

**KENTUCKY PUBLIC TRANSPORTATION  
INFRASTRUCTURE AUTHORITY**

FINANCIAL STATEMENTS

FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

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## COMPILATION REPORT OF INDEPENDENT ACCOUNTANTS

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

We have compiled the accompanying statements of net position of the Kentucky Public Transportation Infrastructure Authority (the "Authority"), a component unit of the Commonwealth of Kentucky, as of September 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the quarters then ended. We have not audited or reviewed the accompanying financials 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 the 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 the 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 and information about infrastructure assets reported using the modified approach on pages 26 through 29 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*

December 18, 2015

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 quarters ended September 30, 2015 and 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. 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 will be 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](http://www.kyinbridges.com).

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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 decreased from \$124,651,000 to approximately \$123,814,000 during quarter ended September 30, 2015.
- Investments decreased from \$231,948,000 to approximately \$178,611,000 during quarter ended September 30, 2015.
- Capital assets increased from approximately \$861,092,000 to \$918,990,000 during the quarter ended September 30, 2015.
- The Authority's total debt decreased from \$760,715,000 to approximately \$760,037,000 during the quarter ended September 30, 2015.

### **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 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 quarter. 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 quarter. 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

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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 25.

### **FINANCIAL ANALYSIS OF THE AUTHORITY**

#### **Condensed Financial Information Statements of Net Position As of**

	September 30, 2015	% Increase (Decrease)	June 30, 2015
<b>Assets:</b>			
Current assets	\$ 207,353,702	(1)%	\$ 208,688,368
Long-term cash and investments	95,170,197	(36)%	148,125,121
Net capital assets	918,989,935	7%	861,092,151
 Total assets	 1,221,513,834	 0%	 1,217,905,640
<b>Liabilities:</b>			
Current liabilities	43,492,580	20%	36,376,366
Long-term debt	760,036,801	0%	760,715,277
 Total liabilities	 803,529,381	 1%	 797,091,643
<b>Net position:</b>			
Net investment in capital assets	430,257,802	0%	429,759,696
Unrestricted net position (deficit)	(12,273,349)	37%	(8,945,699)
 Total net position	 \$ 417,984,453	 -1%	 \$ 420,813,997

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

During the quarter ended September 30, 2015, the Authority's total cash and cash equivalents and investments decreased approximately \$54,290,000 from June 30, 2015, from continued construction costs and debt interest payments.

At September 30, 2015, investments consist of a current portion of approximately \$83,441,000 and a non-current portion of approximately \$95,170,000. As of September 30, 2015, the current portion is representative of short-term investments in the Commonwealth's cash and investment pool. The non-current portion is representative

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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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 approximately \$57,898,000 during the quarter ended September 30, 2015, primarily resulting from construction of the Downtown Crossing and contributions of infrastructure from KYTC.

**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 quarter ended September 30, 2015, long-term debt decreased approximately \$678,000 due to the amortization of bond premiums and discounts.

### Condensed Financial Information Statements of Revenues, Expenses, and Changes in Net Position For the quarter ended

	September 30, 2015	% Increase (Decrease)	September 30, 2014 RESTATED
Operating expenses	\$ 12,281,494	32773%	\$ 37,360
Operating loss	(12,281,494)	32773%	(37,360)
Nonoperating revenues (expenses):			
Interest earned on investments	48	-27%	66
Intergovernmental revenues	8,953,796	23866%	37,360
Total nonoperating revenues (expenses)	8,953,844	23824%	37,426
Contributed capital from KYTC	498,106	-83%	2,863,811
Contributions to KYTC	-0-	-100%	(20,426,398)
Change in net position	(2,829,544)	-84%	(17,562,521)
Net position, beginning of period	420,813,997	0%	367,759,356
Net position, end of period	\$ 417,984,453	19%	\$ 350,196,835

**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 two employees assigned to the Authority, vehicle usage, professional services, and board meeting expenses, such as transcription services and member travel expenses.

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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After project operations commence in 2016, maintenance and operation of the roadway and tolling infrastructure will also be included.

**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 along with contributions of infrastructure. Contributions to KYTC represent preservation payments made by the Authority on existing infrastructure title to which was transferred from KYTC to the Authority on June 2, 2015. These preservation costs were incurred by the Authority prior to the date of the transfer of title, see capital assets section below for further detail.

### **LONG-TERM DEBT**

At September 30, 2015, the Authority had approximately \$760,037,000 in bonds and notes payable outstanding, net of unamortized premiums and discounts, which is a decrease from approximately \$760,715,000 as of June 30, 2015. The decrease from June 30, 2015 is a result of the amortized premium and discounts. 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 the quarters ending:

	September 30, 2015	% Increase (Decrease)	September 30, 2014 RESTATED
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	20,278,614	-36%	31,843,760
Unamortized discounts	<u>(76,966,813)</u>	-10%	<u>(85,840,178)</u>
Total	<u>\$ 760,036,801</u>	0%	<u>\$ 762,728,582</u>

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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### **CAPITAL ASSETS**

For financial reporting purposes the Authority has elected 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 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 on the preservation and maintenance, including, assessed condition levels, of those assets to be included in Required Supplementary Information (RSI). See the RSI included after the notes to the financial statements.

Under terms of the Bi-State Development agreement of the LSIORBP, the Commonwealth is responsible for the construction of section three. Upon project termination of the LSIORBP (currently scheduled for December 2053), ownership of section three will be transferred to Indiana. Indiana is responsible for the construction of section four which, upon project termination, ownership will transfer to the Commonwealth. Also upon project termination, Indiana and the Commonwealth, through the Authority, will exchange values for portions of sections two and five, as identified in the Bi-State Development Agreement.

### **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

## STATEMENTS OF NET POSITION FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

	September 30, 2015	September 30, 2014 RESTATED
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents-restricted	\$ 123,814,030	\$ 124,650,509
Investments-restricted	83,441,235	84,214,412
Accrued interest receivable	98,437	111,255
Total current assets	207,353,702	208,976,176
Noncurrent assets:		
Investments-restricted	95,170,197	341,857,977
Capital assets:		
Right-of-way easements	7,087,960	-0-
Infrastructure	23,420,539	-0-
Construction in progress	888,481,436	596,181,029
Net capital assets	918,989,935	596,181,029
Total noncurrent assets	1,014,160,132	938,039,006
Total assets	1,221,513,834	1,147,015,182
<b>Liabilities:</b>		
Current liabilities:		
Payable from restricted assets:		
Accounts payable	35,493,011	26,090,196
Accrued interest payable	7,999,569	7,999,569
Total current liabilities	43,492,580	34,089,765
Noncurrent liabilities:		
Long term debt, including unamortized net discounts of \$56,688,199 and \$53,996,418 respectively	760,036,801	762,728,582
Total liabilities	803,529,381	796,818,347
<b>Net position:</b>		
Net investment in capital assets	430,257,802	354,229,954
Unrestricted (deficit)	(12,273,349)	(4,033,119)
Total net position	\$ 417,984,453	\$ 350,196,835

*See accompanying notes and compilation report of independent accountants.*

**KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE  
AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

	September 30, 2015	September 30, 2014 RESTATED
<b>Operating expenses:</b>		
Maintenance	\$ 12,101,122	\$ -0-
General administration	180,372	37,360
Total operating expenses	<u>12,281,494</u>	<u>37,360</u>
Operating gain (loss)	<u>(12,281,494)</u>	<u>(37,360)</u>
<b>Nonoperating revenues (expenses):</b>		
Interest earned on investments	48	66
Intergovernmental revenues	8,953,796	37,360
Total nonoperating revenues (expenses)	<u>8,953,844</u>	<u>37,426</u>
<b>Contributed capital from KYTC</b>	<u>498,106</u>	<u>2,863,811</u>
<b>Contributions to KYTC</b>	<u>-0-</u>	<u>(20,426,398)</u>
<b>Change in net position</b>	(2,829,544)	(17,562,521)
<b>Net position, beginning of period</b>	<u>420,813,997</u>	<u>367,759,356</u>
<b>Net position, end of period</b>	<u>\$ 417,984,453</u>	<u>\$ 350,196,835</u>

*See accompanying notes and compilation report of independent accountants.*

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

	September 30, 2015	September 30, 2014 RESTATED
<b>Operating activities:</b>		
Payments to service providers	\$ (3,327,699)	\$ -0-
Net cash flows from operating activities	(3,327,699)	-0-
<b>Capital and related financing activities:</b>		
Payments to service providers	-0-	(20,531,536)
Interest paid on long-term debt outstanding	(16,174,952)	(17,163,421)
Acquisition and construction of capital assets	(34,922,298)	(59,740,903)
Net cash flows from capital and related financing activities	(51,097,250)	(97,435,860)
<b>Investing activities:</b>		
Purchase of investments	(1,321)	(241,733)
Proceeds from sales and maturities of investments	53,337,921	117,478,965
Interest received	251,870	402,643
Net cash flows from investing activities	53,588,470	117,639,875
<b>Net change in cash and cash equivalents</b>	(836,479)	20,204,015
<b>Cash and cash equivalents, beginning of period</b>	124,650,509	104,446,494
<b>Cash and cash equivalents, end of period</b>	\$ 123,814,030	\$ 124,650,509
<b>Reconciliation of cash presentation to cash and cash equivalents:</b>		
Cash and cash equivalents - restricted	\$ 123,814,030	\$ 124,650,509
Total cash and cash equivalents	\$ 123,814,030	\$ 124,650,509
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>		
Operating income (loss)	\$ (12,281,494)	\$ (37,360)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Intergovernmental revenue for operating expenses	8,953,795	37,360
Net cash flows from operating activities	\$ (3,327,699)	\$ -0-
<b>Supplemental schedule of noncash capital and related financing activities:</b>		
Construction in progress contributed as capital from KYTC	\$ 2,025,299	\$ 2,863,811
Capitalized interest payable	\$ 7,185,783	\$ 7,045,641
Capital assets included in accounts payable	\$ 35,493,011	\$ 26,090,196

*See accompanying notes and compilation report of independent accountants.*

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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### 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](http://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.

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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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### 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 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.

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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*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 FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 quarters ended September 30, 2015 and 2014 was \$7,999,569. Capitalized interest, net of related interest earned on debt proceeds amounted to \$7,185,783 and \$7,045,641 for the quarters ended September 30, 2015 and 2014, respectively.

### 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). The carrying amount of the Authority's cash and cash equivalents invested in the Commonwealth's cash and investment pool balance was \$123,814,030 and \$124,650,509 at September 30, 2015 and 2014, 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.

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 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, 2015:

Investment	Fair Value	Maturity	Rate
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	52,304,712	N/A	0.01%
	<u>119,840,358</u>		
Investments in state pool	58,771,074		
Total	178,611,432		
Less: current portion	83,441,235		
Long-term investments	<u>\$ 95,170,197</u>		

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	53,141,625	N/A	0.01%
	<u>151,750,058</u>		
Investments in state pool	274,322,331		
Total	426,072,389		
Less: current portion	84,214,412		
Long-term investments	<u>\$ 341,857,977</u>		

**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, 2015, 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

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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money market mutual funds that invest solely in the obligations referenced above. The credit ratings and concentration by issuer of the Authority's investments, exclusive of the Authority's investments in the state's pool, is as follows at September 30, 2015:

	Fair Value	Rating	Percent
U.S. Treasury Notes State and Local Governments Series	\$ 67,535,646	U.S. Treasuries	56.35%
Fidelity Treasury Money Market Fund	52,304,712	Unrated	43.65%
Total investments	\$ 119,840,358		100.00%

The credit ratings and concentration by issuer of the Authority's investments, exclusive of the Authority's investments in the state's pool, is as follows at September 30, 2014:

	Fair Value	Rating	Percent
U.S. Treasury Certificates of Indebtedness State and Local Governments Series	\$ 98,608,433	U.S. Treasuries	64.98%
Fidelity Treasury Money Market Fund	53,141,625	Unrated	35.02%
Total investments	\$ 151,750,058		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.

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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### 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, 2015 are summarized below:

	Money Market Mutual Funds	U.S. Treasuries	Total
Debt Service Reserve Funds	\$ 46,117,616	\$ -0-	\$ 46,117,616
Capitalized Interest Fund	1,781,847	67,535,646	69,317,493
Tolling O&M Reserve Fund	4,405,235	-0-	4,405,235
General O&M Reserve Fund	14	-0-	14
Total	\$ 52,304,712	\$ 67,535,646	\$ 119,840,358

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

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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- 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
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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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.

### 6. CAPITAL ASSETS

Capital asset activity for the quarter ended September 30, 2015 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance September 30, 2015
Infrastructure	\$ 23,420,539	\$ -0-	\$ -0-	\$ 23,420,539
Right of Way easements	7,087,960	-0-	-0-	7,087,960
Construction in Progress	830,583,652	57,897,784	-0-	888,481,436
<b>Total Capital Assets</b>	<b>\$ 861,092,151</b>	<b>\$ 57,897,784</b>	<b>\$ -0-</b>	<b>\$ 918,989,935</b>

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

	Balance June 30, 2014	Increases	Decreases	Balance September 30, 2014
Construction in Progress	\$ 522,533,700	\$ 73,647,329	\$ -0-	\$ 596,181,029

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

### 7. LONG-TERM LIABILITIES

Long-term debt consists of the following at September 30, 2015 and 2014:

	2015	2014
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.	426,045,000	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	26,155,000
Total	816,725,000	816,725,000
Unamortized premium	20,278,614	31,843,760
Unamortized discount	(76,966,813)	(85,840,178)
	\$ 760,036,801	\$ 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

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 September 30, 2015, 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
2016	-	16,174,952	16,174,952
2017	-	32,349,904	32,349,904
2018	452,200,000	21,324,683	473,524,683
2019	-	10,299,463	10,299,463
2020	555,000	10,299,463	10,854,463
2021-2025	25,350,000	65,323,960	90,673,960
2026-2030	14,485,000	97,586,138	112,071,138
2031-2035	23,825,000	96,830,014	120,655,014
2036-2040	42,005,000	87,524,985	129,529,985
2041-2045	66,345,000	69,237,997	135,582,997
2046-2050	94,070,000	43,701,922	137,771,922
2051-2054	97,890,000	12,174,300	110,064,300
	\$ 816,725,000	\$ 562,827,781	\$ 1,379,552,781
Total			

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 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, 2015 and 2014 was \$-0-.

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

The following summarizes long-term debt activity of the Authority for the quarter ended September 30, 2015:

	Balance June 30, 2015	Increases	Decreases	Balance September 30, 2015
Bonds principal payable	\$ 816,725,000	\$ -0-	\$ -0-	\$ 816,725,000
Unamortized premiums	\$ 23,193,664	-0-	2,915,050	20,278,614
Unamortized discounts	\$ (79,203,387)	-0-	(2,236,574)	(76,966,813)
	<u>\$ 760,715,277</u>	<u>\$ -0-</u>	<u>\$ 678,476</u>	<u>\$ 760,036,801</u>

The following summarizes 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>

## 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, 2015 and 2014:

	2015	2014
Restricted for capital projects	\$ 182,585,104	\$ 398,972,840
Restricted for debt service	115,435,110	147,345,249
Restricted for maintenance reserves	4,405,249	4,404,809
Total	<u>\$ 302,425,463</u>	<u>\$ 550,722,898</u>

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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### 9. RELATED PARTY TRANSACTIONS

The Authority received the benefit of accounting, legal, and administrative services from KYTC for the quarters ended September 30, 2015 and 2014, respectively. 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 \$234,040 and \$272,374 for the quarter ended September 30, 2015 and 2014, respectively. 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 \$75,475 and \$37,360 for the quarters ended September 30, 2015 and 2014, respectively. The total amount of services contributed amounted to \$309,515 and \$309,734 for the quarters ended September 30, 2015 and 2014, respectively. In addition, KYTC paid certain invoices on behalf of the Authority totaling \$8,878,321 for the quarter ended September 30, 2015, which are also included in intergovernmental revenues on the statement of revenues, expenses, and changes in net position.

The Authority received \$498,106 and \$2,863,811 in capital contributions from KYTC during the quarters ended September 30, 2015 and 2014, 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.

Additionally, the Authority contributed \$20,426,398 to KYTC during the quarter ended September 30, 2014, related to maintenance work completed on Kentucky roads, bridge approaches, and right-of-way related to the bridge construction project prior to the recording to the deed transferring ownership of the infrastructure assets from KYTC to KPTIA.

The Authority received the benefit of consultant services from the Finance and Administration Cabinet for the quarters ended September 30, 2015 and 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 and installation, printing, and related end-user and customer support services. During the quarters ended September 30, 2015 and 2014, KYTC paid for all services

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 bonds principal and interest and the TIFIA loan principal and interest will be 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.

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014

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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 construction, 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 \$1 billion to date and the State of Indiana has spent approximately \$388 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, and E-ZPass. 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.

## 12. PRIOR PERIOD ADJUSTMENTS

An error in the recording of maintenance costs for the quarter ended September 30, 2014 was discovered by management during 2015. Accordingly, an adjustment totaling \$20,531,535 was recorded to restate construction in progress, contributed capital from KYTC, and contributions to KYTC as of September 30, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015 AND 2014

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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.

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.

The Authority's assets accounted for, under the modified approach, include approximately 15.9 lane miles of roads and 24 bridge structures. As the developer for the LSIORBP, as designated in House Bill 2 enacted by the Kentucky General Assembly in 2012, the Authority is responsible for maintaining the assets. The Authority's pavement condition assessments will be relaxed during construction; however, bridge inspections will continue until access to structures is restricted by construction activities. Once the LSIORB is complete, it is planned the Authority and the Cabinet will enter into a memorandum of agreement through which the Cabinet will resume responsibility for condition inspections, maintenance and preservation activities on behalf of the Authority.

### **Pavement**

#### Measurement Scale

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

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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015 AND 2014

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

### Established Minimum Condition Level

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

### Assessed Conditions

The Authority received the title to the 15.9 lane miles of roadways during the year ended June 30, 2015. As the roadways were received during the fiscal year, previous condition assessments have been reported by the Cabinet. The condition assessment at the time of conveyance met or exceeded the Cabinet's established minimum condition level. The pavement condition goal above represents the Cabinet's goal for the Commonwealth's state maintained highway system. The actual conditions of the pavements for which the Authority is responsible may or may not meet this stated goal for the reporting period due to delayed preservation activities. The LSIORBP has required a lengthy planning and development period and in anticipation of the reconstruction of the assets much of the preservation work has been postponed; thus, pavement conditions may temporarily be below the statewide condition goal. Routine pavement inspections have continued and required maintenance has been performed prior to construction to insure that payments are safe and reliable. Once construction is complete, the Authority will work with the Cabinet to adopt payment condition goals for the LSIORBP assets.

## **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:

<u>Rating</u>	<u>Description</u>
9	Excellent.
8	Very good.
7	Good. Some minor problems.

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# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015 AND 2014

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- 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.

### 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:

# KENTUCKY PUBLIC TRANSPORTATION INFRASTRUCTURE AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015 AND 2014

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<u>Calendar Year</u>	<u>Structurally Deficient</u>	<u>Deck Area Structurally deficient</u>
2015	43%	42%

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 do not meet this stated goal for the reporting period. The LSIORBP has required a lengthy planning and development period and in anticipation of the construction activities much of the needed preservation work has been postponed. Construction activities are well underway and will either fully preserve or replace all existing bridge structures, restoring the asset's conditions to above goal levels. During construction routine inspections and conditions assessments have continued and required maintenance has been performed to insure all bridges are safe for traffic. Once construction is completed, the Authority will work with the Cabinet to adopt bridge condition goals for the LSIORBP assets. The Authority received the title to the bridges during the year ended June 30, 2015 and as such historical condition assessments are not reported by the Authority.

### 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 quarter:

	<u>Roadways</u>	<u>Bridges</u>	<u>Total</u>
Quarter Ended			
September 30, 2015	\$ 12,101,122	\$ -0-	\$ 12,101,122
Estimated	\$ 12,287,792	\$ -0-	\$ 12,287,792