>104,446,494</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 124,650,509</u></u> |
| Reconciliation of cash presentation to cash and cash equivalents: | |
| Cash and cash equivalents - restricted | <u>\$ 124,650,509</u> |
| Total cash and cash equivalents | <u><u>\$ 124,650,509</u></u> |
| Reconciliation of operating income (loss) to net cash flows from operating activities: | |
| Operating income (loss) | \$ (37,360) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities: | |
| Intergovernmental revenue for operating expenses | 37,360 |
| Other non-operating revenue (expense) | |
| Net cash flows from operating activities | <u><u>\$ -0-</u></u> |
| Supplemental schedule of noncash capital and related financing activities: | |
| Construction in progress contributed as capital from KYTC | \$ 2,968,949 |
| Capitalized interest payable | \$ 7,045,641 |
| Capital assets included in accounts payable | \$ 26,090,196 |

See accompanying notes and compilation report of independent accountants. 10

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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. Beginning in 2014, 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 11 voting members; Chairman Michael Hancock, Vice Chair Lori Flanery, Secretary Charlie Johnson, Charles Buddeke, Steve Austin, Don Kelly, Dana Mayton, Joe Mattingly, 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 LSIORBP 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.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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.

Use of Estimates

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.

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 quarter 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.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2014

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 5. The unspent proceeds are restricted for use in accordance with the bond and anticipation notes documents.

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

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2014

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 quarter ended September 30, 2014 was \$7,999,569. Capitalized interest, net of related interest earned on debt proceeds amounted to \$7,045,641 for the quarter then ended.

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.

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 Note 4 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 \$124,650,509 at September 30, 2014.

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.

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2014

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 September 30, 2014:

| Investment | Fair Value | Maturity | Rate |
|--|-----------------------|----------|-------|
| U.S. Treasury Notes State and Local Governments Series | \$ 15,531,346 | 1/1/2015 | 0.13% |
| U.S. Treasury Notes State and Local Governments Series | 15,541,441 | 7/1/2015 | 0.20% |
| U.S. Treasury Notes State and Local Governments Series | 15,556,983 | 1/1/2016 | 0.29% |
| 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 | <u>53,141,625</u> | N/A | 0.01% |
| | 151,750,058 | | |
| Investments in state pool | <u>274,322,331</u> | | |
| Total | 426,072,389 | | |
| Less: current portion | <u>84,214,412</u> | | |
| Long-term investments | <u>\$ 341,857,977</u> | | |

The Authority's share of investments in the Commonwealth's cash and investment pool amounting to \$274,322,331 are invested in U.S. Treasury Notes with an effective duration of 0.81.

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 September 30, 2014, 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:

| | Fair Value | Rating | Percent |
|--|-----------------------|-----------------|----------------|
| U.S. Treasury Notes State and Local Governments Series | \$ 98,608,433 | U.S. Treasuries | 23.14% |
| Investments in state pool - U.S. Treasury Notes | 274,322,331 | U.S. Treasuries | 64.39% |
| Fidelity Treasury Money Market Fund | <u>53,141,625</u> | Unrated | <u>12.47%</u> |
| Total investments | <u>\$ 426,072,389</u> | | <u>100.00%</u> |

KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2014

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. REVENUE BOND FUND ACCOUNTS

Components of the Toll Revenue Bond Fund and Toll Revenue Bond Anticipation Notes accounts by cash, cash equivalents and investments at September 30, 2014 are summarized below:

| | Money Market Mutual Funds | U.S. Treasuries | Total |
|----------------------------|---------------------------------|-----------------|----------------|
| Debt Service Reserve Funds | \$ 46,210,041 | \$ -0- | \$ 46,210,041 |
| Capitalized Interest Fund | 2,526,775 | 98,608,433 | 101,135,208 |
| Tolling O&M Reserve Fund | 4,404,794 | -0- | 4,404,794 |
| General O&M Reserve Fund | 15 | -0- | 15 |
| Total | \$ 53,141,625 | \$ 98,608,433 | \$ 151,750,058 |

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.
 - 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.
 - 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
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- 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
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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.

6. CAPITAL ASSETS

Capital asset activity for the quarter ended September 30, 2014 is as follows:

| | <u>Balance June 30, 2014</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance September 30, 2014</u> |
|--------------------------|----------------------------------|----------------------|------------------|---------------------------------------|
| Construction in Progress | <u>\$ 598,244,167</u> | <u>\$ 94,178,865</u> | <u>\$ -0-</u> | <u>\$ 692,423,032</u> |

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7. LONG-TERM LIABILITIES

Long-term debt consists of the following at September 30, 2014:

| | Balance | Current | Long-term |
|--|----------------|---------|----------------|
| 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 | \$ -0- | \$ 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 | -0- | 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 | -0- | 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. | 426,045,000 | -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. | 26,155,000 | -0- | 26,155,000 |
| Total | 816,725,000 | -0- | 816,725,000 |
| Unamortized premium | 31,843,760 | -0- | 31,843,760 |
| Unamortized discount | (85,840,178) | -0- | (85,840,178) |
| | \$ 762,728,582 | \$ -0- | \$ 762,728,582 |

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 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

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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 September 30, 2014, no rent payments have been made by the KYTC under the terms of the lease.

Debt service payments on the Series 2013 Bonds and Series 2013 Bond Anticipation Notes are as follows:

| | Principal | Interest | Total |
|-----------|-----------------------|-----------------------|-------------------------|
| 2015 | \$ -0- | \$ 16,174,952 | \$ 16,174,952 |
| 2016 | -0- | 32,349,903 | 32,349,903 |
| 2017 | -0- | 32,349,903 | 32,349,903 |
| 2018 | 452,200,000 | 21,324,683 | 473,524,683 |
| 2019 | -0- | 10,299,462 | 10,299,462 |
| 2020-2024 | 25,905,000 | 56,106,195 | 82,011,195 |
| 2025-2029 | 10,550,000 | 97,586,138 | 108,136,138 |
| 2030-2034 | 21,505,000 | 97,401,338 | 118,906,338 |
| 2035-2039 | 37,380,000 | 90,139,999 | 127,519,999 |
| 2040-2044 | 62,170,000 | 73,576,628 | 135,746,628 |
| 2045-2049 | 87,965,000 | 49,212,431 | 137,177,431 |
| 2050-2054 | 119,050,000 | 18,656,050 | 137,706,050 |
| | <u>\$ 816,725,000</u> | <u>\$ 595,177,682</u> | <u>\$ 1,411,902,682</u> |
| Total | <u>\$ 816,725,000</u> | <u>\$ 595,177,682</u> | <u>\$ 1,411,902,682</u> |

The Authority entered into a loan agreement with the U.S. Department of Transportation under the Subordinate Transportation Infrastructure Finance and Innovation Act (TIFIA) to refund the Toll Revenue Bond Anticipation Notes on July 1, 2017. The TIFIA loan will bear interest at 3.9% with principal and interest due semi-annually beginning July 1, 2018 through July 1, 2051. The balance of the TIFIA loan at September 30, 2014 was \$0.

The following summarized long-term debt activity of the Authority for the quarter ended September 30, 2014:

| | Balance June 30, 2014 | Increases | Decreases | Balance September 30, 2014 |
|-------------------------|--------------------------|---------------|-------------------|-------------------------------|
| Bonds principal payable | \$ 816,725,000 | \$ -0- | \$ -0- | \$ 816,725,000 |
| Unamortized premiums | 34,758,810 | -0- | 2,915,050 | 31,843,760 |
| Unamortized discounts | (88,076,752) | -0- | (2,236,574) | (85,840,178) |
| | <u>\$ 763,407,058</u> | <u>\$ -0-</u> | <u>\$ 678,476</u> | <u>\$ 762,728,582</u> |

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8. 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 and investments are restricted for use by the trust indentures which restrict the manner in which the bond and bond anticipation note proceeds may be spent. Restricted assets consist of the following at September 30, 2014:

| | |
|-------------------------------------|-----------------------|
| Restricted for capital projects | \$ 398,972,840 |
| Restricted for debt service | 147,345,249 |
| Restricted for maintenance reserves | <u>4,404,809</u> |
| Total | <u>\$ 550,722,898</u> |

9. RELATED PARTY TRANSACTIONS

The Authority received the benefit of accounting, legal, and administrative services from KYTC for the quarter ended September 30, 2014. The cost of these services was directly charged to the accounts of the Authority. Amounts capitalized into construction in progress for engineering and administrative services and included in the capital contribution on the statement of revenues, expenses, and changes in net position amounted to \$272,374. 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 \$42,129. The total amount of services contributed amounted to \$314,503 for the quarter ending September 30, 2014.

In addition, the Authority received \$2,968,949 in capital contributions from KYTC during the quarter 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 the quarter ended September 30, 2014. 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

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and installation, printing, and related end-user and customer support services. During the quarter ended September 30, 2014, 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.

10. 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 carries commercial insurance, including builders risk coverage on the LSIORBP, for all risks of loss during construction.

11. 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 and is expected to cost \$2.6 billion. Kentucky's portion of the total project cost is estimated to be \$1.3 billion and Indiana's portion is estimated to be \$1.3 billion. Kentucky plans to finance its portion of the LSIORBP partially through the Authority. The project is being funded in part 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 bond principal and interest and the TIFIA loan principal and interest will be repaid solely from 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.

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Under the six year highway plan adopted by the Commonwealth, the Commonwealth parties will provide up to \$536 million in future federal funds to be used for the Downtown Crossing. This includes \$300 million in traditional federal funds (\$50 million per State Fiscal Year for six years beginning with State Fiscal Year 2013) and the proceeds of approximately \$236 million of previously issued GARVEE bonds, for a total of \$536 million. In addition, Kentucky will utilize approximately \$763 million in tax exempt and taxable bonds and notes, a portion of which will be retired in 2017 with a \$452 million low interest, long-term TIFIA loan from the U.S. Department of Transportation.

The Commonwealth parties have spent approximately \$809 million to date and the State of Indiana has spent approximately \$334 million to date. The Commonwealth's expenditures are included in construction in progress and reflected in the statement of revenues, expenses, and changes in net position within contributed capital and beginning net position.

The Authority has entered into various contracts for services in connection with the operation of the Tolls consisting of toll oversight, marketing and communication services, and toll transponders. Additional contracts are in the process of being procured, but have not yet been executed. These contracts relate to services for the toll custodian, toll service provider, and E-Z Pass. Costs under the toll contracts described above will be paid as services are rendered and will be split between the Commonwealth (through the Authority) and the State of Indiana.